

# The Explanatory Factors of Interests as a Key Audit Matter in the Separate Financial Statements of Listed European Union Entities<sup>1</sup>

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*Os Fatores Explicativos dos Interesses como Matéria Relevante de Auditoria nas Demonstrações Financeiras Separadas das Entidades da União Europeia Listadas*  
*Los Factores Explicativos de los Intereses como Cuestión Clave de Auditoría en los Estados Financieros Separados de las Entidades Cotizadas de la Unión Europea*

*This paper aims to identify the factors that may likely explain the identification of the investments in subsidiaries, associates, and joint ventures under International Accounting Standards (IAS) 27 as a key audit matter in the separate financial statements (SFS) of listed European entities. The final research sample is comprised of 243 entities from 18 European countries. The findings from the logistic regression performed particularly found the weight of those interests (the material relevance) within the entities' SFS as an explanatory factor, as well as the use of the cost as the accounting method for those interests.*

*Este artigo tem como objetivo identificar os factores que potencialmente explicam a identificação dos investimentos em subsidiárias, associadas e empreendimentos conjuntos à luz da International Accounting Standard (IAS) 27 como matéria relevante de auditoria nas demonstrações financeiras separadas (DFS) de entidades europeias cotadas. A amostra final da investigação é composta por 243 entidades de 18 países europeus. Os resultados da regressão logística efetuada identificaram, em particular, o peso desses investimentos (a relevância material) nos DFS das entidades analisadas como fator explicativo, assim como a utilização do custo como método contabilístico aplicável a tais investimentos.*

*Este artículo tiene como objetivo identificar los factores que potencialmente explican la identificación de inversiones en subsidiarias, asociadas y emprendimientos conjuntos a la luz de la International Accounting Standard (IAS) 27 como materia relevante de auditoria en estados financieros separados (EFS) de entidades europeas cotadas. La muestra final de la investigación está compuesta por 243 entidades de 18 países europeos. Los hallazgos de la regresión logística realizada encontraron particularmente el peso de esos intereses (la relevancia material) dentro de los EFS de las entidades como factor explicativo, así como el uso del costo como método contable de esos intereses.*

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## 1. Introduction

The International Standard on Auditing (ISA) 701 Communicating Key Audit Matters in the Independent Auditor's Report, issued by The International Auditing and Assurance Standards Board (IAASB), applies to audits of complete sets of general-purpose financial statements of listed entities, being effective for audits of financial statements for periods ending on or after December 15, 2016. ISA 701 deals with the auditor's responsibility to communicate key audit matters (KAM) in the auditor's report, intending to address the auditor's judgment, and what and how to communicate such matters in the auditor's report (paragraph 1 of ISA 701).

According to paragraph 9 of ISA 701, the auditor shall determine the matters that require significant attention which should consider (a) the areas of higher assessed risk of material misstatement; (b) significant auditor judgments, including accounting estimates; and (c) the effect on the audit of significant events or transactions that occurred during the period. These matters of most significance in the audit of the financial statements, i.e. the KAM, should be, usually, described in a separate section of the auditor's report named "Key Audit Matters". The Public Company Accounting Oversight Board (PCAOB) also adopted a new standard on this matter on June 1, 2017, "The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion", which requires auditors to communicate the "critical audit matters" (CAM) (PCAOB, 2017). Therefore, regardless of being called KAM (IAASB) or CAM (PCAOB), these audit matters are hereinafter mentioned as KAM.

The European Union (EU) addressed the concerns about KAM through Regulation (EU) No 537/2014 of the European Parliament and the Council, April 2014, on specific requirements regarding statutory audit of public-interest entities, that took effect for accounting periods starting on or after June 17, 2016. Article 10 of that Regulation states that the audit report must provide, "in support of the audit opinion, the following: (i) a description of the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud; (ii) a summary of the auditor's response to those risks; and (iii) where relevant, key observations arising concerning those risks" (number 2 c)).

