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ASSESSMENT OF TRANSPARENCY OF AUDIT REPORTS BASED ON PRESENTATION OF KEY AUDIT MATTERS – THE CASES OF BOSNIA AND HERZEGOVINA AND CROATIA

ABSTRACT

Purpose: One of the ways to enhance transparency and usefulness of audit reports is to include information on key audit matters (KAMs). In this paper, based on the presented KAMs, we investigate transparency of audit reports of listed companies in Bosnia and Herzegovina and in Croatia.

Methodology: For the purposes of this research, we collected and systematised data from published audit reports and then analysed them by means of descriptive statistical methods.

Results: The research results show that in Croatia only a few audit reports lack a section on KAMs and there is no difference between the audit reports issued by the Big Four and the reports of other audit firms. In Bosnia and Herzegovina, most audit reports do not include a section on KAMs, but, unlike the Big Four, who disclose at least one KAM, other audit firms generally do not present any. Additionally, the research results show differences in the number of communicated KAMs between the audit reports prepared by the Big Four in Croatia and their reports for Bosnia and Herzegovina. There are also differences in the type of KAMs used in the two observed countries.

Conclusion: Having analysed the situation in the two developing countries, we obtained different results. The discrepancies mainly stem from the varying degrees of transparency of the audit profession in each country.

Keywords: Key audit matters, responsibility of the auditor, audit/auditor's report, transparency of audit reports, reliability of financial statements

1. Introduction

The financial reporting system and an audit of financial statements are an important factor to the efficiency of the capital market. According to Bédard

et al. (2016) and Gimbar et al. (2016), audit reports can have a significant impact on capital market reactions. Financial information provided by the accounting information system reduces information

asymmetry between different stakeholders and thus supplies them with the necessary information to make efficient business decisions. Furthermore, a financial statement audit gives credibility to those statements and provides assurances to their users that the information presented is fair, objective and reliable. Therefore, a financial statement audit is aimed at increasing stakeholder confidence in the statements, and independent auditors play an important role in reducing information asymmetry between stakeholders within and outside of a company. According to Piot (2001), some of the goals of an independent audit are to decrease informational asymmetry, minimise a conflict of interest, reduce agency costs, and consequently increase the reliability of financial statements.

The primary medium of communication between an independent auditor and different stakeholders is the auditor's report, supporting financial statements of a company. Making financial statements of companies and the related audit reports public is in the public interest. The main purpose of financial statements is to present comprehensive timely and reliable information about the company's business (financial position, financial performance, and cash flows). Different stakeholders (investors, creditors, the public, owners, and others) use financial statements as a key source of information on a company's operations and decision-making. Consequently, transparency of financial reporting and audit reports is critical for building confidence of different stakeholders in the reporting system and, ultimately, for efficient functioning of the entire economy. Similarly, understanding how the content of audit reports affects the users of financial statements and accounting information is crucial to determining whether independent auditors fulfil their role in having the market function properly (Alves Júnior & Galdi, 2020).

Following the recent global financial crisis (2008-2009), stakeholders have criticised financial reporting of companies and the reports prepared by external auditors. The length and complexity of annual accounts and audit reports lead to information overload and thus greatly reduce their usefulness for decision-making (Gimbar et al., 2016). However, there are also many cases where audit reports are not publicly available. Bédard et al. (2016) highlighted that information asymmetry and different interests of the boards of directors, auditors and capital markets create a great gap.

To achieve better transparency of the auditing process and verifiability and relevance of audit reports

and financial statements, as well as to satisfy the informational needs of different stakeholders, in January 2015, the International Auditing and Assurance Standards Board (IAASB) issued the new International Standard on Auditing (ISA) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*. The aim of the new auditor's report is to communicate specific metrics and information about the company, provide better transparency for stakeholders, ensure a better informative link between auditors and investors by highlighting the most important of the information the management decide to disclose to the users of financial statements and accounting information (Alves Júnior & Galdi, 2020).

To that end, this paper seeks to investigate if the audit reports for the companies listed on the stock markets in Croatia and Bosnia and Herzegovina include a section on KAMs and, by providing more information on key risk areas, make the operations of those companies more transparent. The number of issues that will be identified as key issues depends on the complexity of an entity, the nature and environment of the entity's business, and on the facts and circumstances of the audit engagement. An auditor's report for a listed company is expected to include at least one KAM. Accordingly, we addressed the following research questions:

RQ1: Do the audit reports include sections on KAMs?

