

Study on The Governance Effect of Key Audit Matters Disclosure on Surplus Management

Ziang Zhao^{1, *}

¹School of Accounting, Anhui University of Finance and Economics, Bengbu, Anhui 233030, China

* Corresponding author: Ziang Zhao (Email: 1617817051@qq.com)

Abstract: With the help of audit Standard No.1504, the impact of key audit matters on earnings management is analyzed from the theory of corresponding inferences and from the perspective of auditors and management. Select the data of mainland and Hong Kong listed companies before and after the criteria, and design the PSM-DID model to test the policy effect. Empirically test the governance effect of key audit matters disclosure on earnings management. It is further found that the more key audit matters are disclosed, the more obvious the governance effect of the accrued surplus management and real surplus management of listed companies; among them, the governance effect of sample companies is the most obvious through the key audit matters at the account level. In addition, from the perspective of the specific types of asset impairment, the key audit matters related to inventory impairment, goodwill impairment and receivables impairment all reduce the surplus management of listed companies to a certain extent. The study shows that audit Standard No.1504 has improved the information quality of listed companies and promoted the development of high-quality capital market by suppressing surplus management behavior.

Keywords: Key audit matters, Surplus management, Corresponding inferential theory, Text analysis.

1. Introduction

The disclosure of key audit matters in the audit report is a prominent change in the reform of the audit report in recent years. In order to increase audit transparency, improve the value of financial report communication and close the information gap. In December 2016, the Ministry of Finance of China issued the audit Standards No.1504, and then continuously issued the guidelines to supplement the guidelines. The core of the guidelines is that certified public accountants need to disclose the most important matters in their manuscripts about the matters that they have communicated with the management according to their own professional judgment in the audit report. With different audit reforms in other countries and organizations, the guidelines are implemented in batches in the A-share market, that is, after being implemented in A+H companies from January 1, 2017, while other listed companies were implemented in 2018.

The purpose of adding key audit matters is to provide additional information to information users through increasing the transparency of their work. At the same time, promote the communication of auditors with management and governance layer to improve the quality of financial statement information [1]. Surplus management is an opportunistic behavior of for the management to control the company's surplus in order to seek personal interests[2]. Therefore, the disclosure of key audit matters should have a governance effect on the surplus management behavior of listed companies. With the full implementation of the guidelines, can the auditors accurately capture the most important matters in the current audit process and disclose them independently and objectively in the audit report, and can the management be more cautious and fair in preparing more readable financial reports. In other words, has the original intention of the audit report reform been realized? This paper uses the data of A shares and Hong Kong shares before and after the criteria, and uses the method of PSM-DID,

starting with the corresponding inference theory (CIT), empirically explores the impact of key audit matters on earnings management, and verifies the impact path of key audit matters on earnings management. The study has proved that adding key audit matters to the audit reports can significantly reduce the company's earnings management. It also supports the corresponding inferential theory (CIT) hypothesis that auditors will increase their professional suspicion of management behavior during the audit process due to the existence of earnings management. Based on this, it is found that auditors will appropriately increase the number of key audit matters more independently and professionally, deal with major misstatement risks and audit-related risks, and improve the audit quality to reduce the company's earnings management. Through text entry analysis, it is found that corporate earnings management; specifically to asset impairment items, inventory, goodwill and receivables disclosure have more significant impact on earnings management. This paper studies the perspective of selecting surplus management, links key audit matters with earnings management, and proves that the implementation of this policy can help to reduce corporate earnings management, improve the quality of corporate information, and promote the effectiveness of capital market operation. In addition, the existing research focuses on the influencing factors of key audit matters [11][21]. The economic consequences of key audit matters still need to be improved. This paper expands the impact of the implementation of empirical inspection standards on audit practice and management, and expands the research on the areas of key audit matters and the influencing factors of surplus management. Finally, the research supports the relevant assumptions of the corresponding inference theory, and expands the application and understanding of the corresponding inference theory in the auditor behavior.

