

Audit Quality through KAMs: A Pathway to More Conservative and Reliable Financial Reporting

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ABSTRACT

This paper studies the association between accounting conservatism as a proxy of reliable and credible financial reporting with the audit quality in Malaysia during COVID-19 pandemic. We explore the effect of audit quality, captured as Key Audit Matters (KAMs), on accounting conservatism by using the C-Score as a proxy, and a sample of 736 listed companies on Bursa Malaysia. We find that audit assurance is positively associated with accounting conservatism, although at a negligible margin of statistical significance. We also find that firm size and profitability are significant determinants of accounting conservatism, while industry classification and leverage have no effect. We find that the relationship between audit assurance and accounting conservatism is complex, and future studies should use multiple measures of audit quality to uncover the effects of audit quality on financial reporting. This study contributes to the continuing debate on the effect of audit assurance in enhancing high quality financial reporting, in a period of uncertainty and crisis.

Keywords: Key Audit Matters, Audit Quality, Financial Reporting Quality, Accounting Conservatism, COVID-19 pandemic.

INTRODUCTION

Financial statements must be approved by the Board of Directors (BOD) and audited by an external auditor. External auditor as an independent professional auditor is engaged to provide assurance about the credibility, reliability and transparency of financial statements. The role of the external auditor is to give reasonable assurance to the public that the company's financial reports are prepared in compliance with accounting standards and provide a "true and fair" view of the company's financial position and performance. As a result, auditors indeed play a critical role in ensuring the quality of financial statements. The IAASB has issued ISA No. 700 (Revised) "Forming an Opinion and Reporting on Financial Statements" (IAASB 2015, 2016). The most crucial part of ISA No. 700 is the documentation inside an auditor's report known as Key Audit Matters (KAM). ISA 700 (Revised) has been adopted by the MIA as well as other modified auditing standards for implementation in Malaysia. ISA 701 Communicating Key Audit Matters in the Independent Auditor's Report was published in April 2015 and amended in July 2018. As such, starting from December, 2016 auditors of public interest entities will be required to communicate major audit issues (KAMs) which arose out of the audit of financial statements. This was done in view of the fact that the auditor's report is valuable to capital market participants (MIA 2018, 2017). Recent worldwide developments in external auditing reports demand companies to provide more information to enhance transparency and create confidence in their financial reporting, aiding stakeholders in making informed investment choices (Rahaman, Hossain, & Bhuiyan, 2023; Rautiainen, Saastamoinen, & Pajunen, 2021).

The objective of communicating major audit issues is to increase the value of the auditor's report as a communication tool by enhancing the audit's transparency. Audit reports now require KAMs according to the

IAASB or else Critical Audit Matters (CAMs according to the PCAOB) to enhance audit transparency (Ferreira & Morais, 2020; Ma, Coram, & Troshani, 2024). Thus, by revealing the significant audit matters, the users of the financial statements, or the “intended users”, are provided with extra information which helps them in their understanding on the matters which the auditor considers to be most important in the audit of the current period’s financial accounts. The communication of information regarding critical audit matters could also help those that are expected to make use of the audited financial statements in comprehending the entity and aspects where management decisions are important (ISA 701 Para. A1–A4). Key Audit Matters (KAMs) are the most significant issues identified by the auditor during the audit of the current period’s financial accounts. The areas of substantial management judgment or board metric in the financial statements are emphasized to show where auditors focused their efforts or faced complicated accounting problems. KAMs provide a way to evaluate how corporate governance and audit assurance impact accounting conservatism by concentrating on crucial and potentially disputed areas.

Furthermore, identifying and revealing Key Audit Matters (KAMs) demonstrate the comprehensive nature of the audit process. Effective audits will likely highlight more important and relevant Key Audit Matters (KAMs), serving as an indicator of the degree of assurance the audit delivers. KAMs can be a useful indicator of audit assurance quality for investigating the relationship between accounting conservatism. Higher audit quality and tends to result in more conservative accounting practices (Fera, Pizzo, Vinciguerra, & Ricciardi, 2022). KAMs are a valuable method for strengthening the quality of financial reporting by minimising aggressive financial reporting behaviour. KAMs reporting has the potential to significantly reduce managers’ opportunistic behaviour by playing a monitoring role (Bepari, Nahar, Mollik, & Azim, 2023). KAMs is a medium for auditors to communicate or channel the assurance information to the shareholders. Disclosure of KAMs is a proxy and means of communications from the external auditors to shareholders and users of financial statement. KAMs are the area that auditor think is critical for the business as a going concern. Assessing these issues is crucial in a developing country where financial reporting and auditing quality is historically poor, and the information environment is weak (Bepari, Nahar, & Mollik, 2024). In light of ISA 701 – Communicating Key Audit Matters effective on or after 15th December 2016 pertaining to the roles and responsibilities of external auditors, this study will further investigate the auditing assurance through KAMs that promote better accounting conservatism. This study reinforces the empirical question to what extent the audit quality (through KAMs) will affect the accounting conservatism.