RQ2: Is the number of KAMs communicated in the audit reports prepared by the Big Four different from that found in the reports of other local audit firms?

RQ3: Which issues are most frequently selected as KAMs?

RQ4: Is the number of KAMs communicated in Croatia different from the number of KAMs disclosed in Bosnia and Herzegovina?

To answer the research questions, this study attempts to investigate:

- The institutional frameworks for the audit profession in Bosnia and Herzegovina (the Federation of Bosnia and Herzegovina and the Republic of Srpska) and Croatia; and
- The practices of applying the requirements of ISA 701 in Croatia and Bosnia and Herzegovina, by collecting and analysing audit reports for the shareholding companies listed on SASE (the Sarajevo Stock Exchange), BLSE (the Banja Luka Stock Exchange), and ZSE (the Zagreb Stock Exchange) in the last two years (2018-2019).

In terms of structure, the paper starts with a brief introduction, followed by a literature overview. The third section provides key characteristics of the statutory audit requirements and the capital markets in Bosnia and Herzegovina and Croatia. The fourth section covers research methodology, whilst research results and discussion are laid down in the fifth section. The paper ends with concluding remarks, limitations of the study, and possible directions for future research.

2. Literature overview

An audit of financial statements serves as a link between those statements and different market stakeholders. The International Standards of Auditing (ISA) affect the way in which audits of financial statements are conducted and the form of audit reports, consequently impacting the understanding of the reports. In the modern business environment, traditional communication between independent auditors and financial statement users is no longer sufficient and today stakeholders also need information on the way in which independent auditors create their opinions. Furthermore, auditors have been criticised for using a highly standardised language, failing to properly explain the basis for their opinions as provided in the reports, and for a lack of communication with stakeholders whose interest they are meant to protect (Cordoş & Fülöp, 2015).

The goal of ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* is to have audit reports point out KAMs and, consequently, to make the work of independent auditors more transparent. KAMs are the matters which an independent auditor finds most important during an audit of financial statements for a reporting period. KAMs serve to communicate specific information on the company in an auditor's report. Hence, one of the reforms involves a transition from a standardised auditor's report without any company-specific information to a report which would provide such information in the form of the so-called KAMs and significant risks of a material misstatement in the company's financial statements (Sneller et al., 2017). KAMs are considered to be those areas of financial reporting that have required the most significant or complex management reasoning and the areas where the auditor has focused most on the identified risk.

The issue of disclosing KAMs in an auditor's report is closely connected to the quality of an audit. Providing company-specific and audit-specific KAMs

in an auditor's report will help increase stakeholder confidence in the report and the financial statements, and thus enhance communication between different stakeholders. Ittonen (2012) emphasised that publishing audit reports with KAM disclosure should ensure appropriate audit and financial reporting quality that is in line with the interests of different market stakeholders.

Christensen et al. (2014) found that investors who received an auditor's report with a paragraph on KAMs were more likely to change their investment decisions than those who received a standardised report. Conversely, there are certain circumstances wherein KAMs do provide added value for the stakeholders. Bédard et al. (2019) highlighted that this will happen when KAMs include already known or expected information. Brasel et al. (2016) stressed that KAMs are of low value to the stakeholders if the information disclosed is not new or useful, whilst Bédard et al. (2019) pointed out that the use of technical language in preparing audit reports and disclosing KAMs contributes to investors' and other stakeholders' poor understanding of the information.

Gold et al. (2020) found that KAM disclosure in audit reports functions as a beneficial mechanism for improving the quality of managerial financial reporting. Based on the analysis of audit reports of 128 Jordanian public shareholding companies, Altawalbeh and Alhajaya (2019) concluded that disclosed KAMs provide investors with useful information and have a notable impact on their decisions. Köhler et al. (2020) showed that assessments of a company's economic situation by investment professionals are influenced by variations in KAM disclosures. Moreover, they found that investors assess a company's financial performance significantly better when a KAM discloses negative rather than positive information. Reid et al. (2019) discovered that KAM disclosure in audit reports leads to a significant improvement in the quality of financial reporting without a notable increase in audit fees or audit delays. Conversely, Li et al. (2019) concluded that the introduction of the new audit reporting standard improved audit quality but was also followed by a significant increase in audit fees.

