Does key audit matters (KAMs) disclosure affect corporate financialization?☆

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☆ This research was supported by the National Natural Science Foundation of China (72172127, and 71773088), the Fundamental Research Funds for the Central Universities in Northwestern Polytechnical University (D5000230054).

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Abstract: This paper aims to clarify the relationship between key audit matters (KAMs) disclosure and corporate financialization. The findings reveal that key audit matters (KAMs) disclosure can provide incremental information value, thereby impeding corporate financialization in China. Moreover, this effect is more pronounced in the samples with low media attention, low shareholding of institutional investors, and non-state-owned enterprises. Further research indicates that reducing managerial myopia and easing financing constraints serve as key channels through which key audit matters (KAMs) disclosure affects corporate financialization. This study provides empirical evidence on efficiently preventing excessive financialization of enterprises, as well as some insights for mitigating systemic financial risks from the key audit matters (KAMs) disclosure perspective.

Keywords: Key audit matters; Corporate financialization; Managerial myopia; Financing constraints
JEL Classifications: M41; M42; M48

1. Introduction

Currently, the Chinese economy is facing an imbalance between the financial and real sectors. Due to the decline in profitability of real enterprises and the short cycle and high rate of return of financial investment, real enterprises are prompted to transfer a large amount of resources from real investment to the financial and real estate sectors, resulting in the profits of real enterprises relying more on financial asset investment and investment in real estate, which in turn cause the problem of economic shift—"from real to virtual" (Su et al., 2024; Tang and Zhang, 2019; Xu and Guo, 2021; Xu and Xuan, 2021). Preventing excessive financialization of enterprises at the institutional level and guiding the financial sectors to serve the real sectors is an important issue. However, it is less common to see research investigate the impact of key audit matters (KAMs) disclosure on corporate financialization.

Following the footsteps of the International Auditing and Assurance Standards Board (IAASB), China's Ministry of Finance issued the China Standards on Auditing (CSA) No. 1504, *Communicating Key Audit Matters in the Independent Auditor's Report* in December 2016. CSA 1504 requires auditors to include a "key audit matters" section in the auditor reports and give special

consideration to areas where the assessed risk of material misstatement is high or where particular risks are identified, matters related to the financial statements that involve significant managerial judgment, and the impact on the audit of significant transactions or events during the period, to add information value to auditor reports (Zeng et al., 2021). Several studies have verified that key audit matters (KAMs) disclosure can effectively reduce information asymmetry, improve the information environment, and influence the audit report user's behavior (Porumb et al., 2021; Zeng et al., 2021). Key audit matters (KAMs) disclosure provides additional information (Zeng et al., 2021), and decreases the expense of both debt and equity financing (Porumb et al., 2021; Zhao et al., 2020). Additionally, it has also been found that key audit matters (KAMs) disclosure increases auditor responsibility and improves audit quality (Zeng et al., 2021; Han and Zhang, 2018). In particular, the requirement for disclosure of key audit matters (KAMs) clearly emphasizes the auditor's audit requirements and professional responsibilities for information embedded in managerial short-sighted behaviors, such as managerial judgments and significant accounting estimates (Yang et al., 2018). This will increase the attention of external stakeholders, creating an external regulatory effect on firm behavior. So can key audit matters (KAMs) disclosure have a governance effect on corporate financialization?

Corporate financialization is based mainly on the motivation of "preventive saving" or "investment substitution" (Hu et al., 2017). Compared with fixed assets, financial assets are more liquid, so when firms face financial difficulties, they can quickly obtain liquidity by selling financial assets, alleviating the pressure on their capital. On the other hand, when firms perceive macroeconomic uncertainty or potential investment opportunities in the future, they may prefer to "hold on to money", especially if they have financing constraints (Almeida et al., 2004). However, most studies show that firms hold financial assets based on profit-seeking motives (Xu and Guo, 2021; Xu and Xuan, 2021). Particularly when profit margins in traditional industries are dwindling, financialization merges as a viable avenue for firms to pursue elevated profits (Xu and Guo, 2021; Xu and Xuan, 2021). Following the principal-agent theory, information asymmetry can lead to a misalignment of objectives between managers and shareholders, particularly concerning differing risk preferences and the equilibrium between short-term and long-term interests (Su et al., 2024). Firms engage in financialization driven by speculative motives, underscoring significant agency issues inherent to corporate financialization (Xu and Xuan, 2021; Hu et al., 2017). Yet managerial

decision-making and the specific nature of financial assets in terms of accounting measurements and estimates are key concerns in the key audit matters (KAMs) disclosure. The disclosure of key audit matters (KAMs) may reduce corporate financialization by reducing firms' information asymmetry and agency problems. This study expects to further examine the impact of key audit matters (KAMs) disclosure on corporate financialization.

