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The Impact of Key Audit Matters Disclosure on Share Price: A Moderating Role of Industry Competitiveness in Malaysia

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ABSTRACT

This study investigates the relationship between key audit matters (KAM) disclosure and share price, as well as the influence of industry competitiveness on this relationship. Using a panel dataset of 931 observations of firm-years from Bursa Malaysia spanning 2016 to 2019, it was revealed that investors consider not only the quantity but also issues disclosed by auditors in KAM disclosure. Furthermore, KAM disclosure was seen to positively impact share prices in oligopoly industries but negatively affect companies in competitive markets. This study makes a novel contribution by investigating how industry competitiveness moderates the relationship between KAM disclosure and share price. The findings highlight the significance placed by investors on KAM disclosure in competitive markets, offering implications for investment decision-making. Nonetheless, this study acknowledges inherent limitations in its scope, particularly its limitation to Malaysia, which suggests caution in generalising findings to other countries.

Keywords: Bursa Malaysia; industry competitiveness; investment decision; key audit matters; share price

Introduction

This study examines the value relevance of key audit matters (KAM) disclosure types by investigating the relationship between KAM disclosure and share price, as well as whether or not industry competitiveness influences this relationship. KAM refer to audit areas that demand the auditor's close attention owing to their significance, complexity or risk. International Standards on Auditing (ISAs) 701 requires auditors to report the complexities encountered during the audit, such as substantial audit judgment, difficulties in obtaining audit evidence, significant changes in the audit plan and the identification of significant deficiencies in a company's internal control. KAM disclosure serves as a monitoring tool that provides investors with insights into the company's audit issues, thus reducing information asymmetry and potentially influencing investors' reactions. By enabling investors to differentiate between good and bad companies, KAM disclosure facilitates better investment decisions (Jaffar et al. 2023). In semi-strong markets like Malaysia, share prices may reflect all available information, including auditors' reports, annual earnings, dividends and stock splits (Baharuddin et al. 2010). Aligned with the expanded Ohlson model, non-financial information like KAM disclosure could be considered value-relevant if it demonstrates a significant relationship with market values, including share prices (Johnston et al. 2008).

Despite the growing emphasis on KAM disclosure to enhance financial reporting transparency, its impact on investors remains unexplored. Studies from various nations, such as Jordan (Fayad Altawalbeh & Alhajaya 2019), the United Kingdom (Reid et al. 2015), Thailand (Suttipun 2020) and China (Zhi & Kang 2021), revealed that KAM are informative and pertinent to investors. However, in countries like France (Bédard et al. 2019) and Malaysia (Abu & Jaffar 2021; Jaffar et al. 2023), there is little indication of investor reactions to KAM disclosure. Abu and Jaffar (2021) and Jaffar et al. (2023) found that the number of KAM disclosures did not affect the share price. This raises concern that investors' assessment of KAM disclosure may not be solely based on the quantity of KAM disclosed but on the type of issues addressed, which may be crucial. Since the concern of this study has not been empirically proven to date, it aims to revisit the relationship between KAM disclosure and share price, considering the number and types of KAM. This study gives weight to the type of critical issues, such as new issues, contingent liability, fraud, litigation and liquidity risk disclosed in KAM. The weighting approach is consistent with this study's argument that investors are more interested in these entity-specific risk disclosures than a general risk (Gold et al. 2020). Additionally, there is evidence suggesting that in highly competitive markets, firms tend to choose high audit quality to foster investor confidence (Coelho & Terjensen 2011) since industry competitiveness significantly influences investors' perceptions of audit reports (Kalelkar & Xu 2023; Sattar et al. 2020). Thus, KAM disclosures that highlight significant risks and uncertainties can provide investors with valuable insights into potential challenges and their impact on the company's financial health. In highly competitive industries, investors may approach KAM disclosure cautiously and perceive greater risks. Conversely, investors may tolerate ambiguity and place

less reliance on KAM disclosures in a less competitive market, which potentially leads to different interpretations. However, empirical support for the influence of industry competitiveness on investors' interpretation of KAM is scarce, prompting this study to examine the moderating effect of industry competitiveness on the relationship between KAM disclosure and share price.

This study employs a panel dataset comprising 931 firm-year observations from Bursa Malaysia from 2016 to 2019. Key findings indicated that KAM disclosure has a significant impact on a company's share price and is consequently relevant information for investors. This finding enhances those of Abu and Jaffar (2021) who previously demonstrated the number of KAM disclosures is solely insufficient to influence investors. Indeed, investors evaluate the numbers and issues discussed within KAM. The matters deliberated within KAM are more highly appreciated by investors. Additionally, the interaction between KAM disclosure and industry competitiveness is negatively correlated, indicating that KAM are adversely viewed in industries with intense competition.

In terms of theoretical contributions, this study reaffirms that signals conveyed through KAM disclosure are indeed integrated by investors as pertinent and relevant information influencing share prices, especially within strong or semi-strong markets as posited by the efficient market hypothesis (EMH). Nonetheless, the interpretation of these signals remains contingent upon the specific industry context in which companies operate. In competitive markets where KAM underscore potential risks and uncertainties, investors may choose to reallocate their investments toward companies perceived as less risky or exhibiting fewer KAM disclosures within the same industry. In the practice world, findings highlighted that investors incorporate KAM disclosures into their decision-making process, particularly to assess and evaluate a company's financial health and risk exposure. KAM disclosures are also shaping investor behaviour, fostering a more transparent and informed investment landscape, especially for companies in competitive industries.