An important question in relation to the introduction of KAMs is how many and which KAMs exactly should be communicated in an auditor's report. The number of KAMs to be included in an auditor's report may depend on the size and complex-

ity of the entity, the nature and environment of its business, and on the facts and circumstances of the audit engagement (IAASB, 2016). Cordoş & Fülöp (2015) find it appropriate to include anywhere between two to seven KAMs in an auditor's report. Sirois et al. (2018) believe that the inclusion of multiple KAMs increases the complexity of an auditor's report and dilutes the statutory auditor's message. Based on the results of a *Deloitte* (2017) analysis of 50 listed companies in Switzerland, audit reports included, on average, 2.8 KAMs per a group audit and 0.8 KAMs per a holding company. Moreover, in around 26% of the analysed audit reports only one KAM was disclosed, whilst the maximum number of KAMs disclosed was seven. Tušek & Ježovita (2018) investigated the reporting of KAMs in audit reports for Croatian public interest entities listed on the Zagreb Stock Exchange for 2016 and 2017. The research results showed that in 2016 18% (22) of the reports did not disclose KAMs, whilst in 2017 that percentage dropped to 5% (6). They also found that most of audit reports included one (41.9%) or two (32.2%) KAMs.

In their study conducted on a sample of 447 Brazilian listed companies, Ferreira & Morais (2020) found that audit reports of more complex companies audited by the Big Four and the reports that presented unmodified opinions included a number of KAMs. Furthermore, they discovered that the higher the auditor's fee in relation to total assets, the lower the number of KAMs. One should emphasise that 71.36% of the listed companies in Brazil are audited by the Big Four. They found also that the Big Four auditors, on average, present 2.61 KAMs in their reports, while Non-Big Four auditors present 1.95 KAMs. Pinto & Morais (2019) analysed audit reports for listed companies in Europe (AEX 25, FTSE 100, and CAC 40) and identified that a higher number of business segments (complexity) and more precise accounting standards lead to disclosure of more KAMs. Additionally, their results indicate a positive correlation between the audit fee and the number of disclosed KAMs.

To our knowledge, no similar studies were conducted in Bosnia and Herzegovina or Croatia. Similarly, we found no research studies that compare the number of KAMs in audit reports for companies in a non-EU country (Bosnia and Herzegovina) with its counterpart for an EU Member State (Croatia). We believe that the results of our research as presented in this paper will provide new insights in the application of new requirements of the International Standards on Auditing related to KAMs. Furthermore, the results should show if there is a difference in the number of KAMs included in the audit reports prepared by the Big Four as compared to the number of KAMs disclosed in the reports of other local audit firms, as well as whether there are differences in communicating KAMs between audit firms in EU and non-EU countries.

3. Regulatory frameworks for audit in Croatia and Bosnia and Herzegovina

Both Croatia and Bosnia and Herzegovina apply international standards (IFRS/IAS and IASs) in their reporting and audit. In terms of determining the obligors and their definition, the exact audit arrangements in the two observed countries are given below.

3.1 Republic of Croatia

As an EU Member State, Croatia must harmonise its accounting and auditing regulations with the EU requirements. Financial statements and consolidated financial statements of public interest and of large or medium-sized entities are subject to statutory audit. So are financial statements of the entities that have their securities traded on the financial market or are preparing for their issue. Pursuant to the Accounting Act (Official Gazette 78/15-47/20), which regulates the accounting system in the Republic of Croatia, legal entities are classified as micro, small, medium-sized or large, based on the following criteria (Table 1).

Table 1 Criteria for classification of entities by size in the Republic of Croatia

Criteria	Micro	Small	Medium-sized
Total assets (EUR ¹)	344,370	3,973,510	19,867,550
Total revenue (EUR)	688,740	7,947,020	39,735,100
Average number of employees in the year	10	50	250

Source: Article 5 of the Accounting Act, Official Gazette, 78/15 - 47/20

¹ Exchange rate 7.55 KN/EUR.

Large entities are the entities that exceed at least two of the three criteria for medium-sized entities. Furthermore, the category includes banks, savings banks, electronic money institutions, insurance companies, reinsurance companies, leasing companies, UCITS fund management companies, alternative investment fund management companies, UCITS funds, alternative investment funds, pension companies that manage mandatory pension funds, pension companies that manage voluntary pension funds, voluntary pension funds, mandatory pension funds, and other financial institutions.

