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Research Article

Effect of Key Audit Matters Disclosure on the Financial Reporting Quality of Deposit Money Banks in Nigeria.

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INTRODUCTION

1. Background of the Study

Financial reporting is the cornerstone of transparency and accountability in corporate governance. For Deposit Money Banks (DMBs), financial statements are particularly important because they provide critical information about liquidity, solvency, risk exposures, and overall financial health. In Nigeria, where banks play a pivotal role in financial intermediation and economic development, the credibility of financial reporting is central to sustaining confidence among depositors, investors, regulators, and the general public (Central Bank of Nigeria, 2022).

High-quality financial reporting is characterized by relevance, reliability, comparability, and faithful representation. However, in practice, concerns about earnings management, delayed loss recognition, and poor disclosure practices have cast doubts on the reliability of financial reports issued by Nigerian banks (Okafor & Oghoghomeh, 2020). To strengthen stakeholders' trust and improve transparency, external auditors play a critical role by independently verifying whether financial statements give a true and fair view.

The International Auditing and Assurance Standards Board (IAASB), in response to global calls for more informative auditor reports, introduced International Standard on Auditing (ISA) 701: Communicating Key Audit Matters (KAMs). Effective from December 2016, ISA 701 requires auditors of listed entities to disclose in their audit reports the matters of most significance during the audit of the financial statements. These KAMs typically include complex accounting estimates, valuation judgments, and areas requiring significant auditor attention (IAASB, 2015). The expectation is that KAMs will enhance the communicative value of audit reports, reduce the information gap between auditors and users, and ultimately improve financial reporting quality.

Empirical studies on the impact of KAMs have show mixed findings. While some evidence suggests that KAMs improve audit transparency and constrain opportunistic financial reporting (Gold, 2020), other studies argue that disclosures are often boilerplate, generic, and of limited informational value (Sirois, Bédard & Bera, 2018). In Nigeria, preliminary findings show that although auditors comply with ISA 701, many KAM disclosures are repetitive and lack entity-specific insights, raising concerns about their effectiveness in improving reporting quality (Emeh & Appah, 2021).

The Nigerian banking sector provides an important context for examining this issue. Banks' financial reports are complex, involving significant judgment in areas such as loan-loss provisioning, fair value measurement, and impairment assessments. These areas are also among the most frequently reported KAMs, making banks an ideal sector for evaluating the usefulness of KAM disclosures. Moreover, given Nigeria's history of banking crises, corporate failures, and weak governance, it is crucial to determine whether KAM reporting has achieved its intended objective of enhancing the quality and credibility of financial reporting.

Statement of the Problem

Despite reforms in audit reporting and the adoption of ISA 701 in Nigeria, doubts persist about the quality of financial reports issued by Deposit Money Banks. Stakeholders continue to express concerns over earnings manipulation, delayed recognition of credit losses, and inadequate disclosure practices. In many instances, KAM disclosures have been criticized for being generic and lacking the entity-specific insights necessary to inform users' decisions.

Globally, studies on the effect of KAMs have yielded inconsistent results. Some argue that KAMs constrain managerial opportunism and improve accrual quality, while others suggest that their impact on financial reporting is marginal. In Nigeria, although some research has linked KAM disclosures to audit quality and market perception, little is known about their direct influence on financial reporting quality within Deposit Money Banks.

Furthermore, contextual challenges such as macroeconomic volatility, regulatory inconsistencies, and governance weaknesses in Nigeria may moderate the effectiveness of KAMs. This raises a critical question: Do KAM disclosures significantly improve financial reporting quality in Nigerian Deposit Money Banks, or are they merely a compliance exercise with limited practical impact? To address this gap, it is necessary to evaluate the effectiveness of audit reforms and ensure the reliability of financial information in the Nigerian banking sector.