2. Literature Review and Hypothetical Study

Previous studies have found that in [5], auditors tend to use the ambiguity inherent in expertise and accounting standards to justify the use of the audited unit management of accounting methods. But when faced with higher customer pressure of [6], namely the audit process and results will make the third party doubt the auditor, the auditor will out of "reputation maintenance" [25], the auditee to invest more resources and energy, show a more cautious attitude to the auditee strictly implement audit procedures, solve the problem of independence [25]. As a typical opportunistic behavior, surplus management usually does not violate the accounting standards provisions, but it is likely to bring a greater litigation risk to the auditor[36], so the auditor will identify and request the management adjustment as much as possible. In conclusion, although the auditors seem to tend to accept the accounting treatment with customer preferences, they will show a more prudent professional attitude under certain pressure. And the disclosure of key audit matters is actually placed in the "internal" visible draft content open and subject to social supervision. This will inevitably increase the external pressure on certified public accountants, and then when there are differences of opinions with the management on the application and management of accounting methods, they will communicate with a more independent attitude to avoid possible legal and reputational risks[25]. In the face of highly complex and uncertain key matters such as law, insurance, tax and actuarial law, audit teams often need a highly professional qualified [34] and diligent CPA or hire an expert, [33]. This also means that auditors are more tough and more professional by considering the existence of key audit matters, and they deal with issues cautiously to reduce audit-related risks and improve audit quality. Many literature at home and abroad has noticed that high-quality audit often has a good inhibitory effect on surplus management [37][18].

Disclosure of key audit matters will promote the communication between auditors and the company's management and governance layer, help the governance layer to understand and pay attention to specific matters, and improve the willingness to make risk disclosure and the quality of surplus. Sun (2019)[7] study management behavior found that management behavior is mainly affected by controlling shareholders and regulation; Yao [43] found that the market will "reward" companies willing to disclose risk, the more total risk, the lower the IPO premium, the higher the liquidity, the efficiency of new issues; some scholar [8] found that forced disclosure of corporate data assets will significantly reduce corporate earnings management.

After the implementation of the 1504 guidelines, the Ministry of Finance has issued several guidelines to promote the establishment of a long-term mechanism for the healthy development of the industry. At the same time, the company's disclosure of matters of supervision is becoming increasingly strict, in 2021, the CSRC issued a huge fine of 4.9 billion yuan, information disclosure violations are the worst-hit areas. Of the 34 punished companies, 21 listed companies and two accounting firms, one securities firm and six private equity funds were fined. In 2021, the CSRC responded to the criminal provisions of intermediaries as stipulated in the Amendment to the Criminal Law (11), clarifying the criminal responsibility and the sentence of up to 10 years. In this general environment trend, accounting firms and auditees

generally do not commit crimes against the wind.

Therefore, based on the above analysis, it is assumed that auditors will pay more attention to related matters for "reputation maintenance" and "reduce related audit risk"; and management will also reduce corporate earnings management for positive feedback. That is to assume that H1:

H1: The disclosure of key audits has a governance role in the company's earnings management.

The content of key audit matters is decided by auditors through professional judgment according to the specific situation of the enterprise. So as a relatively personalized information, how do the key audit matters issued by auditors affect the earnings management of enterprises? Corresponding inferential theory (CIT) [9] refers to the intention and motivation of behavior through personal behavior and results when summarizing the cause of the problem, which can be used to explain the response of auditors to perceive the management of corporate earnings. Corresponding inferential theory suggests [10] that the auditor's response to management surplus management may be due to concerns about individual management. The past research[10] has believed that , when the following three characteristics are observed, the greater the correctness of the tendency inference: (1)the social expectation, the closer a person's behavior to the social expectation activity, the more difficult to judge the true attitude, otherwise can judge; (2) behavior free choice, the goal of the behavior originator is to get the result of the behavior; (3) non-common results, the originator of the behavior knows the result of the behavior. Management's surplus management behavior just meets these three characteristics. Surplus management is freely chosen by the governance layer (i. e. feature (2)), changing the reporting earnings (i. e. feature (3)) for opportunistic purposes, usually harming the company owners and the public interests (i. e. feature (1)). Therefore, after discovering the management surplus management behavior, the auditor will make a stronger inference to the management at the same level of importance: the management has the intention to manipulate the surplus, is the management credible, and is there any other misconduct? Thus to evaluate the audit project has a higher audit risk. This also means that there are more important matters to communicate with management to ensure the objectivity of the disclosure. The means that more matters may need to be disclosed in accordance with the guidelines[35]. In this case, on the one hand, in order to accurately identify the risk of major misstatement and reduce the inspection risk, the auditors will invest more audit resources in response to the management of the surplus management. On the other hand, auditors will strengthen the disclosure in the audit reports to reduce the audit responsibility [35], such as using more of the disclosure of key audit matters to warn the information users to reduce the relevant responsibility [39].

