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A systematic literature review of financial reporting risks: What's next?

Una revisión bibliográfica sistemática de los riesgos en la información financiera: ¿Y ahora qué?

SEGOVIA-VARGAS, María Jesús†*, CAMACHO-MIÑANO, María del Mar and PÉREZ-PÉREZ, Yolanda

School of Economics and Business Administration, Universidad Complutense de Madrid, Campus de Somosaguas, 28223, Spain.

ID 1st Author: *María Jesús, Segovia-Vargas* / **ORC ID:** 0000-0002-6578-8017

ID 2nd Co-author: *María del Pilar, Camacho-Miñano* / **ORC ID:** 0000-0001-5852-338X

ID 3rd Co-author: *Yolanda, Pérez-Pérez* / **ORC ID:** 0000-0001-9225-3870

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Abstract

This paper aims to review the main results of auditing research literature examining the risk of financial reporting. Our research analyzes theoretical and empirical studies on the controversial topic of the role of external auditors in the context of the financial crisis, the greater complexity of financial information and COVID-19 to offer solid reflections about the biggest challenges and limitations that require further study. Theoretical and empirical research studies were investigated and then systematized and analyzed by using SciMAT and VOSviewer to guide a literature-based analysis and critique of the relevant literature published about this topic. Our findings reveal that the risk of financial reporting has gained importance after 2008 and, although this topic has been researched extensively in the past, neither theoretical nor empirical research studies have been performed in the last five years, in particular concerning the changes carried out in the new accounting and auditing regulation that implies important changes. No works were found that deal with this subject in a broad, longitudinal manner, as this systematic review does. Another important contribution is the identification of new topics for further research in the post-COVID-19 era and future crises.

Financial reporting, Expectation gap, Auditing

Resumen

Este artículo trata de revisar los principales resultados de la literatura de investigación sobre auditoría con relación al riesgo de la información financiera. Nuestra investigación analiza estudios teóricos y empíricos sobre el controvertido tema del papel de los auditores externos en el contexto de la crisis financiera, la mayor complejidad de la información financiera y la COVID-19 para ofrecer reflexiones sólidas sobre los mayores retos y limitaciones que requieren un estudio más profundo. Se analizaron trabajos de investigación teóricos y empíricos y luego se sistematizaron y analizaron mediante el uso de SciMAT y VOSviewer para guiar un análisis basado en la literatura y la crítica de la literatura relevante publicada sobre este tema. Nuestros resultados muestran que el riesgo de la información financiera ha ganado importancia después de 2008 y, aunque este tema ha sido ampliamente investigado en el pasado, no se han realizado estudios de investigación teóricos ni empíricos en los últimos cinco años, en particular en lo que se refiere a los cambios llevados a cabo en la nueva normativa de contabilidad y auditoría que implica importantes cambios. No se han encontrado trabajos que traten este tema de forma amplia y longitudinal, como lo hace esta revisión sistemática. Otra contribución importante es la identificación de nuevos temas para futuras investigaciones en la era post-COVID-19 y futuras crisis.

Información financiera, Brecha de expectativas, Auditoría

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* Correspondence to Author (E-mail: mjsegovia@ucm.es)
† Researcher contributing as first author.

Introduction

The impact of financial information risks is a topic of growing importance for many company stakeholders: for investors since it is important in their decision-making processes (Van Helden, 2016), for companies since it involves preserving their value in terms of going-concern and reputation; for regulators, since they are responsible for ensuring the smooth operation of the market and for external auditors since they are providers of the greatest monitoring of financial reporting (Sunder, 2015). Investors recognize that, due to factors such as the lack of enough detail in qualitative information, there is a large gap between the financial information used in their decision-making processes and its effectiveness (PWC, 2014). Because of this information asymmetry, we have seen various financial scandals over the last two decades, with losses running into the millions and other social problems being caused as a result. This has shown the importance of financial information risks and the need for the regulator to focus on them.

Risk regulation originated in the US, especially through the Stock Exchange Commission (SEC) and the Public Company Oversight Board (PCAOB) and has been a particular feature since 2002 due to the Enron scandal. Consequently, the first stage has been to analyze this Anglo-Saxon context. The still-growing material weaknesses in financial reporting by companies, as well as the number of inspections by regulators, are trigger indicators of the importance of financial information risks. The International Auditing and Assurance Standards Board (IAASB), aware of the need for change in the approach to audit reports, has approved new international standards on audit reports that incorporate major changes in the information they contain. This has been integrated into the regulatory framework for auditing in Spain (IFAC, 2013). One of the major changes is the obligation for listed companies to produce an audit report disclosing the key audit matters (KAMs) and the audit work performed in relation to those matters (KPMG, 2016a; KPMG, 2016b).