In turn, the International Accounting Standard (IAS) 27 - Separate Financial Statements, issued by the International Accounting Standards Board, as adopted by the Commission Regulation (EU) No. 2023/1803, of August 13, 2023, prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures, and associates when an entity voluntarily, or for being required by local regulations, presents SFS (paragraph 2 of IAS 27). The standard does not specify which entities must present those financial statements, but rather how they should present them so that they are under IAS and International Financial Reporting Standard (IFRS) (paragraph 3 of IAS 27). According to IAS 27, the financial interests in subsidiaries, associates, and joint ventures can be accounted for by the cost method, by the Equity Method (EM), or even under the IFRS

**KEYWORDS**  
associates, IAS 27, joint ventures, key audit matters, separate financial statements, subsidiaries.

**PALAVRAS-CLAVE**  
associadas, demonstrações financeiras separadas, empreendimentos conjuntos, IAS 27, matérias relevantes de auditoria, subsidiárias.

**PALABRAS CLAVE**  
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**JEL CODES**  
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9 – Financial Instruments, which translates into the option for fair value through profit or loss (FVPL) or other comprehensive income (FVOCI).

Given that the fair value estimates of financial instruments are one of the accounting estimates that involves significant professional judgment, this paper addresses a related but, as far as the authors' knowledge, an uninvestigated topic in the literature on KAM, namely the investments in subsidiaries, joint ventures, and associates in Separate Financial Statements (SFS).

Thus, given the options allowed by IFRS, entities must make accounting choices. Notwithstanding, being non-mandatory accounts in some countries, there is a gap in the literature regarding the analysis of KAM by using the entities' SFS as the audited information, although they report information stressed as useful (Busari & Bagudo, 2021; Lopes & Camões, 2021; Palea, 2014; Sotti, 2018).

To fill this gap in the literature, this study intends to assess the likely explanatory factors of the identification of interests in subsidiaries, joint ventures, and associates underlying the SFS as a KAM mentioned in the auditors' reports for the year 2021 as its object. For this purpose, it includes, as a research sample, the listed entities that comprise the main European Union indices for which the use of IAS and IFRS in SFS is mandatory or optional. It is worth stressing that those relevant interests held by the parent company of the groups listed on EU stock exchanges (representing 52% of the Gross Domestic Product of the EU in 2018 (The World Bank, n.d.)), further reinforce the relevance of this research.

This paper is structured in four sections, in addition to this introduction. The second section provides the literature review and hypotheses development. The next section identifies the materials and methods underlying the exploratory analysis proposed for this paper and is followed by the results section. Finally, the last section presents the conclusions, as well as the limitations and suggestions for future avenues.

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## 2. Literature Review and Hypotheses Development

Accounting standards issued by the IASB are regarded as principle-based requiring significant professional judgment and estimates in their application (Coram & Wang, 2021). Then, auditors tend to disclose fewer KAM under more principle-based than rule-based accounting standards, given that they are more willing to accept the client's preferred accounting treatment when facing the subjectivity of the accounting standard (Pinto & Morais, 2019).

According to IAASB (2011), stakeholders feel that expanded commentary from the auditor, namely about the key areas of risk of material misstatement in the financial statements, critical accounting estimates, and management judgments, as well as management's selection and application of accounting policies, would provide greater transparency to the financial statements. This intends to fulfil the 'expectations gap' enhancing the value and relevance of auditor reporting. Similarly, the communication of KAM intends to facilitate the financial statements' understandability (Ong et al., 2022), and the achievement of audit quality (Alharasis et al., 2024). The KAM in the audit report implies that the auditor has identified

which matters require significant professional judgment or raise difficulty in obtaining valuation evidence (PCAOB, 2017).