3.2 Bosnia and Herzegovina

Bosnia and Herzegovina consists of two entities, the Federation of Bosnia and Herzegovina and the Republic of Srpska, and of Brcko District. Each con-

stituent part has its own accounting and auditing regulations.

Unlike Croatia, as a non-EU country, Bosnia and Herzegovina did not completely harmonise the criteria for classifying companies or the requirements related to audit companies with the EU regulations. Furthermore, IASs are prescribed as a normative basis for conducting audits in each constituent part of the country.

a) Federation of Bosnia and Herzegovina

The accounting system in the Federation of Bosnia and Herzegovina is regulated by the Law on Accounting and Auditing (Official Gazette, No. 83/09)². According to this law, legal entities are classified as small, medium-sized and large according to the following criteria (Table 2).

Table 2 Criteria for classification of entities by size in the Federation of Bosnia and Herzegovina

Criteria	Small	Medium-sized
Total assets (EUR ³)	511,292	2,045,167
Total revenues (EUR)	1,022,584	4,090,335
Average number of employees in the year	50	250

Source: Article 4 of the Law on Accounting and Auditing, Official Gazette of the Federation of Bosnia and Herzegovina, No. 83/09

Large legal entities are banks, micro-credit organisations, credit unions, insurance companies, leasing companies, investment fund management companies, mandatory and voluntary pension funds, broker companies and other financial organisations, as well as all companies that exceed two of the three criteria for medium-sized legal entities.

Financial statements and consolidated financial statements of the entities classified as large or me-

medium-sized are subject to a statutory audit, and so are financial statements of the entities that have their securities traded or are preparing for their issue.

b) Republic of Srpska

The Law on Accounting and Auditing of the Republic of Srpska regulates the issues of financial reporting and auditing, and the classification of legal entities according to the criteria given below (Table 3).

Table 3 Criteria for classification of entities by size in the Republic of Srpska

Criteria	Micro	Small	Medium-sized
Total assets (EUR)	127,823	511,292	2,045,167
Total revenues (EUR)	255,646	1,022,584	4,090,335
Average number of employees in the year	5	50	250

Source: Article 5 of the Law on Accounting of the Republic of Srpska, Official Gazette of the Republic of Srpska 94/15-78/20

² The new Law on Accounting and Auditing in the Federation of Bosnia and Herzegovina is in the process of publication. Namely, it has been adopted but is yet to be published in the Official Gazette. The new Law includes a new classification rule and introduces micro entities.

³ Exchange rate 1.95583 BAM/EUR.

Banks, micro-credit companies, credit unions, insurance companies, leasing companies, investment funds management companies, compulsory and voluntary pension funds, stock exchanges and other financial organisations are considered large legal entities. Financial statements are audited in accordance with the International Standards on Auditing, whilst financial statements of public-interest entities and large legal entities, and consolidated financial statements are subject to a statutory audit. Public-interest entities include legal entities that have their securities traded or are preparing for their issue on the organised securities market, and all legal entities of special importance to the Republic of Srpska, irrespective of their legal status and form of organisation.

According to the Law on the Securities Market, listed companies are required to submit an audit report to the stock exchange no later than the end of June of the current year for the financial statements of the previous year.

4. Research methodology

To answer the research questions, we conducted secondary data analysis, i.e. audit reports disclosed on the websites of the Zagreb Stock Exchange (ZSE), as the only stock exchange in Croatia, and of the two stock exchanges in Bosnia and Herzegovina, namely the Banja Luka Stock Exchange (BLSE) and the Sarajevo Stock Exchange (SASE). We reviewed the reports prepared by either one of the Big Four or by another audit firm to confirm if there is a section on KAMs, and if so, which issues were considered as KAMs, and how many of them were identified as such.

As aforementioned, both observed countries have accepted IASs as a normative basis for conducting audits. In line with the EU regulations, both Croatia and the Federation of Bosnia and Herzegovina already started to apply the “new” IAS 701 to the audit of financial statements for the year ending 31 December 2017. In the Republic of Srpska, the application of the standard was moved forward and will only affect the financial statements for the year ending 31 December 2018. In this light, we reviewed the audit opinions for the financial statements for 2018 and 2019.