The remaining sections are organised as follows: The first section offers a concise summary of the literature review and presents the study hypotheses. Next, an overview of the data and methods used to test these hypotheses is provided in the section followed. Then, findings and discussions are presented in the subsequent section. Finally, conclusions are summarised and directions for future research are suggested.

Literature Review And Hypothesis Development

This section reviews the existing literature on KAM disclosure and its relationship with share price besides the moderating effect of industry competitiveness in this relationship. These reviews help to provide possible proof of research problems that demand further investigation accompanied by the discussion of the hypotheses.

KAM DISCLOSURE AND SHARE PRICE

According to signalling theory, audit opinions are critical pieces of information as they contain the auditor's assessment of the reasonableness of the company's financial statements (Hay & Cordery 2018). Investors have demonstrated that they rely on the additional information contained in the audit report when making various decisions (Kang 2019). The auditor's report on KAM contains information about material management judgments and material accounting estimates, as well as a high estimate of uncertainty. With the disclosure of KAM in the audit report, investors' understanding of audited financial statements is enhanced, allowing them to make more informed decisions (Velte & Issa 2019).

Christensen et al. (2014), Carver and Trinkle (2017), as well as Rapley et al. (2021), were among the pioneers in experimental studies to establish the notion that non-professional investors' decisions in the United States could be impacted by the disclosure of KAM. It was found that investors are more inclined to withdraw their investments when provided with a KAM paragraph concerning the unpredictability of management estimates. The research revealed that the disclosure of KAM can negatively impact investors' investment intentions. In Germany, Kohler et al. (2020) found evaluation of the company's economic condition by investors was impacted by the fluctuations in KAM. In addition, there are past studies that provided some preliminary empirical evidence based on secondary data. First, Bédard et al. (2019) investigated the effects of justifications of assessment (JOAs) in France. JOA, which is similar to KAM, has been mandatory since 2003. The results of the study showed a higher abnormal trading volume for the first year of JOA, but not for the following year. Reid et al. (2015) discovered that additional auditor disclosures are associated with higher abnormal trading volumes and lower abnormal bid-ask spreads, indicating that the additional disclosure has information value to investors.

In the context of the Asian region, Boonyanet and Promsen (2019) found that the KAM disclosure has a positive and significant relationship with stock prices. However, the finding by Boonyanet and Promsen (2019) was countered by Suttipun (2020), who found a significantly negative relationship between KAM reporting and common share price among listed companies in the Market for Alternative Investment (MAI) in Thailand. Fayad and Alhajaya (2019) analysed 195 audit reports for companies listed on the Amman Stock Exchange (ASE) in 2016 to ascertain Jordanian practices regarding KAM disclosure. They discovered that mandating KAM disclosure significantly impacted investors' decisions, as measured by abnormal trading volume.

The disclosure of KAM is believed to affect investors for multiple reasons. Initially, the disclosure of areas

of the financial statements requiring the most attention from the auditor enables investors to comprehend the risks and uncertainties associated with the financial statements and make more educated investment decisions (Kohler et al. 2020). Second, the disclosure of KAM can strengthen the credibility of the auditor's report by demonstrating that the auditor has extensively analysed the financial statements and identified the most crucial audit areas (Sierra-García et al. 2019). Lastly, investors may have more faith in the financial statements if the auditor has identified and resolved the most significant risks and uncertainties (Elliott et al. 2020). This may raise the probability that investors will rely their investment decisions on the disclosure of KAM. Lastly, investors scrutinise the auditors' reports and financial statements more closely and ask more questions, which can help uncover potential issues and areas for development in the financial statements (Gold et al. 2020).

Previous studies mentioned that KAM could lead to different investors' reactions, depending on the type of investors; whether risk-averse or risk-seeking individuals (Velte & Issa 2019). For risk-neutral or risk-seeking investors, the KAM disclosure results in a lower expectation gap as investors are informed about the nature of external audits, honouring the transparency with capital investment. On the other hand, for risk-averse investors, the disclosure of KAM increases their perception of the company's audit risk, causing them to withdraw their investment from the company.

For risk-seeking investors, KAM increase investor understanding of how auditors arrive at their conclusion and investors provide auditors with more trust when included in the audit report (Moroney et al. 2021). In addition, KAM describing the company's accounting estimates and policies as "representatively faithful" and "neutrally credible" demonstrate the company's commitment to high-quality financial reporting and increase investors' willingness to pay a premium for the company's shares (Elliott et al. 2020). In fact, investors tend to designate a relatively higher level of trustworthiness to audited financial statements when KAM are aligned with specific standards (Coram & Wang 2021).

For risk-averse investors, the inclusion of KAM in the audit report also reduces investors' confidence in the reliability of audited financial statements since KAM disclosure acts as a warning that the financial statements must be carefully interpreted (Christensen et al. 2014). KAM also serve as indicators of the potential for a company's financial or operational risks to increase. The greater the number of KAM identified in the audit report, the less precise the information on the audit and financial statements (Lin et al. 2020). KAM disclosure may indicate that the company is facing greater risk, which could cause investor concerns, causing them to change their investment decisions and increase their intention to withdraw from the company. Carver and Trinkle (2017) reported that investors view management as less credible when KAM are reported, whilst Rapley et al. (2021) found that when KAM are disclosed, investors' investment intentions become lower than that when the auditor does not identify KAM.

A share price is affected by macroeconomic and microeconomic variables (Khan et al. 2014). Macroeconomics is concerned with the overall performance of the economy and the nation's economic policies, such as the interest rate, currency market, inflation, deflation and changes in economic policy, among others. Microeconomics, on the other hand, concentrates on the factors influencing the share price of companies, such as industry performance, investor sentiment, public confidence, directors' influence, dividend policy and trade activities. This study focuses solely on the impact of microeconomic aspects that, when KAM are reported in auditors' reports, have the potential to influence investor perception and public confidence towards the company, thereby affecting the share price.