The objective of this study is to identify which topics have already been studied and addressed in relation to financial reporting risks before the pandemic and which are currently the biggest challenges and limitations that require further study. To address these questions, we decided to use a Systematic Literature Review (SLR) as a valid methodology to identify relevant papers in scientific databases related to our topic. Our study contributes to analyse the latest important changes in the risk reporting regulations in the fields of accounting and auditing in different geographic areas, such as the aforementioned ISA 701. We update Elshandidy et al. (2018)'s study. When comparing our research with the results obtained from the previous study, there are some common conclusions but, in other areas, they differ due to the different periods of analysis. The agreements are regarding the lack of clarity and consistency around risk, the controversial benefits of standard-setters and the main themes around the informativeness of risk reporting. In our study, these conclusions are explained above all in the disclosure and regulation areas of research. However, in our study, we have not identified a specific focus on the degree of obligation or automatization of risk reporting and on the differences between financial and non-financial firms. While it is true that most of the research analyzed in this study relates to non-financial firms, no comparisons have been identified as the basis for the conclusions of these articles. Finally, regarding the analysis by country, in our analysis most of the articles analyzed are based on the Anglo-Saxon regions, this point remaining a topic for future research. Thus, our contribution is to add value to the previous research literature and help other researchers and practitioners in identifying possible research areas and questions for future research.

The rest of the paper is organized as follows. Section 2 describes the research methodology applied and the process for collecting relevant research papers. Section 3 presents the results of the papers collected and the data extracted. Section 4 discusses the study and answers the research questions. Section 5 concludes the paper.

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Research methodology

This section describes the process followed to perform an SLR, which is based on a known and validated methodology (Kitchenham et al., 2008; Grant & Booth, 2009; Booth et al., 2014; O'Leary 2014; Moher et al., 2015), which comprises the following stages: setting the criteria for selecting the studies, data collection and cleaning to identify the relevant studies, data coding and summarizing and reporting the results. SLR involves a rigorous methodological review of the research results and helps to develop evidence-based guidance for professionals involved in the area of study (Kitchenham, 2004) and identify the state of the art on the research question (Levy & Ellis, 2006).

To meet our objectives, the PRISMA methodology (Moher et al., 2009; Gjaltema et al., 2020) was used to select which papers to include in the analysis. The universe was all papers reported in Web of Science (WoS), published from 1900 to 2020, and that included "risk*" and "financial reporting" in the abstract, title or keywords. We have limited the year end to 2020 as this is the last year before the pandemic. During and after the pandemic, risk management has dramatically changed and could be a distortion issue. After filtering out the literature that did not fit the criteria, 759 papers remained. A bibliometric analysis using the SciMAT tool and VOSviewer was subsequently performed to establish a conceptual map of the literature on financial reporting risks. Of these 759 papers, a manual review was performed to select only those papers that included this risk from an accounting perspective. A systematic literature review was then conducted on the resulting 78 papers.

Bearing all the issues mentioned before, we aim to analyse the evolution of prior research on financial reporting risks, as risks are essential to managers and firms. Our study has the following research questions:

RQl. How has the literature on financial reporting risks evolved over time?

RQ2. What are the main subjects and issues in the scientific literature on financial reporting risks?

RQ3. What are the current research gaps and, therefore, the future directions for research on financial reporting risks?

Data and method

The sample selection was determined using the PRISMA methodology (Moher et al., 2009) following these steps:

1. The universe: it is all papers or conference papers published in peer-reviewed journals indexed in the databases Web of Science Core Collection (Thomson Reuters). These databases were selected since they provide interfaces that make it possible to perform simultaneous searches on different sources using a common set of search strings. In a broad way, i.e., without any restrictions on the journals, periods or areas of knowledge, studies from 1980 until the beginning of February 2021 were identified. This deadline is justified as the effect of pandemic in publication issues. These databases were also used to calculate both the Journal Citation Report (JCR) indicator and the SCimago, Journal Rank (SJR) indicator, which shows the visibility of the journals contained in the 1996 Scopus® database.

2. The results were segmented by searching WoS for papers published between 1900 and 2020 by using this criterion:

TOPIC: (risk*) AND TOPIC: ("financial reporting") Refined by: LANGUAGES (English or Spanish) AND DOCUMENT TYPES (article or review) AND WEB OF SCIENCE CATEGORY (business finance or economics or management or business).

3. A total of 759 papers were included in the bibliometric analysis. After eliminating duplicate papers, the abstracts and reference information on the papers were downloaded in .csv format and imported into the SciMAT and VOSviewer tools for bibliometric analysis.

4. Exclusion criteria: this research excluded papers that were not about both risk and financial reporting from the business and accounting perspective; did not provide empirical research or a literature review; were not peer-reviewed; or were not written in the English or Spanish languages. Only publications of the "Article" type were selected because they have undergone a rigorous peer review process prior to publication. Moreover, these works also contain all the information necessary (metadata) to undertake bibliometric analysis, with authors, references, number of citations and date of publication (Carvalho et al., 2013). Papers that did not meet the above requirements were rejected under the quality criterion (Kitchenham & Charters, 2007; Kitchenham et al., 2008).

5. Inclusion criteria: this research included papers that had a literature review and empirical research; focused on financial reporting risks in the context of the accounting, business and financial domains; and examined, among others, the regulatory framework, quality of reporting, performance and financial reporting matters.

Bibliometric analysis (Ikpaahindi, 1985) and content analysis (Duriau et al., 2007) techniques were applied to identify the range of scientific literature on financial reporting risks, describing the trends and main topics discussed. These analyses are complementary since the first approach attempts to identify patterns in the literature based on publication dates while the second captures information on the main topics, approaches and methods relating to the subject in question (Carvalho et al., 2013).