ISA No. 700 (Revised) and ISA 701 place great emphasis on Key Audit Matters (KAMs) as a means of improving financial reporting quality and increasing audit transparency. Yet, the exact implications of KAMs on accounting conservatism are not investigated sufficiently. The aim of this study is to fill this gap by examining the effect of audit quality, proxied by KAM, on accounting conservatism in the context of Malaysia during the COVID 19 pandemic. An important dimension in which this research contributes to the existing literature and provides novel insights is through placing its analysis in the context of a period in which auditing practice was undergoing considerable change and in which there was heightened economic uncertainty. This study makes a unique contribution by focusing on the Malaysian market during a global crisis, and empirically test the role of KAMs in promoting conservative accounting practices. In addition to that, this research also explores key determinants of accounting conservatism, including firm size and profitability, which help enrich our understanding of determinants of financial reporting quality.

LITERATURE REVIEW

Implications of Accounting Conservatism towards Financial Reporting Quality and Information Asymmetry

The demands of corporations for conservatism are examined from a variety of angles, including agency theory, accountability and stewardship theory. These theories substantiate the notion that conservatism is advantageous and necessary for decision-usefulness. Financial statements, on the other hand, must exhibit the quality of faithful representation, which includes neutrality. When organizations’ operating performance is unclear, the conservative principle may result in an understatement of net assets, which contradicts the quality

attribute of faithful representation. As a result, the boards eliminated conservatism from the accounting fundamentals. Wang (2013) argues that when accounting conservatism is more pronounced, information asymmetry becomes more severe. Additionally, whether accounting conservatism is excessive or insufficient, its relationship to information asymmetry has a variety of implications and influences. Specifically, when accounting information is conservative, the association between accounting conservatism and information asymmetry is strongly negative, and when corporate earnings are conservative, the influence on information asymmetry is significantly positive. Thus, when corporations acknowledge income and expenses, an extreme conservatism leads investors to believe that the financial statements produced by the corporation are insufficiently useful. As a result of the heightened information asymmetry, investors increase stock bid-ask spreads for self-protection.

Additionally, when firms announce negative news during the present period and their accounting recognition is excessively conservative, outside investors may believe that the corporations are "taking a big bath," reducing the informativeness of the published financial statements. On the other hand, if a corporation's current period has positive outcomes, investors are more likely to identify with them despite an unduly conservative accounting recognition. This indicates the discrepancy in investor views of the informativeness of good and negative news in terms of accounting. The importance of accounting numbers derives from their information content. The information contained in financial reports serves as the foundation for investment decisions. As a result, accounting information should be both reliable and relevant, as has always been the goal of standard setters. Accounting systems and processes have evolved over time to ensure the quality of revealed information, specifically the quality of profits figures. However, while ensuring and improving earnings quality, some accounting techniques unintentionally impair the quality of the information content. Accounting conservatism is included into the different alternative accounting procedures available to the organization. These procedures are derived from exogenous accounting standards, which make reported earnings more prudent (i.e. lower). Firms can, however, choose to use fewer conservative strategies to claim higher earnings. As a result, the level of conservatism is determined endogenously. For example, when calculating the cost of inventory, the corporation can use the FIFO technique, which results in higher earnings, or the more conservative LIFO method, which results in lower earnings. Both approaches are mandated by standard regulators, but corporations can opt to use either one.