If investors recognise the signal conveyed by auditors through KAM disclosure, they will probably make use of the KAM information, which may be further reflected in share prices. According to the EMH, an efficient market is defined by share prices consistently incorporating all accessible information (Fama 1970). Baharuddin et al. (2010) stated that Malaysia's capital market functions within a semi-strong variant of EMH. The extended Ohlson Model confirmed that financial and non-financial information is considered meaningful if it shows a substantial correlation with market values, such as share prices. The extended Ohlson model has been extensively used in studies to establish a connection between non-financial information, such as auditor's reports (Boonyanet & Promsen 2018), IFRS adoption (Okafor et al. 2017), ESG performance (Yoon & Byun 2018), as well as corporate governance (Habib & Azim 2008) and share prices. The actions of investors to honour transparency or to withdraw their investment in response to KAM disclosure will have several effects on the share price of the invested company. Consequently, this study advocated the testing of the following hypothesis:

H_1 There is a significant association between KAM disclosures and the share price.

THE MODERATING EFFECT OF INDUSTRY COMPETITIVENESS

How does the extent of industry competition influence the investors' perception of KAM disclosure? To answer this question, industry competitiveness is incorporated in this study as a moderating variable in the relationship between KAM disclosure and share price. In competitive industries, investors pay close attention to audit reports (Kalelkar & Xu 2023; Sattar et al. 2020). They reward efficient companies and penalise the less efficient ones as they have plenty of other investment options. When auditors reveal KAM, especially in highly competitive

sectors, it can signal weaknesses or inefficiencies. KAM disclosure can cause changes in share price.

Competition and concentration are inversely related. The higher the level of competition, the lower the market concentration (Abdul-Rahman et al. 2018). The companies with the highest degree of industry competitiveness have less market power, making it easier for new companies to enter the industry. Based on economic theory, industries can be categorised into three distinct categories: perfect competition, monopoly and oligopoly (Rasulovich & Zokirovich 2023). In a perfect competition industry, none of the companies holds a dominant position and they are in constant struggle with one another. In a monopoly market, one company dominates as a seller comprising the entire industry, and no other producer of its goods can be found, nor can another good be produced to replace its commodities. No competition will exist in the monopoly industry. Meanwhile, a market characterised by oligopoly is dominated by a small number of companies, which compete with one another. The Japanese automotive market is an example of an oligopoly market, since Toyota, Honda, and Nissan produce 100% of automobiles in Japan (Rasulovich & Zokirovich 2023). Based on an analysis of the industries listed on Bursa Malaysia, this study determined that Malaysian companies can be split into two categories: perfect competition and oligopoly (highly concentrated). None of the industries are monopolistic or dominated by a single entity.

Companies in highly concentrated or less competitive industries typically have market power that allows them to exert influence over relevant constituents, which has a positive effect on their financial performance. Previous research demonstrated that market dominance correlates with a company's profitability, financial stability and long-term survival (Aziz et al. 2021). Due to the financial stability of companies in a highly concentrated or low-competition industry, this study postulates that KAM disclosure would have no effect on investors' perceptions and would have no impact on the share prices of the companies. Elliott et al. (2006) discovered in their study that when companies receive a growing concern opinion from their auditors, investors tend to redirect their investments towards their competitors. This may be shaped as advantageous for the competitors and unfavourable for the companies receiving the opinion. The finding by Elliott et al. (2006) could also apply to research on KAM disclosure. This study anticipates that KAM will significantly influence the share prices of companies experiencing intense competition. In these cases, investors might move their investment away from companies with more uncertainties and risks to those that have lower susceptibility to such issues.

Competitive intensity refers to the level of competition existing among companies within a specific industry. When numerous competitors are present, it can be challenging for a company to establish a unique position since all potential niches may already be filled by rivals. To establish a sustainable competitive advantage, companies in industries with intense competition require distinctive positioning and product characteristics. However, in the presence of many competitors, it might be impossible for a company to attain such a distinctive positioning, as all conceivable niches may already be occupied (Aziz et al. 2021). In a competitive market, investors would penalise less efficient companies while rewarding efficient ones (OECD 2021). Given that investors have several investment options within a competitive industry, this study proposes that industry competitiveness can moderate the effect of KAM disclosure on its share price. As risk-averse investors, they may choose to invest in companies that provide less or no KAM disclosure. Thus, the following hypothesis is to be tested:

H_2 Industry competitiveness moderates the relationship between KAM disclosures and the share price.

Data And Research Design

SAMPLE AND DATA COLLECTION

The study's population consisted of Malaysian publicly listed companies as of May 2020. However, companies from the Finance, Real Estate Investment Trust (REITs), and Closed-end fund sectors were excluded. It should be emphasised that ISA 701 applies the same rules for disclosing KAM across all industries. However, certain sectors were excluded due to their distinct regulatory frameworks and financial reporting standards. This exclusion is necessary to ensure consistency and comparability within the study. A proportionate stratified random sampling method was used to obtain a more representative population.

Table 1 provides the concentration ratio and level of competitiveness for each industry. As a moderating variable, concentration ratios were used to gauge the market's competitiveness. The concentration ratio demands the number of companies and market share of the largest companies. Prior research measured the concentration ratio using the market share of the top 3, 5 or 10 companies in the industry (OECD 2021). Using data from the Bursa Malaysia sectoral index series, this study assessed the industry's top five companies to determine if it is highly competitive or concentrated (Bursa Malaysia 2022). Should the concentration ratio of the top five firms surpass 50% of the total number of firms in the industry, the industry is considered oligopolistic (imperfect competition). However, if the concentration ratio is below 50%, the industry is deemed competitive since the top five companies do not control most of the market.