Using a sample of Chinese non-financial firms, we find that key audit matters (KAMs) disclosure can reduce corporate financialization. This relationship is robust when considering alternative measures, expanding samples, and clustering standard errors at the firm level. To tackle endogeneity problems, we also use entropy balancing analysis, instrumental variables estimation (2SLS), and control for omitted variables by applying the interaction of industry/region and year fixed effects. At the same time, we also find that this relationship can be realized by reducing managerial myopia and easing firms' financing constraints. When firms receive more media attention, have more institutional investor shareholdings, or are state-owned enterprises, the relationship will be constrained.

Our study has the following contributions. Firstly, we extend the research on the economic consequences of key audit matters (KAMs) disclosure. Prior research has examined the influence of key audit matters (KAMs) disclosure on managerial decision-making (Bentley et al., 2021; Li et al., 2022), financing costs (Liu et al., 2022; Porumb et al., 2021; Hu et al., 2023; Zhao et al., 2020), audit responsibility (Han and Zhang, 2018)， as well as audit quality and fees (Zeng et al., 2021; Zhou et al., 2020). However, limited attention has been given to the influence of key audit matters (KAMs) disclosure on corporate financial investment behavior. This study investigates the impact of key audit matters (KAMs) disclosure on corporate financialization. Furthermore, it has been determined that managerial myopia and financing constraints are two key channels through which key audit matters (KAMs) affect corporate financialization. This not only enriches the existing literature on the key audit matters (KAMs) disclosure but also reinforces their utility in governance.

Secondly, we examine the influencing factors of corporate financialization from a key audit matters (KAMs) disclosure perspective. Previous research has primarily explored the influence factors of corporate financialization from the perspective of macro policies (Cao et al., 2022; Zhang and Zheng, 2020; Zhao and Su, 2022), managerial characteristics (Chen et al., 2020), corporate behavior (Feng et al., 2022; Zhu et al., 2022) and basic firm characteristics (Tang and Zhang, 2019).

However, scant attention has been paid to the influence of audit regulations. The implementation of CSA 1504, which requires auditors to disclose key audit matters, represents a significant change in the area of audit reporting and could have a profound impact on corporate behavior. We examine the impact of key audit matters (KAMs) disclosure on corporate financialization and ascertain that this disclosure serves to limit corporate financialization. This is a valuable addition to the exploration of factors influencing corporate financialization.

Finally, we examine the impact of key audit matters (KAMs) disclosure on corporate financialization under different information environments, corporate governance, and ownership types. This helps us to understand the impact of key audit matters (KAMs) disclosure on corporate financialization more dynamically. In addition, we further analyze the impact of risk information disclosed in the key audit matters (KAMs) on corporate financialization, which is a favorable addition to the research on key audit matters (KAMs) disclosure. This suggests that key audit matters (KAMs) disclosure can curb the development of over-financialization of enterprises, not only in terms of the number of key audit matter disclosures but also in terms of the risk information embedded in the key audit matters.

The remainder of this paper is organized as follows: we give hypothesis development in Section 2, and we introduce our research sample and methodology in Section 3; In Section 4, we report the results of baseline regression, entropy balancing analysis, instrument variable estimation (2SLS) and other robustness checks, and we give the cross-sectional analyses in Section 5. Section 6 delves into further analysis. Finally, in section 7 we give the conclusion.

2. Hypotheses development

At the micro level, companies with abnormal financial investment returns, high operational risks, and problems in accounting for financial investments have been the focus of attention of regulators and CPAs. The disclosure of key audit matters (KAMs) can effectively reduce corporate information asymmetry and investor concerns about corporate risk matters by increasing the incremental information in the audit report, which will further influence corporate financialization.