KAM has been an emergent research topic worldwide, including in Latin American countries, since it brings added value and relevance to the audited information (Ramírez & Duque, 2021). Sun et al. (2024) highlight that the communication of KAM in China can improve the quality of analysts' earnings forecasts namely firms with less information transparency and less skilled analysts. Kitiwong et al. (2023) studied that the implementation of KAM in Thailand improved the informative value, stressing, however, that the market does not value them.

According to Coram and Wang (2021), the disclosure of KAM per se does not affect the audit expectation gap. This may be due to them being complex and difficult to read, which is concerning given that this limits its objective of enhancing transparency for stakeholders (Ecim et al., 2023). Other authors share these concerns about KAM, namely for not improving audit transparency (Bepari et al., 2024), pointing out that they "are becoming longer, more quantitative, more specific, but also include more boilerplate phrases" (Küster, 2024, p. 1).

Regarding the main KAM topics, the large amount and impact on financial statements lead to the ranking of the accounting estimate items (Inoue, 2022). Within the scope of IAS 27, the investments in subsidiaries, associates, and joint ventures are particularly highlighted, as the standard supports alternative accounting methods other than those provided for in IFRS 10 (for subsidiaries) and IAS 28 (for associates and joint ventures). In SFS, these investments are one of the most relevant assets and are commonly identified as KAM in audit reports (Ecim et al., 2023; Hollie, 2020; Neukirchen & Bonotto, 2017; Pereira, 2019). Therefore, the following hypothesis is proposed:

***H1: The higher the material relevance of the financial investments under IAS 27 the higher the probability of its inclusion as a KAM.***

For Lau (2021), measurement uncertainty positively affects auditors' reports of KAM related to accounting estimates in Chinese listed firms, namely concerning the fair value and impairment loss. Both the IAASB (2012) and the Public Company Accounting Oversight Board (PCAOB) (2014, 2013) pointed out the fair value estimates as an example of a KAM, namely concerning the valuation of financial instruments due to the difficulty of obtaining appropriate evidence when auditing these matters. Hollie (2020) found that most of the KAM in the USA were related to acquisition-related issues, assessing intangibles as part of an acquisition. This is aligned with the findings by Ecim et al. (2023), according to whom the most common KAM disclosures in South Africa are related to business combinations and impairments of goodwill.

Under IAS 27, the cost method is the most conservative one for accounting for financial investments. Conversely, the EM and the fair value models are more discretionary and volatile, respectively, but, in both cases, they are riskier. Then, considering the literature, the following hypothesis is defined:

***H2: The more risky methods for accounting financial investments under IAS 27 positively influence the identification of those investments as a KAM.***

Five control variables are used in this paper as follows.

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First, it is expected an association between the entities' profitability level (negative) and the indebtedness (positive), and the inclusion of the topic under assessment as a KAM since financial distress (i.e., lower profitability and higher indebtedness) may be an incentive for fraudulent activities, thereby for having qualified audit opinions (Beasley et al., 1999; Boone et al., 2010; Venturini et al., 2023; Pinto & Morais, 2019).

Following, a positive association between the Big 4 audit firms and the topic under assessment as a KAM is proposed, following the literature that has confronted the Big 4 versus non-Big 4 audit firms (e.g., Ecim et al., 2023; Rahaman et al., 2023). For instance, Ecim et al. (2023) argue that larger audit firms have more resources to conduct more rigorous audits and resist client pressures, despite no pronounced differences in KAM disclosures between Big 4 and non-Big 4 having been found in their research. Furthermore, Boone et al. (2010) found weak evidence that Big 4 audit firms have more propensity to issue qualified opinions. From a different but convergent perspective, Venturini et al. (2023) explain that when the auditee reveals a great financial risk, auditors report more KAM regardless of being a Big 4 audit firm or not. Besides, no homogenous audit reports have been found among the Big 4 audit firms by Honkamäki et al. (2022). Nonetheless, Rahaman et al. (2023) indicate that Big 4 audit firms report more extensive details in their KAM description, although not necessarily reporting a significantly higher number of KAM.