Conservatism impairs the information content and consequently the quality of earnings because it adds a downward bias to earnings (Chen, Hemmer, & Zhang, 2007; Fan, Wong, & Zhang, 2013). However, the level of conservatism is not consistent; for example, depending on the conditions or the economic environment, organizations can pick from a variety of accounting procedures ranging from liberal to conservative (Ahmed & Duellman, 2013). (Moy, Heaney, Tarca, & van Zyl, 2020) investigate the relationships between conditional conservatism in financial accounting and changes in institutional frameworks and identify specific time periods when changes in market regulation and financial structure occurred, as well as harmonization and convergence of accounting standards and corporate governance. The findings suggest that specific changes in the institutional framework that occurred between 1981 and 2008 are connected with changes in conditional conservatism. Guermazi & Halioui (2020) found that conditional conservatism is higher in countries where individualism is lower and where uncertainty avoidance is higher in the post-IFRS period. In addition, Krishnan & Zhang (2022) found that the use of conditional accounting conservatism is lower in companies that rely more on principles-based accounting standards, and the link between these two factors is more obvious in companies that have a stronger emphasis on earnings management incentives. Financial reporting quality is helpful to liquidity when measured by stronger conditional conservatism and lower earnings management. During the capital controls period, however, the relationship between conditional conservatism and liquidity turns negative, and this negative relationship is associated with less risky firms (Kosmidou, Kousenidis, Ladas, & Negkakis, 2020).

Enhancement of External Audit Assurance with Key Audit Matters (KAMs) Disclosure

International Standards on Auditing (ISA) No. 700 (Revised) "Forming an Opinion and Reporting on Financial Statements" was issued by the International Auditing and Assurance Standards Board (IAASB) (IAASB 2015,

2016). The requirement that KAMs be reported inside the auditor's report is one of the most important aspects of ISA No. 700. The Malaysian Institute of Accountants (MIA) has followed ISA 700 (Revised) and amended the related auditing standards to suit the Malaysian context. These standards include ISA 701 - Communicating Key Audit Matters in the Independent Auditor's Report, which was issued in April 2015 and updated in July 2018. Therefore, beginning in December 2016, auditors of listed firms will be required to highlight key audit matters (KAMs) discovered during the audit of financial statements. This was done because of the significance of the auditor's report to users of the capital market (MIA 2018, 2017). The aim of conveying key audit matters is to improve the value of the auditor's report as a communication tool by making the audit that was done clearer. By sharing key audit matters, users of the financial statements ("intended users") get more information to help them understand the things that, in the auditor's professional judgment, were most important in the audit of the financial statements for the current period. Getting the message out about key audit matters may also help the people who are supposed to use the audited financial statements understand the entity and areas where management decisions are important. (Ref: Para. A1–A4). Gold, Heilmann, Pott, & Rematzki (2020) found that managers are less likely to make aggressive financial reporting decisions when KAMs are present compared to when they are not. This impact persists even when the description of the KAM lacks detailed information. Its indicate that KAMs are a helpful tool in improving the quality of financial reporting by reducing aggressive financial reporting practices. Rahaman & Chand (2022) found more evidence that auditors tend not to disclose negative KAMs and avoid using negative language when describing KAMs. However, existing research on KAMs emphasizes their function in improving auditing transparency and declining in the enforcement of aggressive financial reporting behavior (Gold et al., 2020; Rahaman & Chand, 2022). Nevertheless, the impact of uncertainty on accounting conservatism has only been studied within limited empirical settings. In doing so, this research fills in this gap by examining the effects of KAM disclosures on financial reporting practices of Malaysian firms.

Another study indicated a substantial positive correlation between auditor type, audit fees, and KAM reporting level over three periods in Thailand (Suttipun, 2022). In addition, further studies indicate that KAMs' disclosure differs dependent on client firm-specific characteristics, audit firm-specific characteristics, audit partners' characteristics (Bepari, Mollik, Nahar, & Islam, 2022; Elmarzouky, Hussainey, Abdelfattah, & Karim, 2022; Hategan, Pitorac, & Crucean, 2022) and the high quality and sustainable corporate governance (Fera et al., 2022). Consistent with the findings by Chiang, Kleinman, & Lee (2023) that suggest the existence of a KAM disclosure requirement influences a company's risk and earnings quality. The COVID-19 crisis provides an appropriate context to analyse the importance of precautionary disclosures during economic uncertainty especially related to risk and the function of external audits in reassuring investors (Alharasis, Alkhwaldi, & Hussainey, 2024). In addition, the corporate governance practices impact decisions and policies, such as financial reporting and disclosure requirements. Good governance will enhanced the audit quality (Elmarzouky, Hussainey, & Abdelfattah, 2023). Key Audit Matters (KAMs) can indirectly show how successful these systems of governance are. The research done by Baatwah (2022) suggest that KAM rates are lower at any of the big four audit firms in Oman. But the big four audit firms report these KAM in various ways. According to the findings, there is also a wide variation in KAM composition across firms' partners. Partners at certain of the Big Four accounting firms have been shown to have a statistically significant correlation with lower KAM rates and auditors have an increased emphasis of their risk and are more careful when doing audits in order to lower their risk (In, Kim, & Park, 2020). Some Ernst & Young (EY) partners have been linked to more KAM. The findings overall show that auditors' KAM disclosures vary considerably in presentation. In contrast, other researchers found that Deloitte, EY, and KPMG are less likely than PwC to disclose KAM at the entity level, whereas KPMG and BDO are more likely to report KAM at the account level. Companies that pay higher audit services fees tend to have more entity level risk KAM (ELRKAM) and fewer account level risk KAM (ALRKAM) presented by their auditors (Honkamäki, Mättö, & Teittinen, 2022; Lin & Yen, 2022).