First, key audit matters (KAMs) disclosure can enhance corporate information transparency, reduce financing constraints, and therefore diminish corporate financialization based on precautionary incentives. The disclosure of key audit matters (KAMs) increases the legal

responsibility of auditors (Han and Zhang, 2018), stimulating them to be more careful, which enhances the audit quality and the credibility of financial reporting (Zeng et al., 2021). Moreover, key audit matters (KAMs) disclosure enhances corporate transparency by revealing diverse information. The disclosure of idiosyncratic information can reduce information asymmetries between firms and investors and creditors, which helps to reduce the uncertainty related to future cash flows or value and increases the level of investor trust in the company (Zeng et al., 2021; Wang et al., 2018). This, in turn, reduces firms' financing constraints (Porumb et al., 2021) and alleviates corporate financialization motivated by precautionary savings.

Second, key audit matters (KAMs) disclosure can mitigate agency conflicts and reduce managers' short-sightedness, which in turn reduces corporate financialization. Due to the inherent brevity of managers' tenures, there is a tendency for them to focus on short-term profit metrics. The inherent characteristics of financial assets make them an attractive option for managers endeavoring to generate rapid profit gains (Xu and Guo, 2021). With a reduction in profit margins in traditional industries, managers are prone to financialize for short-term gains due to career advancement necessities (Xu and Guo, 2021; Xu and Xuan, 2021). However, the disclosure of key audit matters (KAMs) has led to an increase in the extent to which managerial decisions are known and followed by users of financial reports (Xue et al., 2020). In this case, the costs to be borne by managers will be higher in the event of a future outbreak of greater operational or financial risk to the company, which may trigger a greater degree of negative market reaction and reputational damage (Li et al., 2022). Also, key audit matters (KAMs) disclosure can provide managers with implied audit support (Bentley et al., 2021) which will provide more incentive for managers to invest in projects that are more beneficial to the firm's long-term growth. Therefore, key audit matters (KAMs) disclosure may reduce managerial self-interested behaviors and restrain corporate financialization.

In addition, key audit matters (KAMs) disclosure can play a role in providing oversight, hence diminishing excessive financialization. Most financialized investment accounting involves fair value measurements, and the assessment of an asset's fair value relies on a comprehensive evaluation of the asset's future earnings, discount rate, and industry conditions, which is subjective and uncertain (Deng and Kang, 2015). The profitability and liquidity of financial assets and the special characteristics that exist in the accounting measurement and recognition of financial assets give managers enough room to maneuver in earnings management. Managers are more likely to make

financial asset allocation as a means of corporate earnings manipulation (Xia et al., 2022). However, the current phase of risk-based auditing emphasizes the need for the auditor to pay due attention to and assess the risks arising from the auditee's business operations, the quality of its profitability, and its ability to continue as a going concern in the future, to effectively improve the audit quality of financial reports and protect the interests of investors (Hui et al., 2019). Therefore, key audit matters (KAMs) disclosure will make auditors focus on managers' financial asset investment decisions, measurement, and estimation methods when making key audit matter disclosures to constrain firms' use of financial assets with complex accounting treatments to manipulate surpluses (Qian et al., 2022), thus identifying and disclosing firms' financialization behaviors and curbing corporate financialization.

Based on the above analysis, we argue that key audit matters (KAMs) disclosure reduces corporate financialization and formulate the hypothesis:

H1: Key audit matters (KAMs) disclosure can reduce corporate financialization.

3. Sample and research methodology

3.1. Sample and data

CSA 1504 - *Communicating Key Audit Matters in the Independent Auditor's Report*, was first implemented in the audits of the 2016 annual financial statements of Chinese A+H listed companies, and in the audits of the 2017 annual financial statements of all A-share listed companies. Hence, auditors of all publicly traded Chinese companies were required to disclose key audit matters (KAMs) in early 2018 (for their fiscal year ended in 2017). Therefore, we select data on the key audit matters (KAMs) disclosed by A-share listed companies from 2017-2020 with corporate financialization data from 2018-2021 as the initial sample. Simultaneously, we exclude firms that (1) are from the financial and real estate industries, (2) indicate as "ST", "*ST", (3) have missing or unavailable data or other abnormal operating conditions. Our final sample consists of 10771 firm-year observations. We further add the data of A+H share companies in 2016 for robustness. The data on managerial myopia are taken from the Wingo text data platform for financial services (Hu et al., 2021), the data on media attention are taken from the CNRDS database, and all other data are taken from the CSMAR database. All continuous variables are winsorized at the 1st and 99th percentiles.