Finally, associations between the topic under assessment as a KAM across industries are expected, following the literature that has found differences based on this variable (Pinto & Morais, 2019; Rahaman et al., 2023). This may be due to the different regulations, complexity, and agency conflicts the entities are subject to according to the industry they operate (Pinto & Morais, 2019).

The next section presents the literature review and hypotheses development underlying this study.

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### 3. Material and Methods

This research aims to identify the factors that may likely explain the identification of the investments in subsidiaries, associates, and joint ventures under IAS 27 as a KAM in the SFS of listed European entities. Therefore, the KAM is proposed as the dependent variable of this study, which has the characteristic of a dummy one being classified as "1" whenever the auditors mention those investments in their reports and "0" otherwise.

The study resorts, primarily, to the method of archive research and documental analysis as a technique. The data were extracted from the entities' SFS within this sample research. The empirical field corresponds to the entities included in the main indices of stock exchanges from EU countries where IAS and IFRS adoption in SFS is mandatory or optional.

Those indices were mostly identified from the website investing.com. In turn, the entities that comprise those indices were collected from the LSEG Eikon database, having the ending of January of 2023 as

the reference, except for the entities from FTSE MIB and MSE, which were extracted from the Amadeus database and the stock exchange annual report for 2022, respectively. Then, the information regarding the IFRS adoption in SFS as mandatory or optional was gathered from the IFRS Foundation website. More specifically, this information was gathered from the countries' answers to the question "Are IFRS Accounting Standards required or permitted in separate company financial statements of companies whose securities trade in a public market?" available in the document "jurisdiction profile". Following, only the entities from indices/countries that might use IFRS, mandatorily or optionally, were identified as the target for this research (initial sample).

Finally, all SFS found for the year ending in 2021 through each entity's website in the sample were collected, except those for which the reporting date differs significantly from the calendar year, i.e. where the reporting period mostly covers the year 2020. In such circumstances, the SFS for 2022 were used (six cases). In addition, in those cases for which the SFS for 2021 were not available at the time of data collection, the SFS for 2020 were exceptionally used (three cases). From this process, seventy-two entities that do not provide their respective reports and accounts were excluded, as well as ten that are silent on the accounting method adopted for such investments. Due to the availability of their reports in a language other than Portuguese or English and incompatible formats for automatic translation, six entities were excluded from the scope of this research. Then, the following 21 countries were initially identified: Belgium, Bulgaria, Croatia, Cyprus, Czechia, Denmark, Estonia, Finland, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Romania, Slovakia, Slovenia, and The Netherlands.

**Table 1** summarizes the number of excluded entities from the initial to the final sample.

**Table 1 - Sample Selection**

<i>Initial Sample</i>	<b>417</b>
Entities that belong to more than one index	1
Entities for which SFS were not available or were not found	72
Entities with SFS from periods before 2020	8
Entities that do not adopt IFRS in SFS*	49
Entities that had impacts on the group's structure	1
Entities for which the method of accounting for the holdings under review has not been disclosed	10
Entities for which the SFS have a specific disclosure where the fundamental elements for this analysis cannot be identified*	3
Entities for which their financial statements were not in a supported format for translation	6
Entities for which the auditor's report was not found*	24
<i>Final Sample</i>	<b>243</b>

Note: \* At the end of this process, all the 3 entities from Belgium, 19 from Estonia, and 24 from Finland were excluded, as none of them met the criteria selected for analysis, namely they do not disclose fundamental data, the auditor's reports were not available and have used other standards, respectively.

Thus, at the end of the selection process, 243 entities met the criteria defined for analysis and were distributed among the indices of the capital markets representing different countries, as shown in **Table 2**. After excluding all entities from Belgium, Estonia, and Finland, which do not meet the criteria for analysis, the final research sample is comprised of 18 countries.