The information on KAM disclosure was extracted from the annual reports, while market competitiveness data was determined using the Bursa Malaysia sectorial index series. The Thomson Reuters DataStream Professional database was utilised to collect additional financial data, including share prices and control variables. Table 1 illustrates the list of industries for listed companies in Malaysia and the number of samples from each industry.

TABLE 1. Sample selection, industry concentration ratio and level of competitiveness

Panel A: Industry Composition, Concentration Ratio and Level of Competitiveness				
Industry	Concentration Ratio	Level of Competitiveness	Number of Companies	Proportionate Sampling
Construction	66%	Oligopoly	54	17
Consumer Products & Services	43%	Competitive	191	59
Energy	64%	Oligopoly	34	11
Health Care	81%	Oligopoly	17	5
Industrial Products & Services	58%	Oligopoly	258	80
Plantation	64%	Oligopoly	44	14
Property	31%	Competitive	97	30
Technology	43%	Competitive	100	30
Telecommunication, & Media	88%	Oligopoly	24	9
Transportation & Logistic	89%	Oligopoly	35	11
Utilities	84%	Oligopoly	10	3
TOTAL			864	269

Panel B: Number of Observations		
	Number of Companies	Observations
Sample (2016-2019)	269	947*
Unavailable annual report		(7)
Unavailable market capitalisation data		(2)
Qualified and Disclaimer opinion with no KAM	(1)	(7)
TOTAL	268	931

*Companies with a fiscal year that ends in December have four years of observation, while companies with a fiscal year that ends in other months have only three years of observation since their first year of ISA 701 implementation is 2017.

MEASUREMENT OF VARIABLES

To examine whether investors consider the information disclosed by KAM when valuing companies, this study utilised the company's share price (PRICE) as the dependent variable. Based on Ohlson (1995, financial information is value-relevant if it has a significant association with market values, including the share price. Share price changes rapidly from investors' reactions to new publicly available information, which is relevant for investors in forming their expectations of the future performance of the company (Gitman 2009). According to Para 9.23 (1) of the Main Market Listing Requirements of Bursa Malaysia, listed companies are required to release their annual report, audited financial statements and other statutory documents within four months after the conclusion of their fiscal year. Hence, this study selected four months' worth of share prices of companies following the end of each fiscal year as the dependent variables.

KAM disclosure was evaluated using scores (KAMSCORE) encompassing two dimensions: the quantity of KAM and the nature of the disclosed issues as KAM. The number of KAM disclosures (NUM_KAM) serves as an indicator of managerial opportunism and risks associated with a company, which can influence investors to adjust their investment decisions (Lin et al. 2020). NUM_KAM also plays a role in shaping users' perceptions of the reliability of audited financial statements (Abdullatif & Al-Rahahleh 2020). This study focused on four specific KAM issues: new KAM (NEW_KAM), contingent liabilities (CL_KAM), fraud/litigation (LIT_KAM) and liquidity risk (LIQ_KAM). These entity-specific risk disclosures tend to attract more attention from investors compared to common account-level risk disclosures (Gold et al. 2020).

New KAM issues (NEW_KAM) provide the market with fresh audit issue information (Bédard et al. 2019; Menon & Williams 2010). Contingent liabilities (CL_KAM) involve uncertainties regarding future cash outflow estimates, which can significantly impact market valuation and lead to share price discounts (Lopes & Reis 2019). Meanwhile, liquidity risk (LIQ_KAM) affects stock returns, and investors generally prefer to invest in companies with low bankruptcy risk (Dang & Nguyen 2020). Lastly, the disclosure of fraud or litigation (LIT_KAM) can considerably decrease stock prices (Aggarwal et al. 2015; Eryigit 2019). Consequently, these four KAM issues were focused on in this study owing to their potential impact on a company's value. For instance, Aggarwal et al. (2015) and Eryigit (2019) found that a company's stock price decreases when regulators detect and announce fraud against it.

To illustrate the calculation of KAMSCORE, an example of a company disclosing three KAM was adopted, exceeding the greater than the average score of the entire sample. Consequently, a value of 2 was assigned to NUM_KAM. KAMISSUE was determined by summing up four distinct KAM types: NEW_KAM, LIT_KAM, CL_KAM, and LIQ_KAM. Suppose the company faces two issues involving litigation and liquidity; in that case, KAMISSUE equals 2. By combining the weighted NUM_KAM (2) and KAMISSUE (2), the total KAMSCORE for this company is obtained, which stands at 4.

The H_2 hypothesis, which investigates the moderating effect of industry competitiveness, was examined using a dummy variable for industry type. A value of 1 is assigned if the firm is in a competitive industry, while 0 is assigned to the oligopoly industry (less competitive). To account for potential confounding effects on share prices, five company financial attributes were incorporated in this study as control variables: book value per share (BVS), earnings per share (EPS), firm size (SIZE), profitability (ROA) and leverage (LEV). In the extended Ohlson model, the primary components typically include BVS and EPS alongside the specific variable under examination. This approach allows for a comprehensive analysis of how additional non-financial information impacts the valuation of a company as reflected in its share price (Habib & Azim 2008). Additionally, SIZE has been identified as a significant determinant of share price in previous studies (Lopes & Reis 2019; Sharif et al. 2015). In this context, larger firms are generally more likely to exhibit profitability. Moreover, LEV plays a crucial role in determining share prices, as investors tend to assign greater value to companies with lower debt levels, thereby maximising stakeholders' earnings (Habib & Azim 2008; Sharif et al. 2015). A summary of the measurement of all variables in this study can be found in Table 2.

