

Empirical Study on the Impact of Key Audit Disclosure on Stock Price in Audit Reports

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Abstract. In order to meet the needs of capital market reform and development for high-quality accounting information and improve the information content of public company audit report, the financial statement audit business of capital market related subjects needs to be reformed. On December 23, 2016, the reform of new auditing standards has been started in China, and 12 guidelines such as China CPA Auditing Standards No. 1504- Communicating Key Auditing Matters in Auditing Reports were published. In order to steadily advance the reform of the audit report, the new audit report guidelines have taken a step-by-step implementation program, of which the first A+H stock listed companies were implemented on January 1, 2017. This paper mainly studies the following two aspects: whether the disclosure of key audit matters will affect people's investment decision, and then affect the stock price fluctuation of listed companies; whether the disclosure of key audit matters in the audit report of state-owned banks and non-state-owned banks has different influence on the stock price. This paper takes the A-share listed banks, by collecting the enterprises 2013-2018 annual audit reports and the closing prices of the stock during the report day, to carry on the research and makes the hypothesis, and finally use the empirical verification, draw a conclusion.

Keywords: Auditing Reporting, Key Audit Matters, A-share Listed Banks, Stock Price Volatility, State-owned Banks.

1. Introduction

1.1 Research Background

Audit report is a key way to enhance the reliability of enterprise financial information. It is the written opinion of the auditor on the accuracy and credibility of the audited financial statements after auditing the financial statements issued by the audited entity through a series of audit procedures. In order to maintain the consistency of the national planning, the reporter's expectations of the audit report and the information of the accounting information will be met, and the investors in the economic development process will increase the overall development of China's economic society due to lack of information. "China's CPA Audit Guidelines No. 1504 - Communication Critical Audit" in the Audit Report "and other 12 guidelines officially announced from the Ministry of Finance on December 23, 2016. The new audit report guidelines and the previously implemented audit report guidelines are mainly reflected in 1 new standards and 6 guidelines related to substantive revision, and the other five audit guidelines have been adjusted accordingly. The most important of these is the new "Communication" in the audit report, which largely increases the disclosure of the audit report, so that the report users can understand more useful for investment-related finances. Information is the core content of reform. The substantive revision is "Formation Audit Opinions and Export Report", "In Audit Report", "Increases Strong Surface Section and Other Courses in Audit Report" "Continuous operation" "The CPA's Responsibility for Other Information".

A series of issues are widely concerned by various scholars, such as the content and content difference of information carried in audit reports before and after the reform of audit report standards, the current disclosure status and existing problems of key audit matters, and the impact of disclosure of key audit matters on enterprises.

The main investors in the banking industry are investors with a large shareholding ratio. The total proportion of speculative investors has a relatively small share, and the proportion of speculative investors in other industries is relatively large, that is, the stock price of the banking industry

fluctuates. Compared with other industries, smaller is affected by the decision -making of speculative investors. To a greater extent, it depends on the investment decisions of investors with a large shareholding ratio. The choice of investment decisions is more rational than speculative investors. That is, the stock price fluctuations in the banking industry depend on the degree of judgment and trust of financial data than investors' judgment and trust. The audit report is a relevant report issued by the CPA through review of corporate financial data. The authenticity of financial data. Therefore, the research samples in this article's research on the study are compared to the selection of other industries, and the selection of banks as research samples reduces the effects of other factors, which can also reflect the impact of audit reports on stock price fluctuations.

Based on the background of the initial application of the new audit reporting standards, we collected the audit reports of a-share listed banks from 2013 to 2018 and the stock price data of the period before and after the release of the audit reports. Through empirical analysis, we studied whether the stock price volatility was affected by the disclosure of key audit matters and the specific direction of the impact.

1.2 Key Audit Matters

1.2.1 Definition of Key Audit Matters

Key audit matters refer to those matters that certified public accountants consider to have an important impact on audit work in the process of auditing financial statements based on their professional judgment. Key audit matters is formed in the audit process has been completed and the audit opinion on the basis of description, for these matters, the auditor will not in the report in a separate independent audit opinions expressed their attitude, only through a standardized description, inform users of audit report audit specific key in the process of audit matters.