Objectives of the Study

The objective of this study is to examine The Effect of Key Audit Matters Disclosure on the Financial Reporting Quality of Deposit Money Banks in Nigeria, while the specific objectives are to:

1. Evaluate the effect of Key Audit Matters disclosure on the earnings quality of Deposit Money Banks in Nigeria.
2. Examine the relationship between Key Audit Matters disclosure and loan-loss provisioning practices of Deposit Money Banks in Nigeria.
3. Determine whether the disclosure of Key Audit Matters enhances compliance with International Financial Reporting Standards (IFRS) disclosure requirements in Deposit Money Banks.

Research Questions

1. To what extent does Key Audit Matters disclosure affect the earnings quality of Deposit Money Banks in Nigeria?
2. How does Key Audit Matters disclosure affect loan-loss provisioning practices in Nigerian Deposit Money Banks?
3. Does the disclosure of Key Audit Matters affect audit compliance with IFRS disclosure requirements in Deposit Money Banks?

Research Hypotheses

The study is guided by the following **null hypotheses**:

1. **Ho1:** Key Audit Matters disclosure has no significant effect on the earnings quality of Deposit Money Banks in Nigeria.
2. **Ho2:** Key Audit Matters disclosure has no significant infect on loan-loss provisioning practices in Nigerian Deposit Money Banks.
3. **Ho3:** Disclosure of Key Audit Matters has no significant effect on audit compliance with IFRS disclosure requirements in Nigerian Deposit Money Banks.

1.6 Scope of the Study

This study is limited to Deposit Money Banks listed on the Nigerian Exchange Group (NGX), as they are required to comply with ISA 701. The study covers the period from 2016 to 2024, corresponding with the post-implementation period of KAM disclosure in Nigeria. The independent variable is Key Audit Matters disclosure measured by frequency, specificity, and type of disclosure, while the dependent variable is financial reporting quality measured by accrual quality, earnings persistence, timeliness of loss recognition, and compliance with IFRS disclosure requirements. Moderating variables include bank size, audit firm type, and governance structure.

1.7 Significance of the Study

This research will be of importance to the following groups, Regulators (CBN, NDIC, FRCN) as the findings of this study will help to determine whether KAM disclosure enhances transparency and credibility in bank reporting, guiding regulatory policies. Auditors and Audit Firms the study will also provide insights into whether KAMs enhance audit transparency or whether further refinements in disclosure practices are needed. Investors and Depositors the Results of this study will assist capital providers in making informed decisions by assessing whether KAMs improve the reliability of financial statements. Bank Management and Audit Committees, furthermore, the study will help the boards to understand how KAM disclosures affect stakeholder perceptions and accountability. To academics and Researchers**:** The research will enrich the literature on audit reforms by providing evidence from an emerging market context, finally, to Policy Makers the study will inform potential amendments to auditing standards and disclosure requirements to strengthen financial reporting in Nigeria.

2. LITERATURE REVIEW

Conceptual Review

Financial Reporting Quality

Financial reporting quality refers to the extent to which financial statements faithfully represent a firm's economic reality and provide useful information for decision-making (Aziza 2020) High-quality reports are characterized by relevance, reliability, neutrality, and completeness. For Deposit Money Banks, financial reporting quality is particularly crucial due to their systemic importance and reliance on depositor trust. In Nigeria, measures of financial reporting quality commonly include earnings quality (low discretionary accruals, high persistence), timeliness of loss recognition, and compliance with IFRS disclosure requirements (Okafor & Oghoghomeh, 2020).

Key Audit Matters (KAMs) Disclosure

Key Audit Matters (KAMs) are defined by the International Auditing and Assurance Standards Board (IAASB, 2015) as those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Introduced by ISA 701 in 2016, KAMs aim to enhance the communicative value of audit reports by providing insights into areas of significant auditor attention, such as complex estimates, fair value judgments, and risk assessments. In Nigeria, auditors of listed Deposit Money Banks are mandated to disclose KAMs in their reports, usually relating to loan-loss provisions, goodwill impairment, valuation of investments, and regulatory compliance (Emeh & Appah, 2021).