**Table 2 - Distribution of entities by country**

<i>Country</i>	<i>Number of entities observed</i>	<i>% of entities observed</i>
Bulgaria	9	3.37
Croatia	12	4.49
Cyprus	4	1.50
Czechia	9	3.37
Denmark	8	3.00
Greece	37	13.86
Ireland	28	10.49
Italy	27	10.11
Latvia	6	2.25
Lithuania	16	5.99
Luxembourg	3	1.12
Malta	24	8.99
Poland	11	4.12
Portugal	12	4.49
Romania	15	5.62
Slovakia	2	0.75
Slovenia	8	3.00
The Netherlands	22	8.24
<b>Total</b>	<b>243</b>	<b>100</b>

Considering the characteristics of the dependent variable, binary logistic regression models are performed for this purpose. Logistic regression, as a method that estimates the probability of occurrence of an event, is used to determine the predictive variables that explain the investments in subsidiaries, associates, and joint ventures in the SFS as a KAM in the auditors' reports.

Following, concerning the independent variables used as explanatory factors, the weight of those investments in the SFS (Wol), as a percentage of the total assets. This variable is mainly proposed since it is expected that as greater it is the more likely its reference within the auditors' reports, based on the findings from other research on the explanatory factors of KAM using different variables as the object (Inoue, 2022). Then, since IAS 27 identifies different methods for the accounting treatments for those investments in the SFS (at cost, using the equity method or at fair value), this research also intends to verify if the accounting methods used (Met) may explain the reference under assessment in the KAM. This is aligned with other research on accounting methods and/or estimates used as explanatory factors of KAM (e.g., Pinto & Morais, 2019). Considering that the cost method is primarily used (about 80% of cases), it is included as a dummy independent variable where "1" corresponds to the use of that method and "0" otherwise.

In turn, the level of entities' profitability (Prof), indebtedness (Ind), audit firms (Aud) and economic activity sectors (Sec) are used as control variables, following similar studies in this field (e.g., Ecim et al., 2023; Rahaman et al., 2023; Pinto & Morais, 2019). The entities' profitability (indebtedness) level is measured

by the profit or loss over the total equity (total debt over the total assets). Furthermore, as usual in studies of a similar nature, the audit firms (Aud) as Big 4 ("1") or not ("0") is also proposed in the set of control variables (e.g., Ecim et al., 2023; Rahaman et al., 2023; Inoue, 2022).

Finally, the economic activity sectors were based on the classification of the Industry Classification Benchmark (ICB), with six sectors being identified for the entities under analysis in this study, as shown in **Table 3**.

**Table 3 - Distribution of entities by country**

Sector (codification)	Number of entities observed	% of entities observed
Industrials (Sec 1)	58	23.9
Consumer goods (Sec 2)	53	21.8
Energy & Utilities (Sec 3)	24	9.9
Financial & Insurance (Sec 4)	64	26.3
Healthcare (Sec 5)	35	14.4
Telecommunications & Technology (Sec 6)	9	3.7
<i>Total</i>	<i>243</i>	<i>100</i>

Then, the following model is proposed:

$$Logit(KAM) = \beta_0 + \beta_1WoI + \beta_2Met + \beta_3Prof + \beta_4Ind + \beta_5Aud + \beta_6Sec\ 1 + \beta_7Sec\ 2 + \beta_8Sec\ 3 + \beta_9Sec\ 4 + \beta_{10}Sec\ 5 + \beta_{10}Sec\ 6 + e$$

The following section is dedicated to the presentation of the results obtained, based on the methodological lines previously detailed.

## 4. Results

**Table 4** to **Table 6** summarises the descriptive statistics for the independent variables, having the cases in which the interests in subsidiaries, joint ventures, and associates underlying the audited SFS were, or were not, mentioned as a KAM (the dependent variable of this research) as a breakdown.

**Table 4** provides the figures for the audit firms (Big 4 versus non-Big 4) and the accounting method used for those investments.