3.2. Measures of corporate financialization

Following Du et al. (2017) and Peng et al. (2018), we use the ratio of financial assets to total assets held by firms to measure corporate financialization (*Fin*). Financial assets include trading financial assets, derivative financial assets, available-for-sale financial assets, held-to-maturity investments, other investments in equity instruments, investments in bonds, other investments in bonds, and investment real estate. As monetary funds are distinct financial assets with solely a precautionary motive, we do not include them in the main test and add them for the robustness test.

3.3. Measures of key audit matters disclosure

In this study, we use the number of key audit matters (KAMs) revealed by the listed company i in its audit report during the year t to measure key audit matters (KAMs) disclosure (Zhao et al., 2020). The greater the number of significant audit issues disclosed by a company in its audit report, the more supplementary information it provides.

3.4. Measures of control variables

Following Zeng et al. (2021) and Hu et al. (2023), we select the firm size (*Size*), growth rate(*Growth*), leverage (*Lev*), profitability (*ROA*), book-to-market ratio (*MB*), asset structure (*AS*), equity concentration (*Top1*), Tobin's Q (*Tobin*), internal control (*ICQ*), Big four audit (*Big4*), percentage of independent directors (*Director*) as control variables.

Table 1
Variables definition.

Variable Name	Variable Meaning	Variable Description
Fin	Corporate Financialization	The ratio of financial assets to total assets held by firms.
KAMN	Disclosures of key audit matters	The number of key audit matters disclosed in auditor reports.
Size	Firm size	The natural logarithm of the book value of total assets.
Growth	Growth rate	The change in operating income from the last period to this period is divided by the operating income in the last period.
Lev	Leverage	The ratio of total debts to total assets.
ROA	Profitability	Net income scaled by total assets.
MB	Book-to-market ratio	The ratio of total assets to total market value.
AS	Asset structure	The ratio of current assets to total assets.
Top1	Equity concentration	The ratio of shareholdings for the biggest shareholder.
Tobin	Tobin Q	The ratio of the sum of the market value of shareholders'

		equity and the book value of its liabilities to the book value of its total assets.
ICQ	Internal control	If the internal control of the enterprise is deficient, take the value of 1, otherwise 0.
Big4	Whether it is a "Big Four" audit	A dummy variable that takes the value of 1 if the company is audited by a "Big 4", and 0 otherwise.
Director	Percentage of independent directors	The ratio of the number of independent directors to the size of the board.

3.5. Basic regression model

To examine the relationship between key audit matters (KAMs) disclosure and corporate financialization, we use the following basic regression model:

$$Fin_{i,t} = \beta_0 + \beta_1 KAMN_{i,t-1} + \beta_2 Size_{i,t} + \beta_3 Growth_{i,t} + \beta_4 Lev_{i,t} + \beta_5 ROA_{i,t} + \beta_6 MB_{i,t} + \beta_7 AS_{i,t} + \beta_8 Top1_{i,t} + \beta_9 Tobin_{i,t} + \beta_{10} ICQ_{i,t} + \beta_{11} Big4_{i,t} + \beta_{12} Director_{i,t} + \varepsilon_{i,t} \quad (1)$$

where i indicates the firm and t indicates the year. $Fin_{i,t}$ is the degree of corporate financialization. $KAMN_{i,t-1}$ represents the number of key audit matters (KAMs) disclosed in the $t-1$ year. Because auditor reports are disclosed later than annual reports, we examine the effect of key audit matters (KAMs) disclosure in the previous period on corporate financialization in the current period. The term $\varepsilon_{i,t}$ represents the idiosyncratic error. We focus mainly on the coefficient β_1. If it is negative and significant, it supports H1 that key audit matters (KAMs) disclosure can reduce corporate financialization. The industry, region, and year fixed effects are included in the model. The standard error is the robust standard error and has been corrected for heteroscedasticity following Petersen (2009). For robustness, we further cluster the robust standard error at the firm level to verify the baseline results in Section 4.3.4.

4. Empirical results analysis

4.1. Descriptive statistics and Correlations

The results of the descriptive statistical analysis are shown in Table 2. We can find that the mean value and the max value of corporate financialization (*Fin*) are 0.0561 and 0.4363, this indicates that some firms may have the phenomenon of excessive financialization. The mean value of *KAMN* is 2.0471 and our sample reveals that most companies disclose two key audit matters (KAMs) every year. In addition, the mean value of *Lev* is 0.4220 and the mean value of *Director* is

0.3783, which are all within the normal range.