For the management level, Adding separate key audits to respond to management surplus management may attract the attention of institutional investors [20], regulatory [42], and analysts [8][41], who have an important impact on the capital markets, Put performance pressure on management [41], integrity, and legal crisis, Then reduce the management self-interest behavior [7]; on the other hand, The key audit matters style of the same accounting firm has a certain similarity [28], The governance layer can improve the internal control of the company by accurately identifying and finding the internal control defects, Reduce Surplus Management[12], Improve

the corporate governance level [23]. In summary, the second hypothesis of this paper is proposed:

H2: The more the number of key audit matters is disclosed, the lower the surplus management degree of listed companies.

3. Research Design

3.1. Model and Estimation Method

The guidelines for key audit matters stipulate that A+H-share companies have disclosed key audit matters in their annual audit reports since 2017, and other A-share listed companies began to implement the guidelines in 2018, which can be regarded as a quasi-natural experiment in China's capital market. Evaluation of its effect is usually analyzed using constructing a PSM-DID model. While effectively evaluating the effect of policies, we can alleviate the difference problem caused by some missing variables changing over time. Drawing on the research of YX Li [13], A + H-share listed companies and other A-share companies that voluntarily take the lead in implementing the standards are taken as the processing group, and other mainland

companies serve as the control group. Set two virtual variables, Post and Year, where Post=1 represents A + H share listed companies and A + H share companies that voluntarily implement the guidelines, Post=0 represents other companies that implement the guidelines later; year=1 represents the year after the new guidelines, 2017, and year=0 represents 2016. The DID regression model is set as follows:

$$\text{absDA} = \alpha_0 + \alpha_1 \text{Post}_{it} + \alpha_2 \text{Year}_{it} + \alpha_3 \text{Post}_{it} \times \text{year}_{it} + \alpha_4 \text{EMflex}_{it} + \alpha_5 \text{KAM_num}_{it} + \alpha_6 \text{CFO}_{it} + \alpha_7 \text{ROA}_{it} + \alpha_8 \text{Levit}_{it} + \alpha_9 \text{equity}_{it} + \alpha_{10} \text{Avoless}_{it} + \alpha_{11} \text{Gro_wth}_{it} + \alpha_{12} \text{FCFE}_{it} + \alpha_{13} \text{TAT}_{it} + \alpha_{14} \text{Soeit}_{it} + \varepsilon_{it} \quad (1)$$

In model (1), surplus management (absDA) is the explained variable, and the Jones model is used, using Kothari (2005) [14] and Zhou Meihua's (2018) [15]. According to the principle of the DID model, the main explanatory variable is the coefficient of the cross-multiplication item Post Year, whose coefficient α_3 indicates the impact of the policy on the surplus management of listed companies. The expected $\alpha_3 < 0$ means that key audit policies have governance on earnings management, supporting hypothesis H1. Variable definitions are detailed in Table 1.