TABLE 2. Measurement of variables

Symbol	Measurements	References
Dependent Variable		
PRICE	The share price of a company at four months after financial year-end.	Ohlson (1995)
Key Audit Matters – Independent Variable		
NUM_KAM	Actual number of KAM disclosures.	Kitiwong and Sarapaivanich (2020)
KAMISSUE:	The unweighted KAM scores of NEW_KAM, LIT_KAM, CL_KAM and LIQ_KAM.	
NEW_KAM	A value of one if a new KAM arises in the current year, and zero if otherwise.	Bédard et al. (2019)
LIT_KAM	A value of one if there are KAM disclosures related to fraud, non-compliance, or litigation, and zero if otherwise.	Eryigit (2019)
CL_KAM	A value of one if there are KAM disclosures related to contingent liability, and zero if otherwise.	Lopes and Reis (2019)
LIQ_KAM	A value of one if there are KAM disclosures related to liquidity risk, and zero if otherwise.	Dang and Nguyen (2020)
KAMSCORE	The total weighted NUM_KAM and KAMISSUE.	
Moderating Variable		
COMPETITIVENESS	A value of one if the industry is competitive, and zero if otherwise.	
Control Variables		
BVS	The book value per share of the company.	Ohlson (1995)
EPS	The earnings per share of the company.	Ohlson (1995)
SIZE	The natural logarithm of total assets.	Habib and Azim (2008)
LEV	The ratio of the total debt divided into total assets.	Habib and Azim (2008)
ROA	The ratio of net income before extraordinary items to total assets.	Habib and Azim (2008)

KAMSCORE consists of the NUM_KAM and KAMISSUE. This study employed weighted NUM_KAM, with a value of two if the number of KAM is greater than the average score of the entire sample, a value of one if the number is less than or equal to the average score, and a value of zero if there was no KAM disclosure

EMPIRICAL MODEL

To examine H_1, multiple regression analysis was employed to investigate the association between KAM disclosure and share price. The regression model used to test H_1 is presented below:

$$PRICE_{it} = \beta_o + \beta_1 KAMSCORE_{it} + \beta_2 BVS_{it} + \beta_3 EPS_{it} + \beta_4 SIZE_{it} + \beta_5 ROA_{it} + \beta_6 LEV_{it} + \delta_{1-n} Fixed\ effects + \varepsilon_{it} \quad (1)$$

The above equation was expanded, whereas industry competitiveness was incorporated into the following equation (2) to assess the impact of industry competitiveness (H_2):

$$PRICE_{it} = \beta_o + \beta_1 KAMSCORE_{it} + \beta_2 COMPETITIVENESS_{it} + \beta_3 KAMSCORE*COMPETITIVENESS_{it} + \beta_4 BVS_{it} + \beta_5 EPS_{it} + \beta_6 SIZE_{it} + \beta_7 ROA_{it} + \beta_8 LEV_{it} + \delta_{1-n} Fixed\ effects + \varepsilon_{it} \quad (2)$$

KAMSCORE was then replaced with NUM_KAM and KAMISSUE to determine whether investors are more concerned with the quantity, or the issues reported in KAM's sections.

Results And Discussion

DESCRIPTIVE STATISTICS

Table 3 presents the descriptive statistics for all variables included in this study. KAMSCORE exhibited a maximum value of 5.00, a median of 2.00, and an average of 1.866. It is worth noting that some companies have a KAMSCORE of zero, indicating non-disclosure of KAM. The average and median values for NUM_KAM were 2.07, with a maximum of 6.00. Regarding KAMISSUE, certain companies have reported up to three issues related to fraud, noncompliance, litigation, contingent liability, or liquidity. In terms of PRICE, the average value was 1.092, while the maximum and minimum values were 5.36 and 0.04, respectively. As for the control variables, the average BVS and EPS were 1.195 and 0.049, respectively. SIZE, represented by the natural logarithm of total assets, yielded an average of 5.712 and ranged from 4.36 to 7.23. Furthermore, the average values for LEV and ROA were 19.01 and 0.01, respectively.

TABLE 3. Descriptive statistics of variables

	Mean	Median	Min	Max	Std. Dev.	Skewness	Kurtosis
KAMSCORE	1.866	2.000	0.000	5.000	0.830	0.560	2.923
NUM_KAM	2.070	2.000	0.000	6.000	1.023	0.868	3.780
KAMISSUE	0.579	1.000	0.000	3.000	0.576	0.482	2.892
PRICE	1.092	0.600	0.040	5.360	1.338	2.088	6.681
BVS	1.195	0.820	0.033	4.491	1.176	1.407	4.245
EPS	0.049	0.030	-0.450	0.460	0.152	0.432	5.666
LEV	19.009	16.310	0.000	50.330	15.441	0.562	2.145
ROA	0.012	0.020	-0.287	0.143	0.077	-1.188	5.739
SIZE	5.712	5.690	4.360	7.230	0.689	0.352	2.631

Refer to Table 2 for the definition of variables.

Table 4 presents a comprehensive comparative analysis of oligopoly and competitive industries across multiple variables. The objective of this analysis is to gain insights into the distinctions and similarities between these two market segments by examining central tendency measures, specifically the mean and median. In the oligopoly industry, the mean and median values for KAMSCORE, NUM_KAM, and KAMISSUE were slightly higher compared to the competitive industry. This implies that companies operating in oligopoly industries exhibit greater transparency and display less concern regarding auditor disclosures in the KAM section.