**Table 4 - Percentage of KAM by audit firms and accounting methods**

KAM	Aud		Met		Total
	Aud=0	Aud=1	Met=0	Met=1	
KAM=0	69.8%	66.8%	75.0%	65.6%	67.5%
KAM=1	30.2%	33.2%	25.0%	33.4%	32.5%
Total	21.8%	78.2%	19.8%	80.2%	100.0%

Figures from **Table 4** identify that the object of this research is mentioned as a KAM in about one-third of cases. As would be expected, Big 4 firms are the majority for this set of entities (78%). Nonetheless, there are no meaningful differences regarding those cases considering this variable. Furthermore, Table 1 shows that the cost method is mostly adopted by the listed European entities to account for those investments in their SFS (80%). By accounting methods, however, the difference between the cases (subgroups) in which those investments are mentioned as a KAM is higher, with almost 10 percentage points greater for the subgroup in which the cost method is adopted.

**Table 5**, in turn, provides a similar analysis by economic activity sector.

**Table 5 - Percentage of KAM by economic activity sector**

KAM	Sec						Total
	Sec=1	Sec=2	Sec=3	Sec=4	Sec=5	Sec=6	
KAM=0	60.3%	77.4%	58.3%	68.8%	65.7%	77.8%	67.5%
KAM=1	39.7%	22.6%	41.7%	31.3%	34.3%	22.2%	32.5%
Total	23.9%	21.8%	9.9%	26.3%	14.4%	3.7%	100.0%

From **Table 5**, some differences regarding the sector can be seen, with sec 1 and sec 3 (Industrials, and Energy & Utilities, respectively) having a higher percentage of cases (about 40%) in which the interests in subsidiaries, joint ventures, and associates were mentioned in the KAM that used the SFS as the object of auditing. For the remaining sector, figures between 22% and 34% of cases are observed. Despite those differences, it is worth noting the different levels of representativeness among those sectors.

Finally, **Table 6** presents the analysis of the average levels of remaining independent variables (Wol, Prof and Ind), as those are continuous while the previous assumes a categorical characteristic.

**Table 6 - The average levels of Wol, Prof and Ind by KAM**

KAM	Wol	Prof	Ind	Total
KAM=0	34.8%	16.3%	49.1%	67.5%
KAM=1	49.3%	11.3%	39.9%	32.5%
Total	39.5%	14.7%	46.1%	100.0%

According to **Table 6**, the weight of the investments under assessment (Wol) is higher for those cases

in which the KAM mentions the interests under assessment in this research, as would be expected. Regarding the control variables related to profitability (Prof) and indebtedness (Ind), on the other hand, it is interesting to notice they have a lower level (particularly for the latter) whenever those cases occur.

Following, **Table 7** provides a correlation matrix between the independent variables proposed in the regression model performed.

**Table 7 - Correlation table**

	<i>Wol</i>	<i>Prof</i>	<i>Ind</i>	<i>Aud</i>	<i>Sec 1</i>	<i>Sec 2</i>	<i>Sec 3</i>	<i>Sec 4</i>	<i>Sec 5</i>	<i>Sec 6</i>
Met	-0.319	-0.021	0.071	-0.112	0.107	0.039	0.017	-0.075	-0.093	-0.011
Wol	1	-0.012	-.394	0.112	-0.042	0.127	-0.131	-0.091	0.104	0.047
Prof		1	0.293	0.064	0.001	-0.095	-0.020	0.003	0.118	0.012
Ind			1	0.081	-0.032	-0.113	0.007	0.189	-0.036	-0.063
Aud				1	-0.008	0.086	0.008	-0.001	-0.096	-0.002
Sec 1					1	-0.302	-0.194	-0.332	-0.231	-0.106
Sec 2						1	-0.182	-0.311	-0.217	-0.099
Sec 3							1	-0.200	-0.139	-0.064
Sec 4								1	-0.238	-0.109
Sec 5									1	-0.076

Data from **Table 7** shows no potential collinearity issues between the independent variables proposed since the correlations are usually between -0.3 and 0. The assumption of multicollinearity, in turn, was assessed by performing the Variance Inflation Factor (VIF), for each of the three proposed models. These values were adequate, as they were lower than 3 in all cases.