Bibliometric analysis is intended to answer RQ1 relating to the evolution of financial reporting risks over time. This analysis can be defined as a set of techniques to classify the process of written communication, making it possible to identify the most productive authors, the journals and periods in which the publications were produced, the evolution of publications over time, the most influential articles in a particular set of studies and the subjects most closely related to the research question (Prasad & Tata, 2005).

The following specific analyses have been performed: evolution of publications and breakdown by country, their relevance based on the SCImago Journal Rank, strategic mapping using the SciMAT tool and the network of key occurrences using the VOSviewer tool.

Regarding the tools, SciMAT illustrates a complete overview of the literature and the dominant topics in each subject on a Cartesian plane. This map allows for the monitoring of a scientific field, the categorization of research subjects and the understanding of a subject's intellectual, social, conceptual and cognitive structure.

The X-axis of the Cartesian plane represents centrality, and the Y-axis represents the density of the related keywords in the analyzed literature. Centrality measures “the degree of interaction of a network with other networks, and it can be understood as the external cohesion of the network.” Density “measures the internal strength of the network, and it can be understood as the internal cohesion of the network”. The diagram shows the conceptual map of the subject analyzed according to the centrality and density of each keyword.

VOSviewer was used to produce a labelled bibliometric map, which allowed us to obtain a graphical visualization of the keywords by means of labelled nodes and thematic groupings, or clusters (Van der Vegt, 2018).

Content analysis techniques were used to answer RQ2 and RQ3. We divided the papers into specific areas of research according to their subject, based on the main topic of each paper. The members of the research group met to identify the major subjects related to the work in question and to propose a categorization of the topics while systematically organizing them.

Results

Bibliometric analysis

This subsection contains the results of the process of surveying the quantitative data relating to the periods, publications, authors, citations and other information for the periodicals forming the sample.

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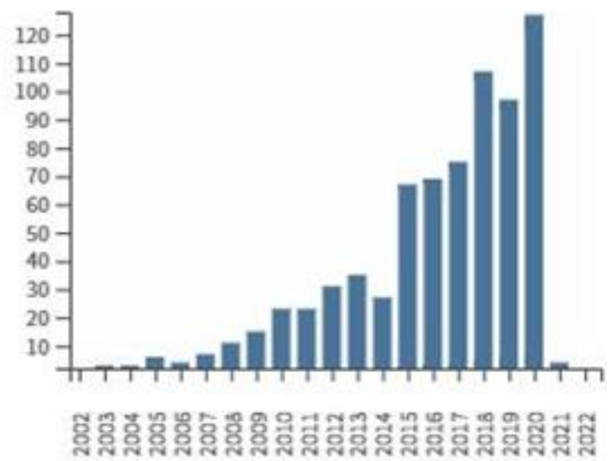
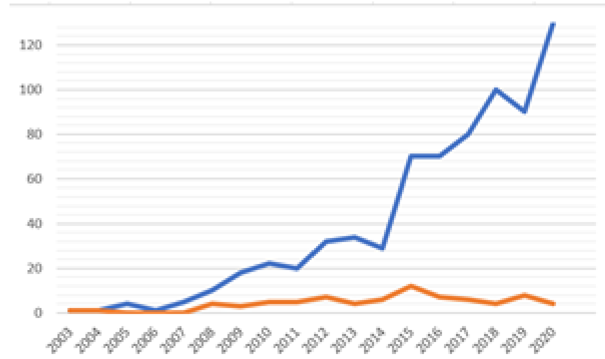
a) Evolution of the publications based on the WOS graphics: since the year 2008, the number of publications relating to financial reporting risks has consistently increased, showing a particular rise since 2015 as displayed in Graph 1. Thus, it seems that this is a hot topic in the accounting field, still attracting the attention of many researchers around the world.



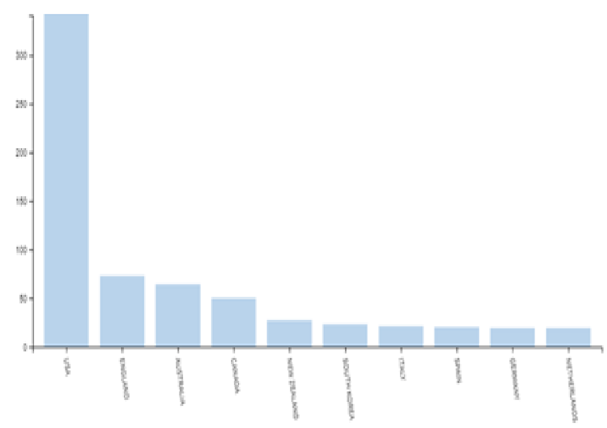
Graphic 1 Evolution of the number of articles published on the Web of Science database data each year related to the topic of "risks" and "financial reporting" before pandemic era
Source Web of Science Database

The sample covers the period from 1980 to February 1, 2021, the prepandemic period, and contains 78 publications; 6 of them (7.7%) were found up to 2008, 30 (38.5%) are from 2009 to 2015, the year that saw a peak in publications, with 12 (15.4%) in that year alone. The period between 2016 and 2018 accounts for 21.8% of the sample, with 17 publications. 2019, with 8 publications (10.3%), represents other peak year for publications. The last period saw 5 publications (6.4%) in just one month. As shown in Graphic 2, the sample follows the same pattern as the trend in the number of articles released. 60% of the publications are from 2008 to 2015, clearly showing the intensity, topicality and increased interest in the subject among researchers.