Table 3 reports the correlation coefficients between the main variables. It can be seen that the correlation coefficients are relatively small, ruling out the potential collinearity problems. The results show that corporate financialization is negatively associated with key audit matters (KAMs) disclosure. For the control variables, corporate financialization is negatively related to *Size*, *Growth*, *Lev*, *Age*, *MB*, and *Big4* and positively related to *ROA, Tobin, As, and Director*. It shows that it is appropriate to control these variables in the model.

Table 2

Descriptive statistics of main variables.

Variable	N	Mean	SD	Min	p25	p50	p75	Max
Fin	10771	0.0561	0.0851	0	0.0030	0.0204	0.0700	0.4363
KAMN	10771	2.0471	0.6356	1	2	2	2	6
Size	10771	22.3831	1.2698	20.0468	21.4715	22.2294	23.1148	26.2096
Growth	10771	0.1424	0.3235	-0.5278	-0.0195	0.1016	0.2475	1.8749
Lev	10771	0.4220	0.1885	0.0675	0.2770	0.4174	0.5576	0.8718
ROA	10771	0.0322	0.0755	-0.3291	0.0127	0.0365	0.0664	0.2041
TOP1	10771	0.3249	0.1427	0.0826	0.2143	0.3019	0.4169	0.7053
Tobin	10771	1.9445	1.2654	0.8297	1.1755	1.5390	2.1987	8.3525
MB	10771	0.6526	0.2610	0.1197	0.4548	0.6498	0.8507	1.2053
AS	10771	0.5557	0.1907	0.1063	0.4256	0.5696	0.7001	0.9275
ICQ	10771	0.3353	0.4721	0	0	0	1	1
Big4	10771	0.0564	0.2306	0	0	0	0	1
Director	10771	0.3783	0.0542	0.3333	0.3333	0.3636	0.4286	0.5714

Table 3

Results of correlation analysis.

	Fin	KAMN	Size	Growth	Lev	ROA	TOP1	Tobin	MB	AS	ICQ	Big4	Director
Fin	1												
KAMN	-0.0549***	1											
Size	-0.1072***	0.1072***	1										
Growth	-0.0725***	-0.0106	0.0470***	1									
Lev	-0.2507***	0.1429***	0.4634***	0.0271***	1								
ROA	0.0698***	-0.1398***	0.0702***	0.2844***	-0.3156***	1							
TOP1	0.0123	-0.0869***	0.1850***	0.0059	0.0299***	0.1672***	1						
Tobin	0.0937***	-0.0564***	-0.3025***	0.1172***	-0.2717***	0.2019***	-0.0696***	1					
MB	-0.0912***	0.0590***	0.5091***	-0.1056***	0.3508***	-0.1650***	0.1274***	-0.8143***	1				
AS	0.0650***	0.0118	-0.2640***	0.0152	-0.1027***	0.0797***	-0.0308***	0.1692***	-0.2414***	1			
ICQ	-0.0032	-0.0152	0.1981***	-0.0413***	0.1386***	-0.0388***	0.1243***	-0.0951***	0.1436***	-0.0955***	1		
Big4	-0.0293***	-0.0099	0.3153***	-0.0028	0.0922***	0.0539***	0.1318***	-0.0380***	0.0997***	-0.0857***	0.0959***	1	
Director	0.0171*	-0.0094	-0.0210**	0.0020	-0.0102	-0.0075	0.0397***	0.0537***	-0.0588***	0.0178*	-0.0006	0.0263***	1

Note: Results of Pearson correlation analysis are listed in Table 3. ***, **, and * represent 1%, 5%, and 10% significance levels, respectively.

4.2. Baseline results

To examine the effect of the number of key audit matters (KAMs) disclosure on corporate financialization, we use Eq. (1) for empirical analysis and the results are shown in Table 4. Column (1) shows the regression results after controlling only for industry, region, and year fixed effects, and Column (2) shows the regression results after adding the relevant control variables while controlling for industry, region, and year fixed effects. It is found that the coefficients of *KAMN* are negative and significant at the 1% level, without consideration for control variables. The coefficient of *KAMN* is -0.0039 and is still significant at the 1% level after adding the relevant control variables. The results support H1. This suggests that an increased number of disclosures on key audit matters (KAMs) can provide additional information that partially mitigates the information asymmetry between managers and investors/shareholders, which in turn inhibits corporate financialization.