The research sample for ZSE includes companies from both financial and from non-financial sectors. In 2020, 102 companies were listed on ZSE. We

have analysed the 2018 and 2019 audit reports for 97 and 98 companies, respectively. Other companies did not attach audit reports to their annual accounts or did not disclose their financial statements publicly at all.

In 2020, 251 issuers were listed on SASE. Out of that number, 137 issuers were involved in at least one transaction. We have analysed the 2018 audit report for 86 companies, and the 2019 reports for 65 of them. Other companies did not attach audit reports to their annual accounts or did not disclose their financial statements publicly at all.

In 2020, 471 issuers were listed on BLSE. Out of that number, 76 were undergoing bankruptcy and 11 were in the process of liquidation, i.e. only 384 joint stock companies are still active. Audit reports for 2018 and 2019 were published by 194 issuers. A random sample of 60 audit reports for each year for both financial and non-financial sectors was reviewed. The sample covers 31% of the population, i.e. publicly disclosed audit reports.

5. Research results and discussion

The firms which audited the financial statements of the selected listed companies are given in Table 4. They are divided into two groups, namely the ‘Big Four’ and ‘Other audit firms.’ In Croatia, the Big Four audited over 50% of the financial statements of listed companies, whilst in both Bosnia and Herzegovina entities combined that percentage amounted to less than 20% (except in the Federation of Bosnia and Herzegovina in 2018, when the percentage was 24%). Analysis of concentration of audit service providers for listed companies gave us varying results. Specifically, in Croatia, a total of 29 audit firms audited listed companies, in the Republic of Srpska, that number was 16, and in the Federation of Bosnia and Herzegovina, as many as 41 audit firms. We found that in comparison to Croatia, in Bosnia and Herzegovina, significantly more listed companies were audited by other audit firms. The group includes companies whose parent company is not based in the observed countries but requires that its subsidiaries are audited by the Big Four. The number of companies listed on ZSE, whose parent company is not in Croatia is much higher than in the case of companies listed on BLSE and SASE.

Table 4 Audit firms that performed an audit of financial statements

Audit firm	Croatia				Republic of Srpska				Federation of B&H			
	2018		2019		2018		2019		2018		2019	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Deloitte	22	23%	19	20%	4	7%	3	5%	11	13%	7	11%
Ernst & Young	9	9%	8	8%	3	5%	2	3%	2	2%	3	4%
KPMG	10	10%	12	12%	2	3%	2	3%	2	2%	1	2%
PwC	15	16%	12	12%	0	0%	0	0%	6	7%	2	3%
Other audit firms	41	42%	47	48%	51	85%	53	89%	65	76%	52	80%
<i>Total</i>	97	100%	98	100%	60	100%	60	100%	86	100%	65	100%

Source: Research done by the authors

In line with the research goal, we have analysed the disclosure of KAMs in the audit reports (Table 5). In Croatia, only 5 (5.15%) audit reports in 2018 and 8 (8.16%) in 2019 showed no KAMs. Most audit reports included one (60.83% in 2018, 55.11% in 2019) or two (20.62% in 2018, 26.53% in 2019) KAMs. Audit reports with three or more KAMs take up a very small portion of the total number (13.40% in 2018, 10.20% in 2019). In Bosnia and Herzegovina, the situation was quite different. In the Republic of Srpska, 45% of the audit reports in 2018 and 43% in 2019 stated that there were no KAMs to report, whilst in the Federation of Bosnia and Herzegovina, that percent was 60% in 2018 and 52% in 2019. Most of the audit reports for both Bosnia and Herzegovina entities that include KAMs were those with one KAM, and less than 20% of them showed more than one. At the same time, only a few reports com-

municated more than three KAMs. However, the number of audit reports in Bosnia and Herzegovina that did not disclose any KAMs in 2019 dropped compared to 2018.

Here, one should mention that Moroney et al. (2020) found that the inclusion of KAMs improves perceived value and credibility for stakeholders only when a non-Big Four firm conducts an audit. Conversely, perceived value and credibility of the audits performed by a Big Four firm are high regardless of whether KAMs are included or not. Although IAS 701 requires the inclusion of at least one KAM for listed companies, our research shows that most audit reports in Bosnia and Herzegovina contain none, and that, therefore, the goal to improve audit reports by providing additional information and better transparency has not been achieved.