Graphic 2 Evolution of the citations on the Web of Science database data each year on the topic of "risk" and "financial reporting"
Source: own elaboration based on the Web of Science Database

b) Breakdown of publications by country: according to the data provided by WoS, the distribution of publications in the universe is mostly concentrated in the Anglo-Saxon countries as shown in Grap 3. It is consistent with the regulatory changes regarding financial reporting and in particular the changes in the IAS in recent years.



Graphic 3 Breakdown of publication by country on the Web of Science database data
Source: Web of Science Database

c) Relevance of the publications based on the SCImago Journal Rank: Graph 4 shows the number of publications by JCR and SCIMAGO indicator. Half of the articles are in quartile 1 (Q1) and the first two quartiles together (Q1 and Q2) account for 85% of the total number of articles. This means it is a topical issue and that the most important journals in the field are publishing these articles. This justifies for further research on this topic.

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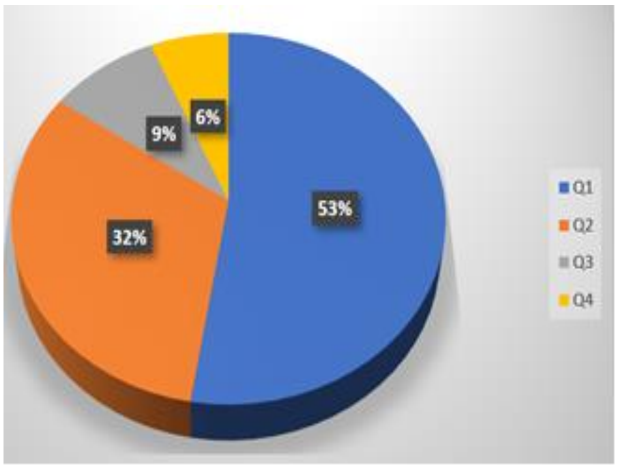

Graphic 4 Analysis of the number of journals by quartile
Source: Own elaboration based on SCIMAGO

d) Strategic mapping using the SCIMAT tool: based on the strategic map provided by SciMAT, the lower left quadrant represents the subjects with low levels of centrality and density, which makes it possible to highlight the issues that require further development and constitute a future line of research, which in this case relate to corporate governance (compensation and agency costs). In the upper-right quadrant, with high centrality and density, the main themes identified were ‘control deficiencies,’ ‘litigation risk’ and ‘market’. This is no surprise since these topics are related to the impact of financial reporting risks on auditors and managers when identifying control deficiencies, and the consequences of not performing this well in terms of litigation risk and the impact on the market. The upper-left quadrant, with high centrality but low density, features the highly developed but isolated themes ‘IFRS’ and ‘judgements’, indicating that these are well-developed themes that are marginally related. These themes discuss the importance of regulation in this area associated with accounting and auditing standards. In the lower-right quadrant, with low centrality, but high density, cash-flows and restatements are the least relevant and most studied themes. This is because the impact in economic and reputation terms is the consequence of other relevant topics such as the quality of the financial statements, the role of auditors in supervision, the right regulation adapted to current and new information needs, the impact of financial reporting on cash-flows and other economic figures, etc.

Restatements of the financial reporting mean that the financial statements for the previous year contained errors and had to be corrected.

Figure 1 Strategic map by using SCIMAT tool
Source: SciMAT output

e) Network of key occurrences using the VOSviewer tool: as shown in Fig. 2, the intensity of the lines that connect the nodes represents the intensity of the relationships between the most frequent keywords in the articles in the sample. The network results in 4 clusters: disclosure and quality (red), performance (green), regulation (yellow) and auditor (blue). In this network, the words relating to audit fee, opinion and audit quality appear grouped around the word auditor, which is the most cited one, showing the frequency and topicality of these terms, the interest among researchers and the relevance of the subject.

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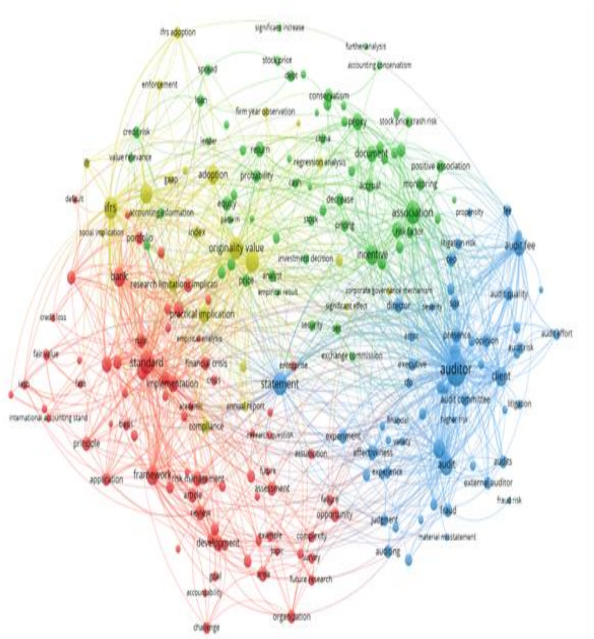

Figure 2 Network of key occurrences by using VOSviewer tool
Source: VOSviewer

Content analysis

Based on the systematic literature review methodology, only 78 articles remain in our study, as they link both concepts, namely risk and financial reporting. To systematize and organize the literature, we divided the papers according to their subject matter into five research areas, according to the main topic of each paper: disclosure, quality, performance, regulation and auditing.