Regarding the control variables, corporate financialization is negatively related to *Growth*, *Lev*, and *Big4*. This indicates that firms with good income and a high financial leverage ratio are less likely to invest more in financial assets. Meanwhile, if firms engage a Big Four accounting firm to conduct the audit, it can reduce the level of corporate financialization. Conversely, *Tobin* and *MB* are positively related to corporate financialization, indicating that with the high value of the book-to-market ratio and Tobin Q, firms will have a higher level of corporate financialization. The coefficient of *ICQ* is significantly positive suggesting that firms with poor internal controls are more likely to have higher levels of corporate financialization.

Table 4
Baseline results.

	(1)	(2)
	Fin	Fin
KAMN	-0.0090***	-0.0039***
	(-6.67)	(-2.89)
Size		0.0006
		(0.75)
Growth		-0.0124***
		(-5.04)
Lev		-0.1209***
		(-21.50)
ROA		0.0155
		(1.22)
TOP1		0.0141**

		(2.27)
Tobin		0.0049***
		(3.90)
MB		0.0305***
		(4.60)
AS		0.0028
		(0.48)
ICQ		0.0031*
		(1.86)
Big4		-0.0095***
		(-3.05)
Director		0.0110
		(0.81)
Constant	0.0993***	0.0824***
	(6.35)	(3.73)
Year FE	Yes	Yes
Industry FE	Yes	Yes
Region FE	Yes	Yes
N	10771	10771
adj. R^2	0.116	0.176

Note: The T-statistics (in parentheses) represent the robust standard errors corrected for heteroscedasticity. ***, **, and * indicate significant at the 1%, 5%, 10% levels, respectively.

4.3. Robustness and endogeneity

4.3.1. Alternative Measurements

As income-type matters and impairment-type matters entail more subjective components and present greater opportunities for manipulation, they demand concentrated attention and heightened auditing efforts on the part of auditors (Liao and Wu, 2013). Consequently, this study employs the number of income-type and impairment-type matters divulged in key audit matters (KAMs) as a substitute variable for the number of key audit matters (KAMs) disclosure. The outcomes are presented in the Column (1) of Table 5. The coefficient of *KEYSAJ* is -0.0053 and significant at the 1% level. In addition, we use another indicator of corporate financialization that covers monetary funds to conduct a robustness test. First, we still use the ratio of financial assets to total assets to measure corporate financialization and obtain *Fin1*, and the financial assets include monetary funds, trading financial assets, held-to-maturity investments, available-for-sale financial assets, derivative financial assets, long-term equity investments, net loans and advances granted, dividends receivable, interest receivable, and investment real estate (Su et al., 2024; Zhao and Su, 2022). Second, we use the

absolute scale of financial assets to measure corporate financialization and obtain another indicator, *Fin2*. We use these two indicators to further examine the Eq. (1) and find that the results are still robust. This indicates that changing the measurement of corporate financialization and key audit matters (KAMs) disclosure will not change the impact of key audit matters (KAMs) disclosure on corporate financialization, affirming that doing so can constrain corporate financialization.

Table 5

Alternative Measurements

	(1) Fin	(2) Fin1	(4) Fin2
KEYSAJ	-0.0053***		
	(-4.37)		
KAMN		-0.0095***	-0.0338***
		(-4.54)	(-3.71)
Size	0.0005	0.0141***	1.0696***
	(0.65)	(9.54)	(170.40)
Growth	-0.0124***	-0.0293***	-0.1084***
	(-5.00)	(-7.16)	(-5.93)
Lev	-0.1229***	-0.2783***	-1.1259***
	(-21.93)	(-29.18)	(-27.90)
ROA	0.0152	0.0897***	0.4631***
	(1.19)	(4.09)	(4.82)
TOP1	0.0129**	0.0280***	0.0937**
	(2.06)	(2.99)	(2.26)
Tobin	0.0047***	0.0100***	0.0175**
	(3.75)	(4.98)	(2.23)
MB	0.0299***	0.0132	-0.0317
	(4.50)	(1.21)	(-0.69)
AS	0.0016	0.1939***	0.9322***
	(0.26)	(18.96)	(21.44)
ICQ	0.0031*	0.0078***	0.0391***
	(1.90)	(2.82)	(3.23)
Big4	-0.0095***	-0.0019	0.0002
	(-3.06)	(-0.33)	(0.01)
Director	0.0108	-0.0115	-0.0572
	(0.79)	(-0.51)	(-0.56)
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Region FE	Yes	Yes	Yes
N	10771	10771	10771
adj. R^2	0.177	0.301	0.841

Note: The T-statistics (in parentheses) represent the robust standard errors corrected for heteroscedasticity. ***, **, and * indicate significant at the 1%, 5%, 10% levels, respectively.