**Table 8** provides, in turn, the overall percentage of correctly classified cases for the estimated model. The figures indicate that the percentage is about 71%, which has not increased significantly (3.5 percentage points) from the initial to the final stage of classification, despite improving the overall success rate.

**Table 8 - Classification table**

<i>Observed</i>			<i>Predicted</i>		
			<i>KAM</i>		<i>Correct percentage</i>
			<i>0</i>	<i>1</i>	
Step 0	KAM	0	164	0	100.0
		1	79	0	0.0
	Overall percentage*; **				67.5
Step 1	KAM	0	150	14	91.5
		1	57	22	27.8
	Overall percentage*; **				70.8

Note: \*Constant is included in the model, \*\* The cut value is .500

The results for the Omnibus test and coefficients model are presented in **Table 9**, providing the significance of the model and its coefficients. Since the results show a significance level lower than 1%, it validates the existence of independent variables with explanatory power.

**Table 9 - Omnibus test and coefficients model**

		<i>Chi-square</i>	<i>df</i>	<i>Sig.</i>
Step 1	Step/Block/Model	25.073	10	0.005

In turn, the results from the Hosmer and Lemeshow test are presented in **Table 10** which, on the other hand, having a significance level higher than 5%, indicates that the model fits the data under assessment.

**Table 10 - Hosmer and Lemeshow test**

<i>Step</i>	<i>Chi-square</i>	<i>df</i>	<i>Sig.</i>
1	10.628	8	0.224

**Table 11** provides the statistics of -2LogLikelihood (-2LL) used to assess the quality of the adjustment, as well as the values of Cox & Snell and Nagelkerke R Square. The results indicate the level of adjustment of the proposed model, which is adequate but closer to 10% and 14% only, respectively.

**Table 11 - Model Summary**

<i>Step</i>	<i>-2 Log likelihood</i>	<i>Cox &amp; Snell R Square</i>	<i>Nagelkerke R Square</i>
1	10.628	0.098	0.137

Finally, **Table 12** presents the results of the model performed. The Enter method was used to include predictors to allow the analysis of the statistical significance of their coefficients in the model. Exp (β) and the respective 95% confidence intervals (95% CI) are presented. Statistical significance was defined as a p-value lower than 0.05.

**Table 12 - Variables in the equation**

		<i>B</i>	<i>S.E.</i>	<i>Wald</i>	<i>df</i>	<i>Sig.</i>	<i>Exp(B)</i>
Step 1*	Met	1.020**	0.415	6.047	1	0.014	2.774
	Wol	1.757***	0.529	11.045	1	0.001	5.795
	Prof	0.066	0.312	0.044	1	0.834	1.068
	Ind	-0.294	0.570	0.267	1	0.605	0.745
	Aud	0.171	0.363	0.223	1	0.637	1.187
	Sec 1	1.097	0.882	1.548	1	0.213	2.996
	Sec 2	-0.055	0.900	0.004	1	0.952	0.947
	Sec 3	1.373	0.946	2.105	1	0.147	3.947
	Sec 4	0.879	0.887	0.981	1	0.322	2.408
	Sec 5	0.758	0.915	0.686	1	0.408	2.134
	Constant	-3.066	1.070	8.219	1	0.004	0.047

Note: \* All variables were entered in this step  
 \* p<0.1; \*\* p<0.05; \*\*\*p<0.01

Based on figures from **Table 12**, the accounting method (Met) and the weight of investments (Wol) in subsidiaries, joint ventures, and associates in the entities' SFS are statistically significant at different levels (at 5% and 1% per cent, respectively).