Areas of research	Number of articles	%
1.Disclosure	9	12
2.Quality	10	13
3.Performance	14	18
4.Regulation	10	13
5. Auditing *	35	45
Audit quality	10	13
Audit fees	5	6
Audit report	20	26
Total	78	100

Table 1 Areas of research and number of articles**.** *Note: As this area of research is almost the half of the total number of articles, and the main topic from Vosviewer tool, several subareas of research have been identified
Source: Own elaboration

Discussion

This first research question is answered in the discussion of the bibliometric analysis performed in the previous section. To sum up, the number of publications related to this topic has increased in recent years and it remains of interest to researchers.

To answer the second research question, we have reviewed the list of articles following the classification performed using the methodology explained, as well as the details of each study. The main conclusions of each research area are set out in the following subsections.

Disclosure

As mentioned in Table 1, the first research area analyses the association between financial reporting, risk and disclosure. After carefully reading the 9 papers in this area, two main insights are produced. The first emphasizes the importance of financial reporting for the decision-making processes of the users of financial reporting, with a particular focus on risk disclosures of particular use for market analysis (Elshandid et al, 2018; Monjed & Ibrahim, 2020). The second provides proposals on how financial reporting disclosures should be improved to meet the needs of those using financial reporting (Sunder, 2015) who are becoming increasingly demanding (Nichita et al., 2015). This is from the perspective of (i) companies, by linking corporate risk management with accounting estimates and disclosures (Cohen et al., 2017); (ii) the regulators, seeking greater transparency in financial reporting accounting estimates, judgements, etc. (Caplan & Duta, 2016) and providing clear and concise disclosure methods and standards (Magnan & Markarian, 2011) and (iii) accountants and auditors to encourage firms to provide open and informative discussions of the risks to their financial reports (Ryan, 2012) through their review and oversight role.

Quality

The second research area is based on the link between financial reporting, risk and quality with 10 articles. The key insight from this area is that higher quality financial reporting, in terms of proper disclosures with firm-specific information, complying with the reporting deadlines, etc. (Cohen, 2008; Rajgopal & Venkatachalam, 2011; Verdi, 2012; Cao et al., 2016) leads to better business decisions. Another important insight is that information on risks is one of the most cited factors conditioning the quality of financial reporting in the context of the decision-making process (Lawrence et al., 2016; Oliveira et al., 2018) as risks involve judgement and can be affected by subjective components such as conservatism (Alam & Petruska, 2012; Ho et al., 2015; DeFond et al., 2016)

Performance

The third research area is based on the link between financial reporting, risk and performance, understanding financial performance in terms of financial variables or key ratios such as EBITDA, ROE and ROA. There are 14 articles. The key insight from this area is in line with the previous ones, showing that financial reporting has an impact on the performance of companies. This impact has been studied from different perspectives: as a predictor of crisis/bankruptcy, fraud, business development and capital markets.

Regarding its role as a predictor of crisis/bankruptcy, most of the studies show that traditional financial reporting is typically not a good predictor of future financial performance (Kristensen & Westlund, 2003; Beaver et al., 2012) and nor did it fulfill its task of reporting on risk ahead of the recent crisis (Singleton-Green, 2012). To deal with this issue, some studies propose other variables that could serve as an indicator of financial reporting risks, such as reporting delays (Lukason & Camacho-Miñano, 2019), or a greater review of the accounting information on which bankruptcy prediction models are based (Li & Faff, 2019).

In relation to fraud, this has been extensively analyzed in the literature from the perspective of the different users of financial reporting. On the regulatory side, for example, in the US, the Accounting and Auditing Enforcement Release (AAER) issued by the SEC is an indicator of firm performance as AAER firms are more likely to fail in the post-AAER period (Leng et al., 2011). On the auditor side, future misstatements are unrelated to the Material Weakness (MW) types disclosed in the last SOX report, suggesting that some MW types are unacknowledged and, hence, control problems are even more pervasive than identified (Myllymaeki, 2014). On the investor side, they rely more on analysts, regulators and external auditors to detect and report fraud, while relying less on low and mid-level employees, senior management, the media, and short-sellers for fraud detection and reporting (Brazel et al., 2015).

On the management side, weak internal controls increase the risk of financial reporting fraud by senior managers (Donelson et al., 2017) and fraudulent financial reporting should lead to an increase in the cost of equity capital as a firm's future cash flows become less certain (Nicholls, 2016).

From the perspective of business development, the quality of internal control relating to financial reporting risks is an important driver in companies increasing their value, not only to comply with the law but to increase their profits or reduce their losses as it has an impact on production, capital investment, mergers and acquisitions, research and development, advertising, and hiring or expansion decisions (Feng et al., 2009).