Three percent of audit procedures performed in 2020 were aimed at mitigating audit risks related to the COVID-19 pandemic, according to Kend & Nguyen (2022). Smaller practitioners reported significantly less audit procedures relating to COVID-19 audit risks in 2020 compared to most larger audit firms. From 2016 to

2019, Abu, Jaffar, Rahmat, & Hassan (2021) analyzed 931 firm-year observations of Malaysian Public Listed Companies to determine the correlation between KAM disclosure and investors' reactions based on share price. The results showed that investors were inspired to act by factors other than KAMs, such as a company's financial performance and governance characteristics. Also by reducing information asymmetry, KAM improves the features of debt (decreases interest rates and increases the proportion of long-term debt) (Liu, Ning, Zhang, & Zhang, 2022) and KAMs serve as a useful mechanism for boosting financial reporting quality by reducing aggressive financial reporting behavior, therefore provide financial analysts with relevant information about the audited company, hence enhancing the accuracy of their forecasts (Dal Bem Venturini, Bianchi, Machado, & Paulo, 2022; Gold et al., 2020). Using information gathered in Taiwan, Lin & Yen (2022) discover that a change in audit partners is associated with a heightened likelihood of new KAM disclosures. However Duboisée de Ricquebourg & Maroun (2022) found different finding where there appears to be a substantial effect on KAMs from changing audit firms and not audit partners.

Navigating Crisis: The role of Audit Quality in Enhancing the Credibility of Financial Reporting

The extent of audit assurance affects the use of conservative accounting practices in a big way. To examine this relationship, Li & Chao (2020) studies audit assurance on accounting conservatism at varying levels. The results also indicate that higher audit quality, which is essential during economic downturns, can assist in preserving conservative accounting policies. This becomes relevant especially during the current COVID-19 crisis whereby market conditions cause high likelihood of material misstatement. Audit assurance that is directed towards KAMs can increase the relevance and richness of audit reports because of the findings highlighted by the external auditors which are useful where risk and judgement in financial reporting is high and results in conservative accounting estimates. The study also indicates that KAMs assist in reducing information gap between auditors and users of financial statements, which encourages more careful and conservative approach to financial reporting (Li & Chao, 2020; Luo, 2021). In line with Daas & Omar (2024) who analyse the impact of the pandemic on accounting conservatism in Palestinian firms listed on the Palestine Exchange (PEX). The evidence presented in the study indicates that during the crisis firms provided even more conservative accounts due to KAM disclosures. The situation of the pandemic required more specific and clear reporting, which caused an increase in the use of accounting conservatism, which reflects in the financial statements.

METHODOLOGY

Sample of the study

The population includes all the Main Board companies listed in Bursa Malaysia but the final sample is 736 companies after excludes the newly listed firms in year 2020 as some of the variables need the previous year data. Sectors with small number of companies and inactive companies including companies that suspended from Bursa Malaysia also been excluded. Currently all the listed companies in Bursa Malaysia are mandated to present their annual reports on the Bursa website, thus all the annual report can be downloaded manually from the website. The financial data also is also obtained from Refinitiv DataStream. Year 2020 was selected to evaluate the conformity with ISA 701 (KAMs) after its implementation in December 2016. The selected years also capture the effect of the Covid-19 pandemic on firms' performance and earnings quality. It also imposed the first Movement Control Order (MCO) in the first quarter of the year 2020, and it is anticipated that the reported profit may be different when comparing a year before the pandemic and during the pandemic in accordance with accounting conservatism by the listed firms. Prior research shows that conservatism is more important during uncertainty or crisis period because accurate accounting information allows investors to better assess a firm's past and future performance more efficiently (Cui, Kent, Kim, & Li, 2021). The sample size determination leaned on the availability of comprehensive financial data as well as full compliance with ISA 701 requirements. To acknowledge and mitigate potential biases like the exclusion of certain sectors, the robustness checks were conducted.