4.3.2. Entropy balancing

To enhance the reliability of the baseline regression, this study divides the firms with the number of key audit matters (KAMs) greater than 1 and equal to 1 into two groups for entropy balance matching analysis. We use *Size*, *Growth*, *Lev*, *ROA*, *TOP1*, *Tobin*, *MB*, *AS*, and *ICQ* as covariates and balance the first, second, and third order moments of the covariates for the treatment and control groups. The balance test before and after the entropy balance matching shows that the mean, variance, and skewness of the covariates are significantly different before the entropy balance matching, while the covariates converge after the entropy balance matching, which shows an excellent matching effect. Based on the entropy weights, we further regress Eq. (1) and the results are shown in Table 6. The coefficient of *KAMN* is still significantly negative, suggesting that the results are robust.

Table 6
Entropy balancing

Before: without weighting

	Treat			Control		
	mean	variance	skewness	mean	variance	skewness
Size	22.3700	1.5990	0.6510	22.1600	1.7040	0.8113
Growth	0.1706	0.1181	1.9970	0.1425	0.0900	2.0430
Lev	0.4243	0.0361	0.1668	0.3829	0.0357	0.4107
ROA	0.0317	0.0054	-2.078	0.0472	0.0043	-1.5240
TOP1	0.3243	0.0203	0.5423	0.3395	0.0208	0.5281
Tobin	1.9360	1.4750	2.7460	2.1020	2.0080	2.4980
MB	0.6447	0.0628	0.0545	0.6195	0.0703	0.1888
AS	0.5613	0.0359	-0.2846	0.5423	0.0421	-0.2397
ICQ	0.3277	0.2203	0.7343	0.3657	0.2321	0.5575

After: _webal as the weighting variable

	Treat		Control	

	mean	variance	skewness	mean	variance	skewness
Size	22.3700	1.5990	0.6510	22.3700	1.599	0.6513
Growth	0.1706	0.1181	1.9970	0.1706	0.1181	1.9970
Lev	0.4243	0.0361	0.1668	0.4243	0.0361	0.1668
ROA	0.0317	0.0054	-2.0780	0.0317	0.0054	-2.0780
TOP1	0.3243	0.0203	0.5423	0.3243	0.0203	0.5423
Tobin	1.9360	1.4750	2.7460	1.9360	1.4750	2.7460
MB	0.6447	0.0628	0.0545	0.6447	0.0628	0.0545
AS	0.5613	0.0359	-0.2846	0.5613	0.0359	-0.2846
ICQ	0.3277	0.2203	0.7343	0.3276	0.2204	0.7346

	(1)
	Fin
KAMN	-0.0075***
	(-4.37)
Size	0.0009
	(0.74)
Growth	-0.0127***
	(-3.29)
Lev	-0.1319***
	(-15.27)
ROA	0.0200
	(0.96)
TOP1	0.0045
	(0.54)
Tobin	0.0054***
	(3.19)
MB	0.0370***
	(4.04)
AS	0.0039
	(0.48)
ICQ	0.0023
	(1.03)
Big4	-0.0148***
	(-3.42)
Director	0.0173
	(0.89)

Constant	0.0773***
	(2.67)
Year FE	Yes
Industry FE	Yes
Region FE	Yes
N	10771
adj. R^2	0.203

Note: The T-statistics (in parentheses) represent the robust standard errors corrected for heteroscedasticity. ***, **, and * indicate significant at the 1%, 5%, 10% levels, respectively.

4.3.3. Instrumental variable (IV) approach

Although this paper utilizes a one-period lag of explanatory variables to mitigate the potential reverse causation, to address the endogeneity problem caused by omitted variables as well as reverse causation, etc., we further use the instrumental variables approach to conduct robustness tests. We use the annual mean of the number of key audit matters (KAMs) disclosed by each accounting firm as an instrumental variable, denoted by *KAMN_mean*. The results of the two-stage least squares (2SLS) approach are shown in Table 7. In the first stage, the mean value of the number of key audit matters (KAMs) disclosed by accounting firms during the year is significantly and positively related to the number of key audit matters (KAMs) disclosed by companies. Moreover, the IV both passes the under-identification test and the weak identification test, indicating that the IV (*KAMN_mean*) satisfies the relevant condition. Columns (2) of Table 7 report the results of the second stage instrumental analysis. The coefficient of *KAMN* is -0.0187 and significant at the 1% level, also indicating that there is a negative relationship between key audit matters (KAMs) disclosure and corporate financialization.