Finally, regarding the impact on capital markets, some studies show that poor quality financial reporting induces information risk asymmetry and therefore leads to different results compared to expected returns (Chen et al., 2019), cash flow forecasts (Mao & Yu, 2015), capital stock estimates (Kang et al., 2015) and the cost of capital (Zhou, 2019).

Regulation

The fourth research area is based on the link between financial reporting, risk and regulation and, in our database, there are 10 papers. The key insight from this area is that from a regulatory perspective, there is still room for improvement in financial reporting, especially after the financial crisis (Bushman et al., 2010) and despite the efforts of the regulators. As examples of these efforts, some authors cite different accounting frameworks: (i) the International Financial Reporting Standards to promote the comparability and transparency of financial statements and to improve the quality of financial reporting (Bhimani, 2008; Brown et al., 2014; Khalil et al., 2015; Kitching et al., 2015) and (ii) the American Sarbanes-Oxley (SOX) regulation to put companies under pressure to produce more reviews and disclosure of accounting risks, in particular, by questioning the role of the Audit Committee (Cohen, 2010 and 2014) and the auditors (Kelly & Tan, 2017).

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Other authors have focused more on analyzing how corporate governance has tried to promote guarantees to stakeholders about future viability (Klumpes et al., 2017; Agyei-Mensah, & Buertey, 2019) through corporate risk identification, measurement, evaluation and monitoring practices.

Audit

Audit area represents the majority of the papers analised in our database, with 35 papers, 45% of the whole articles.The existing literature is focused on the increasing complexity of financial reporting and the subsequent reinforcement of audit procedures and the audit report (this being analyzed in 57% of the articles in this sub-area). The main insights are specifically related to the informative value of the audit report. Some authors emphasize that financial reporting scandals in the 21st century have led to subsequent changes in the regulatory financial reporting framework arising from some questions including the measurement of the associated risk, both actual and as perceived by various stakeholder groups, communication and education concerning these risks, and mechanisms to share or transfer these risks (Camfferman & Wielhouwer, 2019).

Some authors focus on how the new audit reporting requirements could in some way mitigate this risk by helping improve the quality of financial reporting (Czerney et al., 2014, Reid et al., 2019) and even non-financial reporting (Demartini & Trucco, 2017a and b). An in-depth analysis on some specific paragraphs of the audit report has also been performed. For instance, Abad et al. (2017) prove that firms with qualified audit opinions demonstrate higher information asymmetry levels than those with unqualified opinions and there is a stronger effect on the level of informational asymmetry in the case of going concern qualifications. Kelton and Montague (2018) analyze the emphasis of matter paragraph concluding that this has the impact of increasing investors' perceptions of management credibility, leading to a higher likelihood of investment. So, this area seems to be fairly controversial in relation to a particular analysis of each part of the audit report.

It is also important to note that most of the previous literature up to 2014 is focused on the auditor’s opinion of the Internal Control over Financial Reporting (ICOFR) that it compulsory for companies listed in the US and is not used in European countries, as this is a specific US regulation. Some authors focus on the effectiveness of this report. For example, some authors demonstrate through empirical studies that (i) compared to an unqualified opinion, an adverse audit opinion on the ICOFR is significantly associated with investors considering there to be a higher risk of financial statement misstatement, a higher risk of a future financial statement restatement, greater information asymmetry, lower financial statement transparency, higher risk premium, higher cost of capital, lower sustainability of earnings, and lower earnings predictability; (ii) firms receiving adverse ICOFR opinions are more likely to subsequently dismiss their auditors and switch to higher quality auditors; (iii) the classification of internal control deficiencies involves a very difficult judgement for auditors (Lopez et al., 2009; Bedard & Graham, 2011; Ettredge et al., 2011; Asare & Wright, 2012). Thus, it seems that there is a lack of literature on the new audit report, and the consideration of risk within this new report, resulting from recent accounting regulations in other parts of the world such as Europe.

The new audit report

As a result of our review, we have observed that the most developed topics in terms of the number of articles are those relating financial reporting risks to auditing, specifically to the external audit report. For this reason, we decided to extend our research by looking at the extended audit report.

Using the same SLR methodology, the Web of Science provided 198 results when we searched for "audit report content" as the "Topic" as of February 12, 2021. After a thorough review of all the articles, 175 papers have been excluded because their main focus was on different aspects of auditing, not specifically on audit reporting. Therefore, our study was finally based on the analysis of the remaining 23 articles. As we wanted to identify any articles relating to the extended audit report resulting from the recent audit reform, additional research was conducted using the same filters but searching for "extended audit report" as "Subject".

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As a result, 8 additional articles have been included in our literature review. To systematize and organize the literature, we decided to categorize the papers according to their main theme using three research areas: the impact of the new global audit reform, the analysis of the extended audit report and the key audit matters (KAMs).