Table 1. Variable definitions

type of variable	Variable name	variable symbol	Variable calculation
explained variable	Countable surplus management	absDA	The modified cross-section Jones model was used with reference to Dechow et al
	Real surplus management	absREM	According to Roychowdhury's research, the real surplus management is calculated from three aspects of abnormal sales control, abnormal control of production costs and abnormal disposable expenses by year and industry
explanatory variable	Annual virtual variable	Year	Take 1 in 2017, or take 0 otherwise
	Group Virtual Variables	Post	The processing group is 1, and the control group is 0
	Number of number of key audit audits	KAM_num	Manual number of items from the annual report disclosing key audit matters
controlled variable	Surplus management flexibility	Emflex	(Accounts receivable + inventory) / operating income
	Net cash flow from operating activities	CFO	The ratio of the net cash flow from operating activities to the total assets
	return on assets	ROA	The ratio of net profit to total assets
	financial risk	Lev	The ratio of total liabilities to total assets
	net asset	equity	Net assets divided by 100000000
	net margin	netprofit	Net profit divided by 100000000
	Company's motivation to avoid losses	Avoless	When $0 < \text{ROE} < 0.01$, take 1, otherwise take 0
	Property nature	Soe	State-owned enterprises take 1, otherwise take 0
	The shareholding ratio of the largest shareholder	first1	The ratio of the number of shares of the largest shareholder to the total number of issues
	company size	Size	Ln (Total assets)
	Company growth	Growth	Change of t year operating income / t-1 year operating income
	Equity free cash	FCFEA	Equity free cash flow ratio to total assets
	turnover of total capital	TAT	Operating income is divided by the average total assets
Industry virtual variables	Ind	According to the CSRC 2012 edition of the industry classification	

3.2. Sample Selection and Data

This paper selects the data of A-share non-financial listed companies in Shanghai and Shenzhen before and after the implementation of the 2016-2017 guidelines, and eliminates ST, *ST, insolvency and other missing data companies. According to the audit standard no. 1502, a total of 3,796 initial samples were formed after excluding 21 companies that cannot express their opinions. Corporate governance data comes from the CSMAR and WIND databases, and the number of key audits and other text information are manually

collected from the company annual report. All continuous variables were treated by 1% to eliminate the effect of extreme values on the analysis.

To ensure robust DID model results, treatment and control samples need to meet the common trend assumption. That is, if there is no implementation of the guidelines, there is no systematic difference in the change trend of the earnings management degree between the outstanding standards company and the outstanding company over time. However, the A +H-share companies, which are the first to implement the standards, are subject to the dual supervision of the CSRC

and the Hong Kong Securities Regulatory Bureau, with large assets and internal control is more perfect. The number of A-share companies is very small, but they all belong to the industry leading enterprises with strong profitability and financing ability. The DID theoretical assumption may be difficult to establish due to the above reasons, affecting the model conclusions. The common trend assumption problem is solved by combining the propensity score matching (PSM) and DID method proposed by Heckman.

According to the setting of PSM, the following Logit model:

$$\text{Logit} = \alpha_0 + \alpha_1 \text{equityit} + \alpha_2 \text{sizeit} + \alpha_3 \text{first1it} + \alpha_4 \text{FCFEAit} + \alpha_5 \text{Levit} + \alpha_6 \text{Soeit} + \alpha_7 \sum \text{Ind} + \text{eit} \quad (2)$$

In this paper, the nearest neighbor matching method was used to find samples for the treatment group, and a total of 192 samples were matched from the 3,796 samples in two years. Table 2 shows the results of the main control variable test before and after matching.

Table 2. Difference tests before and after P S M matching

variable	Match before			After matching		
	Mean (post=0)	Mean (post=1)	Mean Diff	Mean (post=0)	Mean (post=1)	Mean Diff
equity	59.740	898.09	-838.35***	789.78	398.66	391.12**
Avoloss	0.0025	0.0085	-0.006	0	0.0118	-0.0118
CFO	0.0464	0.0613	-0.0149**	0.0554	0.0605	-0.0051
ROA	0.0466	0.0425	0.0041	0.0351	0.049	-0.0139
EMflex	0.2609	0.188	0.0729***	0.1509	0.1776	-0.0267
netprofit	5.7274	67.99	-62.2626***	79.848	39.705	40.143**
first1	0.3402	0.4154	-0.0752***	0.4818	0.3866	0.0952***
FCFEA	-0.1391	-0.14	0.0009	-0.1377	-0.1208	-0.0169
Lev	0.4108	0.5603	-0.1495***	0.6325	0.5182	0.1143***
Soe	0.3722	0.822	-0.4498***	0.7529	0.9524	-0.1995**

Note: ***, **, and * indicate that the coefficients are significant at the 1%, 5%, and 10% levels, respectively. The following text is the same

As shown in Table 2, the significant differences showed significant decreases in both the treatment and control groups after matching.