On the other hand, the competitive industry demonstrated slightly higher average values for PRICE, BVS and EPS. This may be attributed to investors perceiving greater growth and profitability potential in competitive markets, leading to increased demand and subsequently higher prices. Moreover, the presence of competition incentivises businesses to innovate and maintain a competitive edge, which investors may view positively. Regarding financial indicators, companies in the oligopoly industry exhibited higher average leverage (LEV), indicating a greater reliance on debt financing. In contrast, the average return on assets (ROA) for companies in the competitive industry was higher, indicating potentially more efficient utilisation of assets. In terms of firm size, the mean and median values for SIZE in the oligopoly industry were marginally larger than those in the competitive industry. This suggests that companies in the oligopoly industry have slightly larger average sizes, potentially indicating a larger market share.

TABLE 4. Comparing mean and median between oligopoly versus competitive industry

	Oligopoly		Competitive		Total	
	Mean	Median	Mean	Median	Mean	Median
KAMSCORE	1.890	2.000	1.835	2.000	1.866	2.000
NUM_KAM	2.082	2.000	2.054	2.000	2.070	2.000
KAMISSUE	0.602	1.000	0.549	1.000	0.579	1.000
PRICE	1.056	0.655	1.138	0.526	1.092	0.600
BVS	1.168	0.874	1.229	0.704	1.195	0.820
EPS	0.033	0.030	0.070	0.020	0.049	0.030
LEV	19.850	16.250	17.930	16.360	19.010	16.310
ROA	0.009	0.019	0.015	0.021	0.012	0.020
SIZE	5.751	5.740	5.661	5.615	5.712	5.690

Refer to Table 2 for the definition of variables.

The correlation matrix in Table 5 provides valuable insight into the relationships between the variables used in this study. It is important to examine the correlations as they can reveal potential patterns or trends in the data. A correlation coefficient measures the strength of the association between two variables, ranging from -1 (a perfect negative correlation) to +1 (a perfect positive correlation), with 0 indicating no correlation. In this study, all of the correlations were below 0.9, suggesting no substantial multicollinearity presented in the data (Hair et al. 2010). This is a positive finding as multicollinearity can affect the reliability of regression coefficients, leading to inaccurate predictions and reduced model performance. Overall, the results in Table 5 indicated that the variables used in this study are suitable for analysis and that the findings can be considered reliable. It is important to note that correlation does not imply causation and further analysis is needed to establish any causal relationships between the variables.

TABLE 5. Pairwise correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) PRICE	1.000								
(2) NUM_KAM	0.043	1.000							
(3) KAMISSUE	0.031	0.314*	1.000						
(4) KAMSCORE	0.034	0.689*	0.840*	1.000					
(5) BVS	0.672*	0.013	-0.070	-0.063	1.000				
(6) EPS	0.667*	-0.060	-0.063	-0.057	0.425*	1.000			
(7) SIZE	0.486*	0.231*	0.061	0.154*	0.497*	0.261*	1.000		
(8) LEV	-0.012	0.123*	0.096*	0.133*	-0.018	-0.095*	0.405*	1.000	
(9) ROA	0.412*	-0.064	-0.057	-0.046	0.202*	0.637*	0.202*	-0.117*	1.000

Refer to Table 2 for the definition of variables.
* shows significance at p<.01

BASELINE RESULTS

The results of the poolability test and the Hausman test indicated that the fixed effect (FE) model is the appropriate choice for this analysis. Given the suitability of the FE model, all regression analyses were conducted using this model and the findings were discussed accordingly. The first three columns in Table 6 present the results of Hypothesis 1 (H_1), which proved the association between KAM disclosure and share price. Column 1 depicted the coefficient value of KAMSCORE as 0.101 (p-value $\leq$ 0.01), indicating that investors use KAM information to make investment decisions. KAMSCORE is made up of the number of KAM and the KAM issues. This result indicated that today's investors are extremely astute when it comes to evaluating KAM disclosure. Investors consider not only the quantity or number of KAM raised by auditors but also the quality or severity of the issues raised by auditors.

The results in column 2 indicated that NUM_KAM did not have any significant influence on PRICE. Therefore, there was no evidence to indicate that the number of KAM in the auditors' report influences investors' decisions. These findings corroborated Al Lawati et al. (2021) highlighting that quantity alone is inadequate to

measure forward-looking disclosure in the chairman's statement. Moroney et al. (2021) also demonstrated that, based on an experiment with non-professional investors, the provision of more KAM does not increase the value or credibility of auditors. In fact, Al-mulla and Bradbury (2022) emphasised that the information contained in KAM is more relevant than their numbers.

In column 3, the coefficient value of KAMISSUE was 0.186 (p-value ≤ 0.01), indicating a positive and significant relationship between KAMISSUE and PRICE. This demonstrated that investors recognise the detailed disclosures of KAM and consider the issues raised by auditors when making investment decisions. This result corroborates the finding by the Institute of Singapore Chartered Accountants (ISCA), which discovered that 89% of investors read the auditor's report before reading the financial statements as it assists investors in navigating their financial statements (ISCA 2017). The auditor's report, especially the KAM section, highlighted significant accounting and audit issues for investors to pay attention to when reading the financial statement. In a nutshell, the results in the first three columns indicated that KAMSCORE and KAMISSUE have a significant positive relationship with share price, as investors may have more faith in the financial statements after the auditors have identified and mitigated the most significant risks and uncertainties.