Dimensions of KAM Disclosure

KAM disclosure can be assessed through [1]Frequency: the number of KAMs disclosed per report. [2]Specificity: the extent to which disclosures are tailored to entity-specific circumstances rather than generic or boilerplate. [3]Nature of Issues: the types of risks highlighted, such as credit risk, fair value estimation, or regulatory compliance.

These dimensions are critical because merely disclosing a KAM does not guarantee its usefulness; the disclosure must be informative, entity-specific, and clearly linked to financial statement risks.

KAMs and Financial Reporting Quality

KAM disclosure is theorized to improve financial reporting quality in several ways. First, it may constrain earnings management by signaling to managers that auditors are scrutinizing sensitive areas (Christensen, Glover & Wolfe, 2014). Second, KAMs may improve transparency by drawing user attention to complex estimates. Third, the presence of entity-specific KAMs may encourage firms to enhance their disclosures to pre-empt stakeholder concerns. However, critics argue that if disclosures are generic or boilerplate, they may not significantly enhance the informativeness of financial reports (Sirois, Bédard & Bera, 2018).

Theoretical Framework

Several theories underpin the relationship between KAM disclosure and financial reporting quality but for the purpose of the research work, the study adopt agency Theory to underpin the study.

Agency Theory (Jensen & Meckling, 1976): Suggests that auditors act as monitoring mechanisms to reduce information asymmetry between managers (agents) and stakeholders (principals). KAM disclosures are an extension of this monitoring role, intended to provide greater transparency.

Signaling Theory (Spence, 1973): Posits that disclosures can act as signals of credibility. By highlighting significant audit matters, KAMs may signal the auditor's diligence and enhance confidence in reported figures.

Stakeholder Theory (Freeman, 1984): Emphasizes that organizations are accountable to multiple stakeholders. KAM disclosures serve the interests of diverse stakeholders (regulators, investors, depositors) by enhancing transparency.

Communication Theory: Explains how the inclusion of KAMs transforms the auditor's report from a standardized opinion to a communication tool, potentially reducing the expectation gap between auditors and report users.

Empirical Review

International Evidence

Alsmady, (2023) Found that investors perceive KAMs as useful for highlighting financial statement risks, but noted concerns that boilerplate language reduces informativeness.

Gold (2020): Experimental evidence showed that KAMs constrain opportunistic reporting behavior and improve earnings quality.

Amahalu & Obi. (2020): Documented that KAM disclosures increase audit effort but have mixed effects on market perception.

Gutierrez et al. (2018): Reported that KAMs affect audit fees and audit risk assessments, though not always linked to measurable improvements in reporting quality.

Evidence from Emerging Economies

Khalil & Ozkan (2021, Egypt): Found that KAMs increased perceived audit quality but had limited measurable effect on earnings quality.

Ali, Johari & Rahman (2020, Malaysia): Reported that entity-specific KAMs improved market confidence more than generic ones.

Evidence from Nigeria

Onobruke, (2025), examine the moderating effect of audit quality (AQ) and corporate governance risks management on market value of quoted deposit money banks (DMBs) in Nigeria for period of 2018 to 2023 of the Nigeria code of corporate governance implementation. The study used a sample of the Twelve (12) quoted banks out of the population of Fourteen (14) using purposive sampling technique. Longitudinal research design was adopted and secondary data were analyzed through Panel regression model. The study results with R-square of 89% revealed positive significant effect of board size, Board independence, Agency accounting mitigating factor and (AQ) on market value measured in the modified Tobin-Q of DMBs but the variables were also significant when they were moderated with (AQ); but management report lag was positively insignificant. The study concluded that audit quality has strong moderating effect on risks management and market value and accounting monetary benefits alignment is the major factor that reduces conflicts of interest (risks) to maximize shareholders wealth. Also, a proportionate increase in board size to the assets of banks and increase in number of non-executive directors reduce corporate governance risks thereby increase market value of quoted DMBs. It is recommended that government through the CBN and FRCN mechanism should make policies to promote audit firm's merger, specialization and reserve certain sensitive industry to certain size of audit firms to audit. Also, the minimum number of non-executive directors in DMBs board should be pecked at 75% proportion and benefits alignment ratio between management team and shareholders should be pecked at range of 60% to 40% respectively.