4. Analysis of Empirical Results

4.1. Descriptive Statistics

Table 3: Descriptive statistics of the main variables

variable	N	mean	p50	sd	min	max
da	192	0.060	0.038	0.071	0.001	0.540
ra	192	0.128	0.074	0.151	0.002	1.333
post	192	0.5	0.5	0.501	0	1
CFO	192	0.045	0.050	0.061	-0.197	0.210
KAM	192	0.776	1	0.418	0	1
KAM_num	192	1.573	2	1.217	0	6
ROA	192	0.042	0.033	0.037	-0.023	0.282
EMflex	192	0.223	0.172	0.185	0.002	0.733
Lev	192	0.555	0.576	0.190	0.137	0.922
Growth	192	0.501	0.058	2.519	-5.604	15.790
Avoloss	192	0.005	0	0.072	0	1
soe	192	0.797	1	0.403	0	1
Big4	192	0.365	0	0.483	0	1
FCFEA	192	-0.13	-0.121	0.149	-0.654	0.203

The descriptive statistical results of the samples after PSM are shown in Table 3, the absolute value of absDA is 0.060, the standard deviation is 0.071, the maximum and minimum value are 0.540 and 0.001, respectively, indicating that the surplus pipe phenomenon is widely exists in listed companies in China, but the degree of surplus management of different enterprises has a large fluctuation. The mean value of KAM for the key audit dummy variable was 0.776, indicating that nearly 80% of the sample data were treatment groups. As most A + H-share companies are large state-owned enterprises, the average Soe of property rights virtual variables after PSM matching is 0.797, that is, nearly 80% of the enterprises are state-owned enterprises, which is consistent with the reality and existing research statistics. The mean value of the Avoless

virtual variable is 0.005, greater than 0. It means that most enterprises still have an obvious motivation to avoid losses, which is also an important reason for the widespread existence of surplus management. In particular, the average number of key audit items is 1.573, the median is 2, and the highest item. It shows that auditors tend to use no more than 3 key audit items in practice to identify the problems of the auditee.

The descriptive statistics of the other variables are more consistent with the existing studies. As shown in Table 4, the correlation coefficient between the major variables was less than 0.6. In addition, the maximum VIF expansion factor was 1.51, and there was no severe multicollinearity among the variables.

Table 4. Correlation tests

	absDA	KAM num	CFO	ROA	equity	Growth	Avoloss	Soe	TAT
absDA	1								
KAMnum	0.005	1							
CFO	-0.202***	-0.168**	1						
ROA	0.248***	-0.069	0.402***	1					
equity	-0.055	-0.011	0.033	0.034	1				
Growth	-0.019	-0.114	-0.081	-0.061	-0.075	1			
Avoloss	-0.033	-0.034	0.125*	0.104	-0.016	-0.016	1		
soe	-0.167**	-0.039	0.038	-0.255***	0.162**	0.095	0.037	1	
TAT	0.005	-0.013	0.073	0.243***	-0.041	0.111	-0.055	0.075	1

4.2. Analysis of the Empirical Results

4.2.1. Analysis of the Regression Results of Key Audit Matters Were Disclosed

As shown in Table 5, in the regression (1), the multiplication term α_3 of the main explanatory variable is -0.0841, and the 5% level is significant, proving that the key audit matters have an obvious governance effect on surplus management. Compared to the guidelines, the disclosure of key audit matters in the audit report encourages auditors to be more cautious in identifying critical audit matters and devote more energy to communicating with management to address the problems of governance and government regulators and improve the quality of disclosure, assuming that H1 is verified.