Table 5 Number of disclosed KAMs per an auditor's report

Number of KAMs	Croatia				Republic of Srpska				Federation of B&H			
	2018		2019		2018		2019		2018		2019	
	n	%	n	%	N	%	n	%	n	%	n	%
0	5	5.15%	8	8.16%	27	45.00%	26	43.34%	51	59.31%	34	52.31%
1	59	60.83%	54	55.11%	23	38.33%	24	40.00%	18	20.93%	22	33.85%
2	20	20.62%	26	26.53%	7	11.67%	8	13.33%	12	13.95%	8	12.31%
3	12	12.37%	9	9.18%	3	5.00%	2	3.33%	4	4.65%	1	1.53%
4	1	1.03%	1	1.02%	0	0.00%	0	0.00%	1	1.16%	0	0.00%
<i>Total</i>	97	100%	98	100%	60	100%	60	100%	86	100%	65	100%

Source: Research done by the authors

Table 6 provides descriptive statistics on the number of disclosed KAMs. The results for Croatia show no major discrepancies in the number of KAMs communicated in the audit reports prepared by the Big Four and the number of KAMs in the reports done by other audit firms.

Table 6 Descriptive statistics on the number of KAMs included

Number of KAMs	Mode	Median	Mean	Standard deviation	Count
Croatia					
Deloitte	1	1	1.07	0.65	44
Ernst & Young	1	1	1.53	0.80	26
KPMG	1	1	1.50	0.80	33
PwC	1	1	1.52	0.80	41
Other audit firms	1	1	1.50	0.86	132
Federation of Bosnia and Herzegovina					
Deloitte	1	1	1	0.53	17
Ernst & Young	1	1	1.2	0,4	6
KPMG	1	1	1.33	0.47	4
PwC	1	1	0.63	0.48	5
Other audit firms	0	0	0.58	0.79	67
Republic of Srpska					
Deloitte	1	1	1	0	7
Ernst & Young	1	1	1	0	5
KPMG	2	2	2	0	8
PwC	0	0	0	0	0
Other audit firms	0	0	0.70	1.09	72

Source: Research done by the authors

In the Republic of Srpska, we can see that the Big Four audit firms included at least one KAM in all their reports (*Deloitte* and *Ernst & Young* include one KAM per an auditor's report and *KPMG* two), whilst other audit firms usually did not disclose any. If we exclude from other audit firms both *BDO* and *Grant Thornton* as international audit firms that audit a significant number of listed companies, this leaves 65 audits in total. Sixteen (16) of them have included some KAMs, which gives 0.25 KAMs per an audit. In the Federation of Bosnia and Herzego-

vina, the Big Four firms included at least one KAM in each audit report, whilst the average number of KAMs for other audit firms was 0.58, i.e. they included 67 KAMs in 116 audit reports.

Therefore, the above results for Croatia show no big difference in the number of KAMs included in the audit reports by the Big Four and the number of KAMs found in the reports made by other audit firms, but the difference does exist in Bosnia and Herzegovina.

Table 7 Structure of the disclosed KAMs

Key audit matters	Croatia		RS		FB&H	
	2018	2019	2018	2019	2018	2019
Inventories	20	10	4	2	6	1
Receivables	2	2	1	2	7	1
Property, plant and equipment	3	8	1	3	6	2
Investment property	5	6	2	3	2	2
Financial instruments and fair value	3	6	0	0	0	0
Capitalization of costs	4	3	2	2	0	0
Liabilities valuation	7	6	0	0	0	0
Contingent liabilities and litigation settlements	7	3	0	0	0	0
Provisions	4	3	0	1	4	3
Business combinations	4	10	0	0	0	0
Revenue recognition	26	25	19	19	12	13
Impairments	29	26	3	4	5	2
Estimates	8	12	0	0	0	0
Going concern assumption	3	3	1	0	5	4
Leases	0	9	1	0	0	2
Expected credit losses	0	0	5	6	8	9
Biological assets	0	0	1	1	0	0
Other	14	5	6	3	3	2
<i>Total</i>	<i>139</i>	<i>137</i>	<i>46</i>	<i>46</i>	<i>58</i>	<i>41</i>

Source: Research done by the authors

As seen in Table 7, the most common KAMs in Croatia have to do with impairment (20.86% in 2018, 18.98% in 2019) and in the Republic of Srpska (41%) and the Federation Bosnia and Herzegovina, with revenue recognition (21% in 2018, 31% in 2019). Revenue recognition also takes up a significant percentage in Croatia (19%), as well as inventories (14.39% in 2018, 7.30% in 2019). Other notable mention for Bosnia and Herzegovina are expected credit losses. Impairments include the impairments of brands, goodwill, intangible assets, loans granted to subsidiaries, investments in subsidiaries, receivables, property, plant and equipment, tourist facilities, and others.