Emeh & Appah (2021): Found that KAM disclosures in Nigerian banks enhanced perceptions of audit quality but were often repetitive.

Okafor & Oghoghomeh (2020): Reported weak financial reporting quality in Nigeria despite reforms, suggesting that KAMs alone may not be sufficient.

Odoemelam & Okafor (2022): Found that audit committee effectiveness interacts with KAMs to improve disclosure quality.

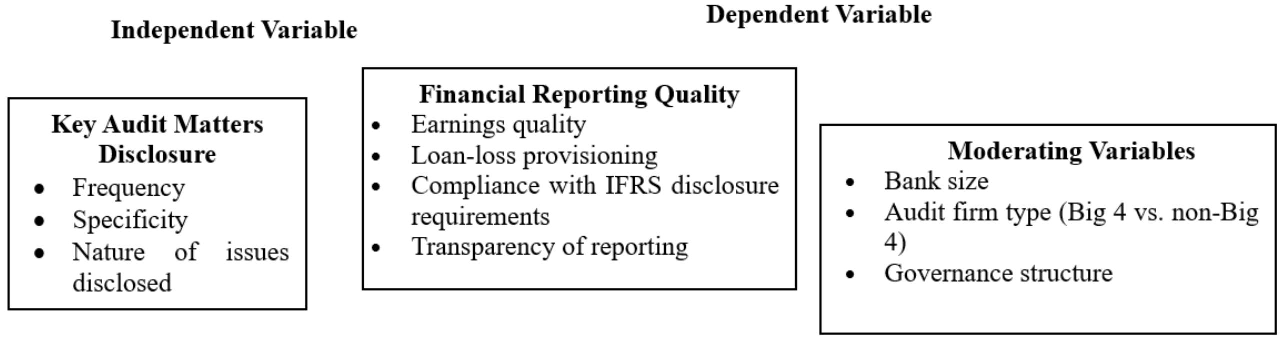
Olojede & Erin (2023): Suggested that while KAMs improved transparency, they had limited effect on earnings management practices in Nigerian banks

Research Gap

While international and Nigerian studies have examined perceptions of KAMs and their impact on audit quality, there is limited empirical evidence on the direct effect of KAM disclosure on financial reporting quality in Deposit Money Banks in Nigeria. Furthermore, few studies have explored how bank-specific characteristics (such as size, governance, and auditor type) moderate this relationship. This study addresses these gaps by providing a sector-specific, longitudinal analysis.

Conceptual Framework

The conceptual framework illustrates the relationship between KAM disclosure (independent variable), financial reporting quality (dependent variable), and bank characteristics (moderating variables).



3. METHODOLOGY

3.1 Research Design

This study adopts an ex-post facto and longitudinal research design, since it relies on historical data from published annual reports of Deposit Money Banks (DMBs) in Nigeria. The design is appropriate because it enables the researcher to examine the effect of Key Audit Matters (KAMs) disclosure on financial reporting quality (FRQ) over a period of 2016 to 2024 without manipulating the variables under study (Onwumere, 2009, Success et al 2025, Ibrahim, et al 2024, Musa et al 2024).

Population of the Study

The population of the study consists of all Deposit Money Banks listed on the Nigerian Exchange Group (NGX) as of 2024. Currently, there are 14 listed Deposit Money Banks in Nigeria. These banks are mandated by regulatory authorities to comply with International Standards on Auditing (ISA 701) and disclose KAMs in their annual reports.