1.2.2 The Disclosure of Key Audit Matters in the Audit Report

Disclosure of key audit matters is a new criterion formulated in the new Audit Standards in 2016. To communicate key audit matters in the audit report, the auditor not only needs to explain why this item is listed as a key audit item, but also needs to explain how to deal with the key audit item during the audit process. The key audit matters communicated in the audit report should follow the following two principles: do not imply that the matter has not been satisfactorily resolved at the time of the formation of the audit opinion; It does not contain or imply an independent opinion on separate financial statement matters.

Lu Li (2019)^[5] found that the key audit matters added in the new auditing standards were a substantive reform, which played a positive role in maintaining market order and protecting the rights and interests of external investors, and also increased the proportion of available information presented to investors in audit reports.

Hou Meiting (2019)^[3] found that the correlation was insufficient. Although it was closely related to industry risks, the key audit matters continuously disclosed did not reflect the annual characteristics. The disclosure length is too short or there are omissions. The comprehensibility of audit reports is at a low level in the industry as a whole.

Li Xiaojuan, Zhai Luping (2017)^[4] found that key audit matters can help reduce the harm and loss caused by information distortion to investors.

Zhang Fengli (2018)^[7] found that the quality and quantity of information related to investment decisions that stakeholders could obtain from the new audit report had improved and increased compared with that before 2015.

Karsten Asbahr and Klaus Ruhnke (2019)^[1] believe that there was a gap between the professional judgment made by auditors and the disclosure of key audit matters in audit reports, and audit work would not be affected by key audit matters. At the same time, the disclosure of key audit matters can be used as a condition to give up adjusting the accounting information disclosed by the enterprise.

Aeson Luiz Dela Cruz, Chris Patel, Sammy Ying, Peipei Pan (2020)^[7] believe that in an environment with more information, auditors tend to be more rigorous in audit work and disclose more authentic and effective audit results.

Wang Muzhi and Li Dan (2019)^[2] believe that disclosure of key audit matters reduces stock price synchronization. The lower the synchronization of the company's stock price, the more the number of disclosure of key audit matters can be inferred, and this inference is valid in the actual enterprise. In addition, the negative correlation becomes obvious with the increase of non-industry common matters and disclosure contents.

Combined with the research results of many scholars at home and abroad, the main content of this paper is whether the stock price fluctuation of listed companies before and after the reporting date is affected by the disclosure of key audit matters.

2. Current Situation of Disclosure of Key Audit Matters in Audit Reports of Listed Companies in China

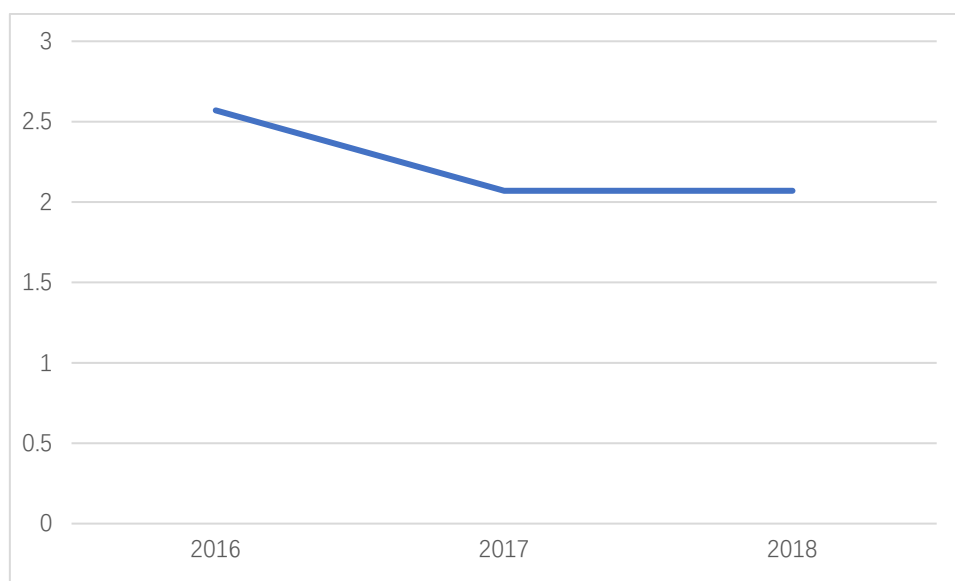


Figure1. Annual change chart of the mean value of disclosure of key audit matters