To supplement these articles, we have included additional working papers (Carver & Trinkle, 2017; Kipp, 2017; Manoel & Quel, 2017; Ratzinger-Sakel &Theis, 2017; Gold & Hellmann, 2019; Kachelmeier et al. 2020; Liao et al, 2019; Löew & Mollenhauer, 2019; Köhler et al., 2020; Porumb et al., 2021), because of their relevance and topicality in relation to the new audit reports and we incorporate their contributions below. After reviewing the literature on the content of the audit report, it was found that research articles have focused primarily on (i) analyzing the impact of audit reforms on stakeholder motivations (Guiral-Contreras et al. , 2007; Coram et al., 2011; Deumes et al., 2012; Reid et al., 2019), (ii) their impact on audit quality and financial reporting (Kilgore et al., 2014, Garza Sanchez et al., 2017; Prasad & Chand, 2017); (iii) the content, structure and language of the auditor's report (Cox, 2013; Hategan et al., 2015; Fakhfakh, 2016; Christensen et al., 2019;) and (iv) the impact of KAMs, about which there is controversy among researchers (Boolaky & Quick, 2016; Gutierrez et al., 2018; Sirois et al., 2018; Kachelmeier et al., 2020; Lennox et al., 2022[1]).

Concerning the impact of audit reforms, the literature review provides two important insights: i) audit reform can increase the communicative value of the auditor's report for users of financial information, especially through the description of KAMs; and ii) the expanded audit report should help users to focus on issues that are likely to be important in their decision-making process.

In terms of the content, structure and language of the auditor's report, empirical research so far has focused on three relevant issues: the number, type and level of detail of KAMs. Regarding the number of KAMs, Gambetta et al. (2019a) find that the number of disaggregated KAMs in the UK in the first year of adoption of ISA 701 (2013) was 4.4, while in 2016 it was 4.5, so it cannot be demonstrated that the number of KAMs in audit reports is increasing with experience. Sirois et al. (2018) conducted a study on the effect of the communication of KAMs in the auditor's report on users of financial information when analyzing financial statements. One of the main findings of the paper is that when auditors break down several KAMs in audit reports, users of financial information pay less attention to the remaining paragraphs in the report. Regarding the type of KAMs, Filipović et al. (2019) find that the KAMs most frequently disaggregated relate to the accounting items of income, asset impairment and valuation and the recording of provisions. Gambetta et al. (2019b) analyzed the influence of auditor and client characteristics on the number and type of KAMs disclosed in the audit reports of FTSE 100 companies in the UK during the period 2013-2016 and concluded that auditor and client characteristics are determinants of the number of KAMs disclosed. Furthermore, these factors determine the type of KAMs in audit reports.

Considering the level of detail of the risk description, some authors (Rematzki, 2018; Smith, 2023) provide empirical evidence that narratives in KAM disclosure are more effective in enhancing the informative value of auditors' reports for investors than the mere presence of KAM sections. In a complementary study, Rematzki (2018) finds that KAM sections can serve as a beneficial mechanism for users of financial information when KAM descriptions are firm-specific. There is no consensus in the research community on the impact of KAMs. Therefore, in this area of research we have subclassified the articles according to the effect of KAMs (positive or negative) considered by the authors who have focused their analysis on this area. If we look at the positive effects of KAMs, there are studies that analyze these effects from the perspective of some corporate stakeholders (auditors, lenders, investors, readers of annual accounts in general, company management and the audit committee).

Thus, from the auditor's point of view, some authors have examined the effects of KAM disclosures in the auditor's report on the auditor's legal exposure, concluding that KAM disclosure is unlikely to increase and, in certain circumstances could even reduce, the auditors' litigation risk if an audit fails to detect a material misstatement (Brazel et al., 2015; Stevens et al., 2019). Some authors even show that due to the obligation to describe KAMs, auditors exhibit more skeptical judgement (Ratzinger-Sakel & Theis, 2017). Many other studies have analyzed the importance of the new audit report from the lenders' point of view, concluding that the impact of extended audit reports, and especially KAMs, has a significantly positive impact on lenders' perceptions of the quality of the financial statements, the audit procedure and report, as well as on their credit approval decisions (Boolaky & Quick, 2016), since they are better able to assess the risks associated with the borrowers (Loëw & Mollenhauer, 2019; Porumb et al. 2021). This positive effect is especially attributed to the increased information found in extended reports related to KAMs, additional information about the going concern and auditors' judgement in this regard, as well as procedures relating to fraud risk (Trpeska et al., 2017).

Considering investors, Ozlanski (2019) shows that KAMs increase investors' perceptions of the credibility of management reporting when the area of financial statements is disaggregated through a particular KAM. For readers of annual accounts in general, the communication effect of the audit report has also increased following the breakdown of KAMs, with greater attention being paid by users of financial information (Sirois et al., 2018). For company management, Gold et al. (2020) showed that the implementation of KAMs in auditors' reports affects their reporting behavior, specifically, the accuracy of information (company-specific versus non-company-specific information), improving the quality of financial management reports.

For management bodies, specifically the audit committee, the new expanded audit report has improved the quality of oversight by these management bodies as the breakdown of KAMs allows committee members to ask complex questions about management's key accounting estimates (Kang, 2019; Löew & Mollenhauer, 2019).