Columns 4 through 6 provided the answer to Hypothesis 2 (H_2) regarding the effect of the interaction between the level of competitiveness and KAM disclosure on the share price. KAMSCORE *COMPETITIVENESS, NUM_KAM*COMPETITIVENESS and KAMISSUE*COMPETITIVENESS have respective coefficients of -0.252, -0.250 and -0.235. The results suggested that the industry's competitiveness negates the favourable effect of KAM's disclosure. This suggests that in a competitive market, investors scrutinise the auditors' reports more closely and punish less efficient companies while rewarding efficient ones, as they have other investment opportunities within the industry. In addition, risk-averse investors may prefer to invest in companies with limited or no KAM disclosure, as such firms may provide good investment opportunities.

TABLE 6. Results of regressions

	Dependent Variable- PRICE					
	(1)	(2)	(3)	(4)	(5)	(6)
Intercept	-1.743***	-1.690***	-1.725***	-1.890***	-1.844***	-1.727***
	(-6.830)	(-6.593)	(-6.791)	(-7.231)	(-7.082)	(-6.703)
KAMSCORE	0.101***			0.213***		
	(3.156)			(5.062)		
NUM_KAM		0.035			0.144***	
		(1.335)			(4.236)	
KAMISSUE			0.186***			0.287***
			(4.118)			(4.809)
COMPETITIVENESS				0.404***	0.447***	0.074
				(3.186)	(3.833)	(1.014)
KAMSCORE* COMPETITIVENESS				-0.252***		
				(-4.060)		
NUM_KAM* COMPETITIVENESS					-0.250***	
					(-4.934)	
KAMISSUE* COMPETITIVENESS						-0.235***
						(-2.623)
BVS	0.450***	0.442***	0.448***	0.449***	0.439***	0.447***
	(15.928)	(15.636)	(16.006)	(16.034)	(15.755)	(16.006)
EPS	3.934***	3.937***	3.934***	3.952***	3.967***	3.983***
	(16.387)	(16.316)	(16.448)	(16.464)	(16.513)	(16.568)
SIZE	0.347***	0.359***	0.359***	0.342***	0.353***	0.354***
	(6.818)	(6.925)	(7.173)	(6.750)	(6.874)	(7.072)
ROA	0.173	0.159	0.183	0.203	0.174	0.159
	(0.390)	(0.354)	(0.412)	(0.460)	(0.394)	(0.359)

continue ...

... continued

LEV	-0.004*	-0.003*	-0.004**	-0.004**	-0.004**	-0.004**
	(-1.877)	(-1.768)	(-1.963)	(-2.040)	(-2.019)	(-2.057)
YEAR	Included	Included	Included	Included	Included	Included
R2	0.6570	0.6539	0.6595	0.6636	0.6634	0.6625
Adj.R2	0.6547	0.6517	0.6573	0.6606	0.6605	0.6596
N	931	931	931	931	931	931
F-stat	294.943	291.013	298.307	227.299	227.187	226.251
Prob>F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

Refer to Table II for the definition of variables.
t statistics in parentheses * p<0.10, ** p<0.05, *** p<0.01

These findings have important implications for companies operating in competitive industries. In such industries, companies may need to focus on improving their overall competitiveness rather than relying on KAM disclosures to boost their share price. Companies that exhibit lower risk and fewer uncertainties are likely to be rewarded by the market, receiving higher valuations and potentially greater investor interest. In contrast, companies perceived as riskier and more uncertain may face penalties in the form of lower valuations and reduced investor confidence. Additionally, companies may need to carefully consider the level and nature of their KAM disclosures, particularly in competitive industries, which may involve striking a balance between providing sufficient information to investors without jeopardising the company's competitive position. Overall, the findings provide valuable insights into the complex relationship between KAM disclosure and share price in a competitive market, highlighting the importance of considering multiple factors when making investment decisions.

According to Table 6, BVS and EPS were equally important in explaining share price fluctuations. This aligns with earlier Malaysian studies (Gan et al. 2016; Halim et al. 2009). Although larger organisations are more likely to be profitable, SIZE is also a crucial factor in share price (Habib & Azim 2008; Lopes & Reis 2019; Sharif et al. 2015). Consistent with prior research, LEV was adversely linked with PRICE, as investors assess a lower value on enterprises with higher debt levels since increased debt reduces shareholder returns (Sharif et al. 2015).

ADDITIONAL ANALYSIS

This study further investigates the effect of KAM disclosure on share prices by categorising the sample into oligopolistic (less competitive) and competitive industries. The sample comprised 525 observations in oligopolistic industries and 406 observations in competitive markets. The results in Table 7 showed that in oligopolistic industries, variables such as KAMSCORE, NUM_KAM and KAMISSUE were significant and positively influenced share prices. This suggests that investors in these industries value KAM disclosure owing to its ability to enhance transparency and boost investor confidence.

Conversely, in competitive industries, none of the KAM disclosure measurements used in this study significantly impacted share prices. In fact, the effect of NUM_KAM on share price was negative, indicating that the influence of KAM on share prices is contingent on the level of industry competitiveness (as presented in Table 6). In highly competitive industries, where investors have more options and are more discerning, KAM disclosure might signal potential weaknesses or inefficiencies, resulting in a negative impact on share prices. This highlights the critical role of industry competitiveness in moderating the effects of KAM disclosures on the share price.