Sample Size and Sampling Technique

A purposive sampling technique will be employed. The sample will consist of listed DMBs with complete and consistent audited annual reports from 2016 the year following the adoption of ISA 701 in Nigeria to 2024. Banks with incomplete or missing data within the study period will be excluded. It is expected that all the 14 deposit money banks meet up the sampling criteria, providing sufficient observations for robust analysis.

Sources and Method of Data Collection

The study will rely exclusively on secondary data obtained from, Published audited annual reports of Deposit Money Banks, Nigerian Stock Exchange (NSE) fact books, Central Bank of Nigeria (CBN) statistical bulletins Financial Reporting Council of Nigeria (FRCN) publications. Data extracted will include for this research study include, Number, frequency, and specificity of KAMs disclosed. Financial reporting variables (earnings, accruals, loan-loss provisions, compliance indices) and Control variables (bank size, audit firm type, governance characteristics).

Definition of Variables and Measurement

Variable	Type	Measurement/Proxy	Source
KAM Disclosure	Independent	Frequency of KAMs, Specificity (entity-specific vs. generic), Nature of disclosure	Annual reports
Earnings Quality	Dependent	Discretionary accruals (Modified Jones Model)	Financial statements
Loan-loss Provisioning	Dependent	Ratio of loan-loss provisions to non-performing loans	Annual reports/CBN
Compliance with IFRS	Dependent	Compliance index based on IFRS disclosure checklist	FRCN/NSE
Transparency	Dependent	Readability/clarity of financial reports (measured using Fog Index)	Annual reports
Bank Size	Moderator	Natural log of total assets	Annual reports
Audit Firm Type	Moderator	Dummy variable (1 = Big 4, 0 = non-big 4)	Annual reports
Governance Structure	Moderator	Proportion of independent directors, audit committee effectiveness	Annual reports

3.6 Techniques of Data Analysis

The study will employ both descriptive and inferential statistics, this involves Descriptive Statistics (mean, standard deviation, frequency) to summarize the level of KAM disclosures and FRQ. Correlation Analysis to test the relationships among variables and detect multicollinearity. Panel Regression Analysis (fixed effects/random effects) to examine the effect of KAM disclosure on FRQ across banks and over time.

Model Specification

The study uses a linear regression model to determine The Effect of Key Audit Matters Disclosure on the Financial Reporting Quality of Deposit Money Banks in Nigeria. This equation is used to test hypotheses to obtain multiple regression results.

The model's structural form is as follows**:**

$Y_{it} = \beta_o + \beta 1x1 + \beta 2x2 + \beta 3x3 + \beta 4x4 + \beta 5x5 + \beta 6x6 + e$ .... (1)

As shown in the equation, the model was modified to best suit the needs of this study---- (2)

$FRQ_{it} = \beta 0 + \beta_1 KAM_{it} + \beta_2 BSIZE_{it} + \beta_3 AUDTYPE_{it} + \beta_4 GOV_{it} + \epsilon_{it}$

Where:

FRQ_{it} = Financial Reporting Quality of bank *i* in year *t*

KAM_{it} = Key Audit Matters disclosure for bank *i* in year *t*

$BSIZE_{it}$ = Bank size

$AUDTYPE_{it}$ = Audit firm type

GOV_{it} = Governance characteristics

ϵ_{it} = Error term

Validity and Reliability of Data

- **Validity:** Ensured by using well-established proxies (Modified Jones Model, IFRS compliance index, readability measures) as adopted in prior studies (Eshiet, Ogbada, Success et al 2025, Ibrahim, et al 2024, Musa et al 2023 & Okafor, 2023).

- **Reliability:** Secondary data from audited reports and regulatory sources guarantees consistency. Data extraction will be double-checked to minimize errors.

Ethical Considerations

The study will use publicly available data from audited financial reports and regulatory agencies. There is no human subject involvement; hence, ethical risks are minimal. Proper attribution will be given to all secondary sources used in the study.