Further, the positive and negative earnings management value are subdivided into upward positive surplus management (DA1) and downward negative surplus management (DA2). Due to the classification by positive and negative earnings management, there is a break point 0 between positive earnings management (DA1) and negative phase surplus management (DA2). Drawing on the study of MH Zhou [14] (2018), when positive surplus management (DA1) is the explained variable, negative surplus

management (DA2) is 0, and vice versa. Therefore, Tobit regression was used for the two regression groups to better distinguish the impact of key audit matters under different surplus management objectives. The regression results are shown in the two columns (2) and (3) of Table 5, and the key explanatory item Year * Post is negative and significant at the 10% and 5% levels, respectively. Surplus management of two different directions has declined to varying degrees after the disclosure of key audit matters, but the absolute value of the explanatory variable Year * Post value of positive earnings management (DA1) is higher than that of negative surplus management (DA2), which shows that after the implementation of key audit matters policies, the governance effect of positive surplus management is more significant. The LR test values for the Tobit regression were all significant at 1% levels, and the regression results were robust.

In general, the implementation of key audit matters policies has played an effective role in governing the surplus management behavior of listed companies, curbed the surplus management of listed companies, and stabilized the order of the capital market.

Table 5. Disclosure of key audit matters and surplus management

VARIABLES	(1) absDA	(2) DA1	(3) DA2
Year*Post	-0.0841** (-2.167)	-0.099* (-1.75)	-0.024** (-2.316)
EMflex	-2.306** (-2.626)	-0.142*** (-2.84)	-0.047*** (-5.867)
KAM_num	0.0127 (1.131)	0.072*** (10.56)	-0.003 (-1.337)
CFO	0.447 (1.277)	-2.778*** (-19.22)	-1.112*** (-50.841)
ROA	0.721 (1.371)	3.226*** (15.26)	1.283*** (-38.063)
Lev	0.225 (0.882)	0.000 (0.01)	0.034*** (-4.83)
equity	-0.000 (-1.370)	-0.000 (-1.19)	-0.000* (-1.726)
Avoloss	0.0129 (0.544)	-0.285** (-2.10)	-0.058*** (-2.595)
Growth	-0.011 (-0.743)	-0.000 (-1.33)	0.000*** (-3.771)
FCFEA	-0.0914* (-1.990)	-0.031 (-0.78)	-0.025*** (-4.110)
TAT	-0.0753 (-0.896)	-0.031** (-2.08)	-0.011*** (-4.781)
Constant	-159.709* (-1.834)	0.127*** (4.35)	0.005 (-1.265)
ind	YES	YES	YES
Observations	192	3796	3796
R-squared	0.603		
LR		697.44***	2618.48***
Pseudo R2		0.1904	-1.1581

4.2.2. Impact of the Number of Key Audit Items on Earnings Management

In order to comprehensively analyze the impact of key audit matters on earnings management, introduce real earnings management, learn from the research of Wu Peng (2021) [11] and MZ Wang (2019) [16], KAM_num set the frequency of key audit items disclosed in the annual report as follows:

$$Y_{i,t} = \beta_0 + \beta_1 KAM_num_{i,t} + \beta_2 size_{i,t} + \beta_3 Lev_{i,t} + \beta_4 EMflex_{i,t} + \beta_5 ROA_{i,t} + \beta_6 CFO_{i,t} + \beta_7 Big4_{i,t} + \beta_8 FCFE_{i,t} + \beta_9 Avoless_{i,t} + \varepsilon_{i,t} \quad (3)$$

As the regression results shown in Table 6, the KAM_num coefficients corresponding to accrual and real surplus management were -0.0200 and -0.006, respectively, both significant at the 1% level. This means that the number of key audits is significantly negatively correlated with accrued surplus management and real earnings management. That is, the more key audit matters are disclosed, The more obvious the governance effect of accrued surplus management and real surplus management, the hypothesis H2 is verified. The reason behind this may be that auditors will doubt management behavior after discovering excessive complex or unreasonable transactions, and thus better find the motivation