TABLE 7. Results of regressions oligopoly versus competitive industry

	Dependent Variable- PRICE					
	(1)	(2)	(3)	(4)	(5)	(6)
	Oligopoly	Competitive	Oligopoly	Competitive	Oligopoly	Competitive
Intercept	-2.834***	0.008	-2.709***	-0.008	-2.794***	0.003
	(-8.350)	(0.022)	(-7.923)	(-0.024)	(-8.242)	(0.010)
KAMSCORE	0.167***	0.017				
	(3.987)	(0.382)				
NUM_KAM			0.102***	-0.053		
			(2.965)	(-1.462)		
KAMISSUE					0.235***	0.079
					(3.986)	(1.276)
BVS	0.410***	0.432***	0.401***	0.424***	0.403***	0.436***
	(11.006)	(10.221)	(10.723)	(10.114)	(10.872)	(10.365)
EPS	2.819***	5.733***	2.833***	5.708***	2.854***	5.708***
	(9.374)	(14.784)	(9.357)	(14.741)	(9.486)	(14.728)
SIZE	0.519***	0.068	0.516***	0.098	0.545***	0.066
	(7.648)	(0.987)	(7.438)	(1.406)	(8.120)	(0.975)
ROA	1.058*	-0.796	1.056*	-0.832	0.988	-0.766
	(1.749)	(-1.362)	(1.732)	(-1.427)	(1.635)	(-1.312)
LEV	0.000	-0.011***	0.001	-0.012***	0.000	-0.012***
	(0.151)	(-4.237)	(0.289)	(-4.292)	(0.057)	(-4.268)
YEAR	Included	Included	Included	Included	Included	Included
R2	0.5939	0.7792	0.5884	0.7803	0.5939	0.7800
Adj.R2	0.5892	0.7759	0.5836	0.7770	0.5892	0.7767
N	525	406	525	406	525	406
F-stat	126.245	234.649	123.415	236.151	126.242	235.768
Prob>F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

Refer to Table 2 for the definition of variables.
t statistics in parentheses * p<0.10, ** p<0.05, *** p<0.01

Furthermore, the study's results provide valuable insights into the factors influencing share price in different competitive environments. In an oligopoly industry where a small number of companies dominate the market, BVS, EPS and SIZE have a significant impact on the share price. In contrast, in a competitive industry where many companies operate in the same market, SIZE is not a significant determinant of share price, but LEV plays a crucial role in determining the share price. These findings highlight the importance of understanding the industry-specific factors that drive share price and the need for companies to tailor their disclosure strategies accordingly.

Conclusion

This study has examined how KAM disclosures affect share prices, emphasising that the impact varies by industry. In competitive markets, KAM disclosures highlighting risks can drive investors to move their funds to less risky companies, negatively impacting share prices. In contrast, KAM disclosures in less competitive markets enhance transparency and boost investor confidence, positively influencing share prices. The study's key contribution is showing that the effect of KAM disclosures depends on the industry context, offering a nuanced view of how these disclosures influence investor decisions and share prices.

The theoretical contribution of this study lies in its explanation of how the signalling effect of KAM disclosures varies by industry context. It advances people's understanding of investor behaviour by illustrating that the same type of disclosure can have divergent impacts depending on industry competitiveness. This insight extends the signalling theory in financial markets, suggesting that the effectiveness of auditors' disclosures is not uniform but moderated by industry-specific factors. By highlighting this conditional relationship, this study provides a more comprehensive framework for interpreting the implications of KAM disclosures, thereby offering valuable insights for auditors, regulators and investors.

There are multiple potential implications for investors, regulators and corporate administrators stemming from the findings of this study. For investors, KAM disclosure may be a valuable source of information when making investment decisions. Thus, investors may want to consider incorporating KAM disclosures into their decision-making process and using this information to evaluate a company's financial health and risk exposure.

In addition, this study highlighted the significance of KAM disclosure for regulators in promoting financial reporting transparency and accountability. Hence, regulators may contemplate mandating KAM disclosure to improve the quality and dependability of financial statements and boost investor confidence in the market. For corporate managers, the disclosure of KAM could have a significant impact on share price, particularly in industries with high levels of competition. As a result, it emphasises the importance of managers effectively overseeing their stewardship, minimising company uncertainties and meticulously preparing financial statements. By justifying all judgements made, managers can mitigate the likelihood of auditors highlighting significant issues in KAM disclosures, thereby bolstering investor confidence and potentially enhancing share price performance.

This study solely concentrated on the quantity of KAM and four specific KAM issues: new KAM, contingent liabilities, fraud/litigation and liquidity risk when assessing KAM disclosure. However, it is worth noting that investors may consider additional metrics related to KAM when shaping their investment decisions. Thus, engaging in further discussions with auditing or capital markets experts is advisable to propose alternative measures for KAM disclosure that align more effectively with investor needs and preferences.

There are several avenues provided for future research. Firstly, while this study explores the association between KAM disclosure and share price, future studies could delve into the impact of KAM disclosure on other financial and non-financial outcomes, including but not limited to the cost of capital, credit rating and corporate reputation. These suggestions for future research are necessary to comprehensively understand the broader implications of KAM disclosures beyond share prices. By investigating how KAM disclosures affect other financial and non-financial outcomes, future studies can provide a more holistic view of their impact. Additionally, exploring these areas could reveal further insights into how transparency and risk communication influence various aspects of corporate performance and stakeholder trust.

Secondly, future studies could investigate whether KAM disclosure has a differential impact on different types of investors, such as institutional versus individual investors, by considering factors like investment horizons, investment objectives and risk tolerance. Thirdly, while this study focuses on the impact of KAM disclosure on investors, future studies could examine whether KAM disclosure has an impact on other stakeholders, such as employees or customers, by exploring their perceptions of companies that provide KAM disclosure. Finally, future studies could expand the scope of this research by examining whether the findings are consistent in other countries with different regulatory regimes and business environments, further providing insights into the role of KAM disclosure in different contexts.

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