In the first case, as a dichotomic variable is under assessment, it is worthwhile to mention that the results mean, in other words, that those investments were likely identified as a KAM in the auditors' report whenever the cost method was adopted by entities. Since the cost method is commonly considered more conservative than other alternative methods, such as the equity method and fair value models, this seems to contradict the literature that points out more risky estimates as a topic of likely inclusion as a KAM in that source (Ecim et al., 2023; IAASB, 2011; PCAOB, 2017)). However, the expressive relevance of the cost as the accounting method used by European entities in their SFS (about 80%) may explain those results. Being more conservative and less subjective, auditors tend to disclose more KAM when entities use the cost method than when more subjective measurement methods (such as the equity method and fair value models) are applied, corroborating the findings by Pinto and Morais (2019).

Regarding the Wol, it is aligned with what would be expected, indicating that the higher the material relevance of a given item in the statement of financial position the higher the probability of its inclusion as a KAM (Inoue, 2022).

On the other hand, the audit firm (Aud) and sector (Sec) classification, as well as the control variables related to the entities' economic-financial indicators, namely the profitability and indebtedness level (Prof and Ind, respectively, were not likely to influence the inclusion of the investments under analysis as a KAM. Regarding Aud, and Ind, the findings are aligned with the literature that pointed out these variables as non-influencing Kam (Ecim et al., 2023; Pinto & Morais, 2019; Rahaman et al., 2023). In what concerns Sec, and Prof, some literature has found those elements as variables of interest (Pinto & Morais, 2019; Rahaman et al., 2023). Except for the variable Aud, the findings also contradict a slight indication from the previous descriptive statistic. However, this may be explained by some under-representativeness of some sectors, as well as higher levels of standard deviation that were verified for those continuous variables (Prof, and Ind).

The next section presents the conclusions.

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## 5. Conclusions

This study proposes an empirical approach to the KAM underlying the SFS provided by European entities under IAS 27, assessing the interests in subsidiaries, associates, and joint ventures as the subject. The logistic regression analysis performed particularly found the weight of those investments (the material relevance) within the entities' SFS as an explanatory factor, as well as the use of the cost as the accounting method for those interests. Other explanatory factors commonly assessed in the literature, such as the audit firms, the entities' economic activity sector and the economic-financial measures such as profitability and indebtedness were not found as relevant in this context.

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Although focusing on European entities, it is worth stressing that the conclusions can be relevant to other regions, given the worldwide adoption of IASB standards, namely in most countries of the Group of Latin American Accounting Standards Setters, in which those standards have been adopted or under convergence process (Carneiro et al., 2017).

As for the study's limitations, it is important to highlight the difficulty in collecting all the information necessary to perform this study. More specifically, and for the analysis provided in this paper, the information regarding the topic of interest as a KAM, in some cases, is not available or it is not easily identifiable, being subject to adequate identification by the researcher. Furthermore, it is limited to entities that publicly provide their SFS. As a suggestion for future investigations, it is suggested to assess other explanatory factors underlying this topic, such as the characteristics of the entities' corporate governance. This can be performed by using the same sample or through a possible extension of this to other indices or markets. Increasing the geographies would also allow the analysis of this theme by country, which was not performed by this research considering the low levels of representativeness of entities from some jurisdictions. Furthermore, those studies may also assess the influence of cultural aspects or local legislation on the subject proposed in this research, as well as accounting topics other than the interests in subsidiaries, joint ventures and associates within the entities' SFS.

Despite those limitations, this paper presents contributions to the literature in the context of the explanatory factors of KAM by using a different source of information (the entities' SFS), a matter not yet explored in the literature. It is intended that the conclusions obtained from this study can be relevant for academics, standard setter-bodies, and investors since the auditors' report is a fundamental piece of information for the stakeholders' decision-making. Finally, auditors, supervisors, and regulators can also benefit from this research, as it allows us to understand the motivations behind the inclusion of the interests in other entities as a KAM.

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*Notes*

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