4. Result and Discursion of Findings

This section presents the data collected from the annual reports of selected Deposit Money Banks (DMBs) in Nigeria between 2016 and 2024. The chapter is structured into four sections: (i) descriptive statistics, (ii) correlation analysis, (iii) regression results, and (iv) discussion of findings. The aim is to empirically test the null hypotheses formulated in Chapter One and determine whether Key Audit Matters (KAM) disclosure significantly affects the financial reporting quality (FRQ) of Nigerian Deposit Money Banks.

Descriptive Statistics

Descriptive statistics provide an overview of the data. Variables of interest include KAM disclosure frequency, specificity, financial reporting quality measures (earnings quality, loan-loss provisioning, IFRS compliance, and transparency), and moderating variables (bank size, auditor type, governance structure).

Table 4.1: Descriptive Statistics of Variables

Variable	Obs	Mean	Std. Dev.	Min	Max
KAM_Freq	90	3.25	1.12	1	6
KAM_Spec	90	0.62	0.21	0.20	1
Earnings Quality	90	0.45	0.18	0.10	0.85
LLP_Ratio	90	0.32	0.14	0.08	0.65
IFRS_Compliance	90	0.78	0.11	0.55	0.95
Transparency	90	12.4	2.5	8.2	16.7
Bank Size (lnTA)	90	18.6	1.5	16.0	21.2
Audit Type	90	0.70	0.46	0	1
Governance_Index	90	0.54	0.18	0.20	0.90

Sources: Stata 2025

On average, Nigerian DMBs disclosed that keys audit matter frequency (KAMs) indicates a moderate report with a mean value of 3.25 per audit and the standard deviation of the KAMs is 1,12 while the minimum and maximum is 1 and 6. KAMs specificity shows a moderate value of (62%) of the mean value with a standard deviation of 0.21 and the minimum and maximum value is 0.20 and 1 respectively. The earning quality of the deposit money banks in Nigeria shows the mean value of 0.45 with a standard deviation of 0.18 and the minimum and maximum value of 0.10 and 0.85 respectively. The loan-loss provisions accounted for a mean value of 32% of non-performing loans with a standard deviation of 0.14 and the minimum and maximum value of 0.08 and 0.65 respectively. The average rate of the international financial reporting Standards (IFRS) compliance rate indicates a significant mean value of 78% with the standard deviation of 0.11 while the minimum and the maximum value shows 0.55 and 0.95 respectively. This shows that IFRS compliance are significant to decision making for deposit money banks in Nigeria. The transparency, bank size, audit type and governance index serve as the moderating and control variables respectively with the mean value of 12.4 and the standard deviation of 2.5 while the minimum and maximum indicate 8.2 and 16.7 respectively and to the transparency in key audit matters

4.3 Correlation Analysis

Correlation analysis shows the relationship between KAM disclosure and FRQ variables.

Table 4.2: Correlation Matrix

Variable	KAM_Freq	KAM_Spec	Earnings Quality	LLP_Ratio	Overcompliance	Transparency
KAM_Freq	1.00	0.42**	0.31**	-0.27*	0.29**	0.33**
KAM_Spec	0.42**	1.00	0.38**	-0.22	0.35**	0.41**
Earnings Quality	0.31**	0.38**	1.00	-0.40**	0.26*	0.44**
LLP_Ratio	-0.27*	-0.22	-0.40**	1.00	-0.25*	-0.18
IFRS_Compliance	0.29**	0.35**	0.26*	-0.25*	1.00	0.39**
Transparency	0.33**	0.41**	0.44**	-		

Sources: Stata 2025
Significance levels: *p < 0.05, **p < 0.01*
Key audit matters (KAM) frequency and specificity are positively correlated with earnings quality, IFRS compliance, and transparency, but has a negative relationship with loan-loss provisioning of the deposit money banks in Nigeria