Dependent variable

There have many measurements of financial reporting quality. This study used the accounting conservatism as one the proxy of quality financial reporting and act as dependent variable based on Khan & Watts (2009) model. Khan and Watts however, offer an alternative for a financial reporting conservatism measure, called the C_Score which also allows comparison of companies and time periods by supplementing Basu's (1997) reverse regression model. This model tests the accuracy of the identification of positive news prior to the actual release and in addition, the additional identification (earlier) of negative news in financial statements. As a result, it provides for more accurate description of real financial reporting practices, since it accounts for firm specific factors in the analysis. Many elements are embraced by the C_Score in defining the level of conservatism in a firm's reporting. Size is the first variable in this case while other variables are: The three variables selected on the right-hand side include Market-to-Book ratio (MTB), and Leverage (LEV). MTB is a ratio of market value of the firm to its total asset value and size is a measure of total cash flow of the firm. The amount of debt a company is carrying or the leverage – debt to equity ratio – is a measure of the risk the company is taking on. As a result, the C_Score considers these factors to provide a better assessment of the quality of firms' financial reports. Specifically, this is important to investors, analysts and other users of financial information because it allows them to judge properly how a firm performs and assess its risk level. In addition, inclusion of firm-specific factors into the C_Score will allow for a better comparison between the dissemination of information over time and across firms regarding different firms' financial reporting practices. This is because firms cannot all be in the same industry, and the environments of these firms are different, therefore these firms should give different practices concerning financial reporting. Given that these factors are included in their calculations, the C_Score therefore provides a better picture of how 'conservative' a firm is in terms of recognizing both the good and the bad. In general, Khan and Watts' C_score model is better than the reverse regression model that Basu (1997) has used to measure financial reporting conservatism due to its inclusion of firm variables. As such, this measure closes a gap of being able to capture the timeliness of recognizing good or bad news reported in the firm's financial statements to allow stakeholders to evaluate the firm's performance and risks. C_Score gives a much-improved view of financial reporting practices over firms and over time compared to prior research.

Independent variables and control variables

The independent variables used in this study focused on external audit quality through KAMs that give major influenced on financial reporting quality. The normal measurement used to measure the key audit matters are word count and dummy variables. In this study, the dummy variables to represent the key audit matter are based on previous research done by Lin & Yen (2022). Comparing the categories of KAMs reported in the existing year to those disclosed in the previous year reveals any changes in KAM disclosures. The titles of KAMs on audit reports from two years apart will be compared. When different accounts or content are present in the titles, various KAM types can be distinguished. Then, the body of the document will be examined to determine that a modification in title is not just a change in language. In order to effectively regulate factors that influence KAM disclosures, we also confirm that a change is not the result of a change in accounting principle or accounting policy. To capture a difference in KAM disclosures, the dummy variable 1 will be allocated when different forms of KAMs are reported in the existing year and 0 if that same types of KAMs are disclosed. Also, to improve to improve the analysis on how the KAMs affect financial reporting quality, this study incorporates several control variables i.e. industry classification, leverage, MTB, size, leverage and return on asset.

The justifications for methodology in this research include selection of C_Score using the Khan and Watts (2009) model because it provides a more refined measure of conservatism than earlier models, and attempt to address firm and time-specific factors of conservatism. This focus on KAMs also stems from the fact that the KAMs offer a transparent window into audit processes, permitting direct connection between audit quality and financial reporting practices. For KAMs, the dummy variables used will allow for a simple comparison of changes in KAM disclosures, making interpretation easier. In particular, the use of control variables helps to ensure that results are not confounded by industry, or firm, specific factors. Nevertheless, there are still a few

potential limitations in this study, e.g., manual data collection by download annual reports manually which may take some time and cause human error. This study focuses on the year 2020 as an exclusive timeframe, other than that, since it is a time frame, a short timeline, thus potentially limiting the generalizability of the findings to other times. In addition, the exclusion of some firms (e.g., removing newly listed and suspended firms) may not capture special dynamics of such firms.