In the 3622 audit report issued by China's listed companies in 2018, 7425 key audit matters were included. In addition to 38 unable to express an opinion, the number of key audit matters disclosed in the audit report were at least 1, up to 5. As shown in Figure 1, the average disclosure of key audit matters in 2018 was 2.07, which was basically the same as the average of key audit matters disclosed in the audit report issued in 2017, and the average of 2016 declined.

Based on the type analysis of the current disclosure status of key audit matters in China, it can be found that the types are relatively concentrated and single. The two types of key audit matters concerning asset impairment and revenue recognition account for the vast majority of the total, while less attention is paid to other aspects of assets and liabilities.

3. Hypothesis

According to other scholar's research results, the current disclosure of the key audit matters in China is not optimistic, which quantity is little, and focus on a single type, the descriptions of similar, namely key audit matters in the audit report disclosure investors before and after the event, the addition of the financial information available is not much, and did not stick to business risk. This situation could lead to financial report disclosure due to key audit matters disclosed in the audit report, a short period of time to market, lead to investors on the company's shares have more confidence, stock prices, but because of the disclosure is not complete, short-term stimulus effect gradually disappeared, investors to invest decision, confidence back, stock prices fell, leading to more volatile share prices.

Therefore, the author thinks that the key audit matters make the stock price volatility more active, and puts forward the following hypothesis:

H: At present, the disclosure of key audit matters in the audit reports of listed companies in China makes stock price fluctuations more active.

4. Results

4.1 The Establishment of Simulation Model

Since the stock price fluctuations are a fluctuation phenomenon, it is necessary to use data to be rationally quantified to be intuitive, so the following volatility variance (SD (stock)) is used to quantify the stock fluctuation, and the specific calculation formula is as follows:

$$SD(\text{stock}) = 1 / n [(x_1 - \bar{x})^2 + (x_2 - \bar{x})^2 + \dots + (x_{14} - \bar{x})^2]. \quad (1)$$

$X_1, X_2, \dots, X_{14}$ indicate 14 days of stock closing price, $\bar{x}$ represents the average of fourteen days stocks.

According to the research method of the impact of the stock price fluctuation, the interpretation variable is the share price fluctuation variance (SD (stock)). Key auditing matters disclosure (K) are interpreted variables herein, and the value method is: if the key audit is disclosed in the audit report, $k = 1$, otherwise 0.

Many studies have shown that stock price fluctuations are related to the company's own operating performance. The annual financial report of the listed company can provide investors with data information related to the company's operating status and profitability, and the audit report is usually released at the same time as the financial report. Therefore The impact of investors has made the disclosure of key audit matters in the audit report studies in this article more accurate. The stock price fluctuations of listed companies have received the common impact of many factors. In order to control the interference of other factors on this experiment, the following control variables are selected in this article. The Return rate (ROA) is collected based on the asset remuneration rate disclosed in the annual financial report of each enterprise; the sales gross profit margin (GOS) is also collected by the sales gross margin value provided directly according to the financial statements; the growth rate of net assets growth rate (GOA) is obtained according to the increase in net assets in the financial statements that year, except for the total number of net assets above the annual net assets. It is an intuitive indicator of the increase in corporate capital growth; the proportion of fixed assets (FAR) is a fixed asset disclosed in the financial statements divided by division Obtained after total assets. T means year, F is the residual of the model.