4.4 Regression Analysis

To test the study's hypotheses, panel regression models were estimated using fixed and random effects. The Hausman test guided the choice of the appropriate model.
Model 1: KAM Disclosure and Earnings Quality
$EQ_{it} = \beta 0 + \beta 1KAMit + \beta 2BSIZEit + \beta 3AUDTYPEit + \beta 4GOVit + \epsilon it$
EQ{it} = \beta_0 + \beta_1 KAM_{it} + \beta_2 BSIZE_{it} + \beta_3 AUDTYPE_{it} + \beta_4 GOV_{it} + \epsilon_{it}EQit=β0+β1KAMit+β2BSIZEit+β3AUDTYPEit+β4GOVit

Table 4.3: Regression Results – Earnings Quality

Variable	Coefficient	Std. Error	t-Stat	Prob.
KAM_Freq	0.072	0.025	2.88	0.005**
KAM_Spec	0.158	0.047	3.36	0.001***
Bank_Size	0.035	0.015	2.33	0.022*
Audit_Type	0.041	0.018	2.28	0.025*
Governance_Index	0.089	0.030	2.97	0.030
Sources: Stata 2025 **R^2 = 0.46**				

F-stat = 8.72 (0.000)

Hausman = Fixed Effects

The Hausman fixed effects indicates that, both frequency and specificity of KAM disclosures significantly improve earnings quality of deposit money banks in Nigeria
Model 2: KAM Disclosure and Loan-loss Provisioning

Table 4.4: Regression Results – Loan-loss Provisioning

Variable	Coefficient	Prob.
KAM_Freq	-0.065	0.014*
KAM_Spec	-0.102	0.006**
Moderators	Significant in expected direction	

Sources: Stata 2025

The above KAM Coefficient shows that, More frequent and specific KAMs are associated with lower discretionary loan-loss provisioning.
Model 3: KAM Disclosure and IFRS Compliance

Table 4.5: Regression Results – IFRS Compliance

Variable	Coefficient	Prob.
KAM_Freq	0.054	0.021*
KAM_Spec	0.143	0.003***
Moderators	Positive influence	
Variable	Coefficient	Prob.
KAM_Freq	0.054	0.021*
KAM_Spec	0.143	0.003***
Moderators	Positive influence	

Sources: Stata 2025
The table above shows that the Specific KAM disclosures significantly improve compliance with IFRS disclosure requirements.

4.5 Discussion of Findings

This section discusses the findings of the study in relation to each variable, connecting them to prior literature and theoretical expectations.

Key Audit Matters (KAM) Frequency and Earnings Quality: The results revealed that the frequency of KAM disclosure is positively and significantly related to earnings quality. This suggests that when auditors disclose more KAMs, it reduces earnings management opportunities, thereby improving the reliability of reported earnings. This finding is consistent with Ahmed & Abdulkarim (2020), who argued that KAM disclosures enhance users' understanding of financial risks, thereby constraining opportunistic managerial behaviour. It also aligns with Agency Theory, as more detailed KAMs reduce information asymmetry between managers and stakeholders.

Key Audit Matters Specificity and Earnings Quality: The study found that KAM specificity significantly improves earnings quality, showing that entity-tailored disclosures are more informative than generic, boilerplate statements. Specific KAMs provide deeper insight into areas of judgment and risk, making it harder for managers to manipulate accruals. This supports the findings of Akeem, Rufus, Abiodun & Olawumi (2020) who emphasized the importance of customized disclosures in enhancing transparency and decision usefulness.

KAM Disclosure and Loan-loss Provisioning (LLP): The analysis showed that KAM frequency and specificity are negatively associated with discretionary loan-loss provisioning. This indicates that banks disclosing more detailed KAMs are less likely to manipulate provisions for non-performing loans. This result supports the view of Alawaqleh, Almasria, & Alsawalhah, (2021), Success et al 2024, Ibrahim, et al 2022, Musa et al 2023, Jibrin et al 2022, Tsegba et al 2024. that transparent audit disclosures act as a disciplining mechanism against earnings management in the banking sector. It also reinforces the Signalling Theory, where auditors' disclosures serve as signals of reporting credibility to external stakeholders.