6. Conclusions

The purpose of implementing IAS 701 is to make the work of auditors more transparent by addressing KAMs. In this way, the users of an audit report obtain additional information on the matters that the auditor found to be the most important in an audit of the financial statements of a reporting period.

In our paper, we investigated whether the audit reports for listed companies in Croatia and Bosnia and Herzegovina, as countries obliged to apply IASs, include a section on KAMs, given that the IASs require disclosure of at least one KAM for listed companies. The analysis of audit reports for list-

ed companies in Croatia showed that only a small percentage (5.15% in 2018 and 8.16% in 2019) of the reports do not have a section on KAMs, whilst that percentage exceeded 40% for the stock exchanges in the two Bosnia and Herzegovina entities. According to research by Tušek & Ježovita (2018), in the first year of applying IAS 701 in Croatia, the percentage was 18%, but it dropped over time. Although a slight decrease in the number of audit reports without KAMs may be observed in Bosnia and Herzegovina as well, it is still a very high number. Based on our research, one can conclude that audit firms for the two observed stock exchanges in Bosnia and Herzegovina do not enhance transparency of their reports by reporting KAMs, as explained in Alves Júnior & Galdi (2020). The lack of KAMs in audit reports of listed companies also casts doubt on the quality of those reports (Ittonen, 2012).

One should also point out that in Croatia 95% of the listed companies have publicly disclosed their financial statements and audit reports, whilst in the Republic of Srpska 50% and in the Federation of Bosnia and Herzegovina 34% of them have done so. Local laws in Bosnia and Herzegovina require public disclosure of financial statements and audit reports but many listed companies still do not fulfil the obligation. This deprives report users of the information they need to make the necessary business decisions and assess the management's responsibility for the resources allocated thereto. Denied important information make the users, primarily creditors and investors, make poor quality decisions.

A comparison of the ratio between the audit reports prepared by the Big Four and the reports made by other audit firms reveals that most audits in Croatia fall within the first category, whilst 75% of all audits in Bosnia and Herzegovina have been performed by other audit firms. The difference made us curious as to whether there is also a discrepancy in the number of KAMs included in audit reports between the two countries. All audit firms in Croatia have disclosed at least one KAM, as shown by the *Deloitte* survey (2017), and both the Big Four and other audit firms present the same number of KAMs. By contrast, in Bosnia and Herzegovina,

the Big Four also published at least one KAM but other audit firms disclosed less than one, on average, which was confirmed by the Ferreira & Morais research (2020). Hence, in the case of Bosnia and Herzegovina, there are notable differences between the two groups of audit firms. Additionally, there are discrepancies in the number of KAMs disclosed by other audit firms in Croatia as opposed to Bosnia and Herzegovina, but no such differences exist between the two countries when it comes to the number of KAMs disclosed by the Big Four. Other studies point to, on average, a higher number of KAMs per an audit report than found in our research. For example, the study conducted by Li (2020) shows an average of two KAMs disclosed per an auditor's report.

The most common KAMs have to do with impairment, revenue recognition, inventory valuation, and expected credit losses for financial institutions. These KAMs have also been identified as most common in the study by Li (2020). However, one can also see some differences in the prominent types of KAMs between the two observed countries. In Croatia, KAMs related to business combinations, liabilities and estimates also stand out, whilst KAMs related to credit losses rank highly in Bosnia and Herzegovina.

Having analysed the two developing countries that share a past but one of them is an EU Member State today and the other is not, we obtained different results. Based on audit reports, a significant contribution of this paper is reflected in the analysis of the application of IASs 701 in the countries where IASs make a mandatory audit framework, the behaviour of the Big Four and other audit firms, and transparency of listed companies and transparency of the work of auditors.

As a limitation of the paper, one should mention the sample structure for the Republic of Srpska and the fact that only the audit reports for the last two years were considered since IAS 701 has been in force since 2018. It would be highly useful to further explore the types of opinions given for financial statements and how many KAMs are disclosed in modified opinions.

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