The simulation model of the impact of key audit matters on stock price fluctuations is as follows:

$$SD(\text{stock})_{i,t} = a + bk + c_1.ROA_t + c_2.GOS_t + c_3.GOA_t + c_4.FAR_t + F_{i,t} \quad (2)$$

4.2 Analysis of experimental results

4.2.1 Descriptive Statistical Analysis

Through processing the collected data, the results are shown in the following table:

Table.1. Descriptive statistical analysis table for each variable

	N	Average	SD	Min	Max
SD(stock)	60	0.130625	0.174571	0.016375	0.996619
ROA	60	0.010805	0.001869	0.0074	0.0147
GOS	60	0.451662	0.055568	0.3308	0.5716
GOA	60	0.150798	0.062409	0.0429	0.3388
FAR	60	0.007343	0.003011	0.0024	0.0158

The standard deviation of stock price volatility variance is 0.174571, which is small, and the maximum value and minimum value are 0.996619 and 0.016375 respectively, showing that the overall difference level of stock price volatility of sample banks is not large, and the sample data is selected evenly, which can be further analyzed.

4.2.2 Correlation Analysis

The above descriptive statistical analysis of sample data shows that the research samples selected in this paper can be used for correlation analysis. In order to study the correlation between variables in the sample, SPSS was used for correlation analysis of variables in the model, and Pearson analysis was conducted.

Table.2. Correlation analysis between variables

	SD(stock)	k	ROA	GOS	GOA	FAR
SD(stock)	1					
k	0.220**	1				
ROA	0.126*	-0.641**	1			
GOS	-0.128*	-0.470**	0.770**	1		
GOA	0.032	-0.559**	0.356**	0.218	1	
FAR	-0.116	0.069	0.123	0.223	-0.327*	1

Note: ***, ** and * indicate bilateral correlation at 1%, 5% and 10% levels respectively.

According to Table 2, the correlation coefficient of the interpreted variable share price fluctuation (STD (STOCK)) and interpretation variables disclosed (K) is 0.220, and the level of 5% is significantly positively correlated, preliminary verification the assumptions of this paper: the presentation of key audit matters in the audit report in China, makes the stock price volatility more active.

4.2.3 Regression analysis

In order to further verify the assumptions H, the regression analysis of each variable in the sample, the analysis of the total sample regression analysis as shown in Table 3 below:

Table.3. Regression analysis table

	Coefficient	t
k	0.222**	3.962
ROA	85.080**	4.554
GOS	-1.686**	-3.036
GOA	0.419	1.051
FAR	-6.064	-0.847
Constant	-0.157	-0.746
N	60	
R2	0.280	

According to the results of Table 3, it can be seen that the return coefficient of the stock price fluctuations (SD (STOCK)) and key audit matters (K) is 0.222, which is significant at a level of 5%. The disclosure of key audit matters is significantly positively related to the fluctuation of the stock price, that is, the disclosure of key audit matters in the audit report makes the stock price fluctuating more active. Suppose H is established.

4.2.4 Robust Test

The Logistic linear regression analysis was selected in the above regression analysis to verify the assumptions. The minimum two -multiplication regression analysis also applied to the sample data of this article. Therefore, this article was selected. Show in Table 4:

Table.4. Least square regression analysis table

	Coefficient	t
k	0.222**	3.962
ROA	85.080**	4.554
GOS	-1.686**	-3.036
GOA	0.419	1.051
FAR	-6.064	-0.847
Constant	-0.157	-0.746
N	60	
R2	0.273	

The least square method was used for regression analysis of the data in the total sample. The regression coefficient of disclosure of key audit matters (K) and stock price fluctuation variance (SD(STOCK)) was 0.222, which was significant at the level of 5%, consistent with the results of linear regression analysis above, and verified the establishment of hypothesis H.

5. Conclusions

Through empirical research above, the following conclusions are obtained:

At this stage, the disclosure of key audit matters in the audit report of the listed company in China has made the stock price fluctuating more active. Due to the disclosure of key audit matters, investors believe that the quality of the audit report has been improved, and the data in the financial statements is more trustworthy. It has stimulated the market in a short period of time. As a result, investors are more confident in the company's future development prospects. Increasing, but due to incomplete disclosure, after the short -term stimulus effect gradually disappeared, then investors re-made their investment decisions. As their confidence fell, the stock prices fell to normal.

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