behind these "unreasonable" accounting operations; on the other hand, the key audit matters marked separately make shareholders, regulators and information users of capital markets more concerned, and the hidden costs of management earnings management are higher, reducing the corresponding surplus management behavior. Some scholars [13] found that the disclosure policy of key audit matters can not have a significant governance effect on the real surplus management phenomenon. However, this paper finds that the communication of more number of key audit matters also has a certain governance effect on the real surplus management. There are two types of surplus management between some conditional alternative [32], but the essence of real surplus management is opportunistic management of the company's production and operation decisions for unreasonable interference and manipulation, so the management often through complex transaction itself and a variety of accrued surplus management this seemingly harmless surplus management processing [17] to cover up the real surplus management behind it. After the phenomenon of accrued surplus management is controlled, the real surplus management covered by accrued surplus management is also reduced accordingly.

Table 6. Impact of the number of key audit items on earnings management

VARIABLES	(1) absDA	(2) absREM
KAM_num	-0.020*** (-3.525)	-0.006*** (-2.958)
size	-0.08 (-0.989)	0.044* (-1.854)
Lev	-0.113 (-0.804)	0.322*** (-3.936)
EMflex	0.111 (-0.676)	-0.051 (-0.473)
ROA	0.107 (-0.506)	0.746*** (-3.794)
CFO	-0.053 (-0.484)	-0.007 (-0.077)
Big4	0.051* (-1.907)	0.04 (-0.525)
FCFEA	-0.03 (-0.771)	-0.061** (-2.028)
Avoless	0.085 (-1.544)	0.06 (-1.491)
Constant	1.927 (-1.058)	-1.020* (-1.887)
Observations	3,796	3,796
Number	2,164	2,164
Ind	Yes	Yes
Adjusted R-squared	0.037	0.049

5. Robustness Test

5.1. The Placebo Test

The placebo used in this paper refers to the idea of Abadie, using the PSM-DID method for 2015-2016. If the results are significantly negative, the conclusion of this paper is accidental, and the placebo test results are not significant and pass the placebo test. Test results are not listed based on the limited space.

5.2. Replace Is the Explanatory Variable

Use the DD model and the non-linear accrued surplus

model to estimate the degree of surplus management, and replace the performance -matching Jones model used above, and the basic conclusion remains unchanged. Test results are not listed based on the limited space.

5.3. Full Sample Test

The reason why PSM is used in this paper is mainly because the processing group company itself has certain particularity in terms of volume and nature. The PSM can effectively reduce the sample error, and then meet the premise of the DID hypothesis, which is conducive to explore the economic consequences of the key audit. Although the PSM model was carefully designed, the analysis may still be

disturbed by the samples. Based on the practice of Zhang Jing, Lu Jun [1] et al. used the whole sample to test, and the conclusion is basically unchanged. Test results are not listed based on the limited space.

6. 6.Conclusions and Enlightenment

This paper uses the combination of propensity score matching and dual difference model, using the data of mainland and Hong Kong stock companies, to empirically study the impact effect and mechanism of criterion 1504 on surplus management, aiming to investigate the implementation effect of the criterion. The study found that the disclosure of key audit matters has a certain governance role on the surplus management of listed companies, both positive surplus management and negative surplus management, and the frequency and content of key audit matters have a significant impact on the surplus management behavior. Further research on the text contents of key audit matters found that the asset impairment and income recognition matters can better curb the earnings management behavior of the enterprise; the key audit matters related to inventory impairment, goodwill impairment and receivables impairment have a better governance effect on earnings management.

This paper provides empirical evidence for the effect of the guideline implementation. It proves that standard 1504 really reduces the degree of corporate earnings management, improves the quality of corporate information disclosure, and then improves the effectiveness of decision-making. Regulators should pay attention to the implementation of the guidelines to avoid the gradual deviation from expectations during the subsequent implementation process. Do good communication and guidance to listed companies and accounting firms, and reasonably set the number and content of key audit matters. Ensure the importance of key matters, avoid the abuse of policies, and moderately reduce the number of key audit matters to meet the needs of information users, increase the professionalism and uniqueness of the auditor in key audit matters; diversify the key audit matters in objective language, avoid information distortion, improve the quality of company information, and promote the effective operation of the capital market.

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