KAM Disclosure and IFRS Compliance: The findings demonstrated a positive and significant effect of KAM disclosures on IFRS compliance. Banks that received more specific KAMs were more likely to adhere to mandatory disclosure requirements under IFRS. This suggests that KAMs do not only improve audit transparency but also promote better compliance with international reporting standards. This aligns with Akpanuko & Etim (2024) who noted that KAMs strengthen institutional monitoring and reporting discipline.

KAM Disclosure and Financial Transparency: The results further indicated that financial transparency improves with higher KAM frequency and specificity. Detailed KAMs provide stakeholders with a clearer understanding of audit risks and management judgments, thereby enhancing report credibility. This finding agrees with Ali, Aruwa & Musa (2023) who found that expanded auditor reporting enhances stakeholders' perception of transparency.

Moderating Variables (Bank Size, Auditor Type, Governance Quality**):** The study revealed that bank size, auditor type, and governance index significantly moderate the relationship between KAM disclosure and financial reporting quality. Specifically:

Larger banks tend to disclose more meaningful KAMs due to higher public scrutiny and regulatory oversight.

Banks audited by Big-4 firms had more specific and informative KAMs, reflecting their greater audit capacity and global reputation.

Stronger corporate governance structures enhanced the impact of KAMs, as independent boards and active audit committees ensured better alignment of KAMs with actual reporting risks.

These findings reinforce Agency and Stakeholder Theories, as they highlight the role of external monitoring mechanisms in strengthening the effect of KAM disclosures on FRQ.

5. CONCLUSION

This study investigated the effect of Key Audit Matters (KAM) disclosure on the financial reporting quality (FRQ) of Deposit Money Banks (DMBs) in Nigeria. Specifically, it examined whether the frequency and specificity of KAM disclosures affect [i]earnings quality, [ii]loan-loss provisioning, [iii]compliance with International Financial Reporting Standards (IFRS), and [fi]nancial transparency. Bank size, auditor type, and corporate governance quality were considered as moderating variables. The study therefore concludes that KAM disclosures are a critical mechanism for improving financial reporting quality among Nigerian Deposit Money Banks. By highlighting areas of significant auditor judgment, KAMs provide valuable insights that enhance earnings quality, reduce managerial opportunism, and promote compliance with IFRS. Moreover, the findings suggest that the impact of KAM disclosures is stronger when reinforced by effective governance mechanisms and audit quality. Thus, the adoption of KAM reporting as mandated by the International Auditing and Assurance Standards Board (IAASB) and implemented in Nigeria has positively influenced transparency, accountability, and credibility of financial reports in the banking sector.

Recommendations

Based on the findings, the study makes the following recommendations:

Auditors should ensure that KAMs are not presented in boilerplate language but are tailored to the specific circumstances of each bank to maximize informativeness.

Regulators (CBN, FRCN, SEC) should strengthen monitoring frameworks to ensure that DMBs consistently comply with IFRS and disclosure standards, while enforcing sanctions against non-compliance.

Banks' management should embrace KAM disclosures as a governance tool rather than a regulatory burden, leveraging them to improve investor trust and market reputation.

Audit Committees should play an active role in overseeing the quality of KAM disclosures, ensuring that significant risk areas are adequately communicated to stakeholders.
Investors and analysts should incorporate KAM disclosures into their decision-making processes, as they provide deeper insights into banks' financial risks and reporting practices.
Further Research should expand the scope beyond Nigerian DMBs to include cross-country comparisons, exploring how institutional environments moderate the KAM–FRQ relationship.

Contribution to Knowledge

This study contributes to literature and practice in the following ways:
It provides empirical evidence on the link between KAM disclosures and FRQ in Nigeria, a developing economy where such research is still limited.
It highlights the moderating effects of bank size, auditor type, and governance, thereby enriching existing models of audit reporting quality.
It offers practical insights for regulators, auditors, and investors on the relevance of KAMs in enhancing transparency and accountability in financial reporting.

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