However, some authors consider that from the perspective of different stakeholders the effects of KAMs have been negative as well, fostering an interesting debate. The articles analyzed have mainly focused on auditors and investors. In relation to auditors, contrary to the findings of Brazel et al. (2015) and Stevens et al. (2019), some authors show that since there are no precise guidelines on the description of KAMs they can, on the one hand, reduce the degree to which juries perceive that this limitation exists, leading to increased auditor liability (Gimbar et al., 2016; Kachelmeier et al., 2020) and, on the other hand, they do not influence the auditor's skeptical judgement (Asbahr & Ruhnke, 2019). Gold and Hellmann (2019) add further arguments, such as efficiency losses in terms of increased audit fees and delays in the issuance of audit reports, as well as a possible loss of auditor independence as management is involved in reviewing KAMs with the auditor prior to issuance. From the investors' point of view, some studies show that there is no evidence that KAMs provide investors with more information (Liao et al., 2019) and therefore they have no effect on investment decisions (Carver & Trinkle , 2017; Gutierrez et al., 2018; Kipp, 2017; Köhler et al., 2020). In particular, the new extended audit report is found to lack incremental information for investors because most of the risks had already been previously communicated by management through regular communications to the markets (earnings communication, annual report, etc.) Therefore, investors were already informed about most of the risks before they were disclosed by the auditors in the extended audit reports (Czerney et al., 2019; Lennox et al., 2022).

4.3 RQ3. What are the current research gaps and, therefore, the future research directions for financial reporting risks?

Given the existing literature, we have identified the following gaps and possible future lines of research. First, the bibliometric analysis shows that the number of publications has increased in recent years, with peaks seen in 2008, 2015 and 2020. This coincides with changes in the economic circumstances, for example with the financial crisis of 2008, or changes in the accounting/audit regulations, with the publication of new ISA such as ISA 701 in 2013, compulsory since 2015, and the new IFRS regulation which comes into force in 2020 and 2021.

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For this reason, we consider that a possible gap could be the analysis of the impact of the COVID pandemic in 2020 on the financial statements of 2021 and 2022. It could be interesting to analyze the impact not only on the financial statements but also on the audit report and how different auditors have treated this topic.

Another interesting insight is that the empirical literature on KAMs is scarce yet and this may be because this topic is new in Europe (with auditors in the UK and the Netherlands being the first to adopt these changes in the audit report in 2014). In fact, no work has been found that compares KAMs after the first-year adoption, given the data time series available now. However, there are three specific professional studies (FRC, 2015, Mazars, 2018 and Auditanalytics, 2019) that have analyzed this issue. All of them are descriptive and from a professional approach. A future research project aims to respond to this gap in the research by providing a critical approach, empirically comparing the first and second year of implementation of KAMs. We have also not found any empirical studies analyzing the correlation between financial information risk and performance by using a specific rating, and this may be another line of future research. In summary, our study confirms that there is scope for future research in the light of the new accounting and auditing standards.

Conclusion

The impact of risk on financial reporting is an increasingly important topic for many stakeholders: for investors since it is relevant for their decision making process; for companies as it preserves their value in terms of going concern and reputation; for regulators who are responsible for overseeing the smooth operation of the market; and for external auditors as providers of the greatest level of assurance about financial reporting. This topic has been of more interest to the business and academic community after the financial crisis, which brought to the forefront the need for companies to effectively manage their risks and increase their transparency in the market. In response, the regulators have made some changes in relation to financial reporting risks.

This study contributes to improving our understanding of financial reporting risks in three ways. First, it maps the evolution of the literature on financial reporting risks based on solid relevant academic knowledge. No works were found that deal with this subject in a broad, longitudinal manner, as this systematic review does. In the years 2008 to 2020, the number of publications relating to financial reporting risks consistently increased, demonstrating the huge importance of this topic for researchers. Second, the article identifies the key topics and trends on financial reporting risks: disclosure quality, performance, regulation and auditing. The research subcategory “audit report” appears with great regularity in this work and represents the most sensitive aspect at the moment, also linked to the new regulations for the audit opinion in the context of the new ISAs, particularly ISA 701. These issues reflect the concerns of researchers and practitioners in the business about the fundamental decisions made by managers and auditors involved in the financial reporting process. Third, future studies can be undertaken in the area by comparing and validating the results presented here, especially with expanded search criteria and databases. Moreover, other analytical techniques, such as semantic analysis, could be used in the search for new concepts or definitions that would better characterize the works, as well as validate the findings of this systematic review. Other interesting areas for future research could focus on the current context that has not yet been studied, such as the implications of the COVID 19 pandemic on financial statements and audit opinions, the evolution of KAMs in countries with more experience and those that are new adopters, like the US, and the need for empirical research that analyses the relationship between KAMs and performance, for example by using proxies such as credit rating.

Inevitably, this work has intrinsic limitations deriving from the research design, particularly from the determination of the sample. These include the selection of the time range, the databases and the inclusion and exclusion criteria that may have narrowed the research sample. The exploratory nature of this research must also be acknowledged, involving subjectivity in relation to the content analysis of the surveyed sample. Moreover, the authors opted to direct most of their research effort to subject areas relating to the new audit report.

As practical implications, in this work there are a significant number of issues for researchers, practitioners and managers in relation to these topics so we think that regulators, analysts, auditors, managers and investors could benefit from the results of this study.

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