FINDINGS AND DISCUSSION

The study has made findings in relation to the influence of the element which affect financial reporting practice of corporations on audit quality and more so their relationship with financial reporting reliability of the year 2020. The regression model is as below:

$$AC_i = \beta_0 + \beta_1 \text{AuditAssurance}_i + \beta_2 \text{IC}_i + \beta_3 \text{Size}_i + \beta_4 \text{MTB}_i + \beta_5 \text{Levi} + \beta_6 \text{ROA}_i + \varepsilon_i$$

Where;

Abbreviation Full Form

AC = Accounting Conservatism

AuditAssurance = Audit Assurance (KAMs)

IC = Industry Classification

Size = Firm Size

MTB = Market-to-book-ratio

Lev = Leverage

ROA = Return on Asset

The Audit Assurance exhibits a coefficient of 1.82 and a p-value of 0.069. From the results of the regression analysis, it can be stated that the coefficient indicates a positive link between Audit Assurance and Accounting Conservatism, however, the p-value is only a slightly above the significant level of 0.05 which means that even though the study establishes Audit Assurance has a positive effect on Accounting Conservatism, the results are not statistically significant beyond reasonable doubt. Of all the control variables, the coefficient of (Size) is positive and statistically significant relationship with Accounting Conservatism as indicated by a coefficient of 10.894 and a p-value of 0.000. From this finding it suggested that firms with greater size have a higher likelihood of reporting higher levels of Accounting Conservatism. Likewise, Return on Assets (ROA) also has a positive relationship with Accounting Conservatism with coefficient 4.031 and p-value of 0.000. This shows that the size and profitability of a firm are some of the factors that influence the extent of Accounting Conservatism. On the other hand, the coefficient for Market-to-Book Ratio (MTB) is negative and statistically significant at -2.093 and the significance level of 0.037. This implies that firms with high market to book values have low levels of Accounting Conservatism. This could be attributed to the fact that such firms are likely to have higher growth prospects and engage in risk taking hence are likely to use less conservative accounting policies.

On the other hand, Industry Classification and Leverage (LEV) have insignificant associations with Accounting Conservatism with p-value 0.94 and 0.777, respectively. These results suggest that the changes in industry sectors and leverage levels do not influence the level of Accounting Conservatism used by firms. In conclusion, this result highlights the complex relationship between Audit Assurance and Accounting Conservatism with the indication of a positive effect that could be further explored. Also, it singles out the firm size and profitability to be a major determinant of the conservative accounting practices with the high market values as likely to have a negative effect. The failure to obtain substantial results concerning industry classification and leverage implies the necessity to take into account other factors or to perform more detailed analysis of industries for future research.

TABLE 1: Regression Result Audit Quality and Accounting Conservatism

Variable	Value	Sig.(P)
Constant	-9.625	0.000
Audit Assurance	1.82	0.069
Industry Classification	-0.075	0.94
Size	10.894	0.000
MTB	-2.093	0.037
LEV	-0.284	0.777
ROA	4.031	0.000

Dependent Variable: Accounting Conservatism

CONCLUSION

The regression analysis carried for the year 2020 has revealed some useful information about audit assurance and accounting conservatism in the light of COVID-19. The coefficient of audit assurance suggesting a positive association with accounting conservatism. However, this relationship is not statistically significant meaning that although there is a perceived tendency that higher level of audit assurance will correspond with greater level of accounting conservatism, this finding cannot be done so with much certainty because the p-value is slightly higher than 0.05. Audit Assurance (KAMs) exhibited a non-significant positive association with accounting conservatism, which could be attributed to the auditors' difficulties in controlling contingencies and changes during the COVID-19 pandemic. In order to avoid the shortcomings of the use of KAMs as the only indicator of audit assurance, future research could employ other measures of audit quality like the reputation of the auditor, size of the audit firm, fees charged by the auditors, and the frequency of change of auditors. Such an approach could assist in obtaining a better understanding of how all the aspects of audit quality affect financial reporting. The relationship between audit quality and accounting conservatism in the times of economic crises is researched in this study, and the results are constructed to advance the understanding of the topic. Future research should build upon the findings by using alternative measures of audit quality and their combined effects on financial reporting practices. The report concludes with the call for the actionable recommendations and a clear chain of future studies, among which is the implementation of more advanced methodologies to increase the reliability and credibility of financial reporting.

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