Table 7

Instrumental variable approach.

	(1)	(2)
	KAMN	Fin
KAMN_mean	0.8968***	
	(24.52)	
KAMN		-0.0187***
		(-3.29)
Size	0.0848***	0.0019**
	(11.97)	(2.01)
Growth	0.0194	-0.0121***
	(0.97)	(-4.86)
Lev	0.2372***	-0.1174***

	(5.79)		(-20.41)
ROA	-0.9351***		0.0009
	(-9.42)		(0.07)
TOP1	-0.2431***		0.0102
	(-5.45)		(1.59)
Tobin	-0.0001		0.0049***
	(-0.01)		(3.92)
MB	-0.0052		0.0304***
	(-0.11)		(4.58)
AS	-0.0734*		0.0016
	(-1.89)		(0.27)
ICQ	-0.0291**		0.0026
	(-2.25)		(1.54)
Big4	-0.0846***		-0.0111***
	(-2.84)		(-3.42)
Director	-0.0701		0.0102
	(-0.64)		(0.74)
Constant	-1.5921***		0.0856***
	(-8.50)		(3.85)
Year FE	Yes		Yes
Industry FE	Yes		Yes
Region FE	Yes		Yes
N	10771		10771
adj. R^2	0.155		0.165
Underidentification test: Kleibergen-Paap rk LM statistic		395.129 ***	
Weak identification Test: Cragg-Donald Wald F-statistic		614.858***	

Note: The T-statistics (in parentheses) represent the robust standard errors corrected for heteroscedasticity. ***, **, and * indicate significant at the 1%, 5%, 10% levels, respectively.

4.3.4. Other robustness checks

In the previous baseline regression, we included the industry, region, and year fixed effect to control for the potential fixed effects, but our results may still be affected by omitted time-variant variables. The industry's fixed effects may vary with time. For example, in a specific year, the industry experienced a special policy shock that influenced the performance of firms in this industry. To control such unobserved time-variant heterogeneity, we follow Dhaliwal et al. (2016) and Pan et al. (2020) to add the industry-by-year and region-by-year fixed effects into our baseline regression. The results are shown in Columns (1) of Table 8. The coefficient of *KAMN* is negatively significant.

This indicates that our main results are not driven by omitted time-variant characteristics and key audit matters (KAMs) disclosure will reduce corporate financialization. In addition, we also cluster the robust standard errors at the firm level to check whether assuming different inter-group correlations would change the estimates (Abadie et al., 2022). The results are shown in Column (2) of Table 8 and also support our baseline results. Finally, we add the data related to A+H share companies in 2016 to our sample to see if it affects our main results. The new sample includes 11757 observations after adding the data. We rerun Eq. (1) to examine the relationship between key audit matters (KAMs) disclosure and corporate financialization. The results also suggest that key audit matters (KAMs) disclosure can significantly reduce the financialization of firms.

Table 8

Other robustness checks.

	(1)	(2)	(3)
	Fin	Fin	Fin
KAMN	-0.0042***	-0.0039**	-0.0036***
	(-3.10)	(-2.05)	(-2.91)
Size	0.0006	0.0006	0.0008
	(0.70)	(0.49)	(1.01)
Growth	-0.0134***	-0.0124***	-0.0120***
	(-5.21)	(-4.87)	(-5.16)
Lev	-0.1231***	-0.1209***	-0.1203***
	(-21.50)	(-14.12)	(-22.77)
ROA	0.0142	0.0155	0.0132
	(1.08)	(1.02)	(1.11)
TOP1	0.0150**	0.0141	0.0002***
	(2.39)	(1.40)	(2.71)
Tobin	0.0049***	0.0049***	0.0052***
	(3.86)	(2.91)	(4.30)
MB	0.0330***	0.0305***	0.0294***
	(4.88)	(3.19)	(4.65)
AS	0.0032	0.0028	-0.0006
	(0.54)	(0.31)	(-0.10)
ICQ	0.0029*	0.0031	0.0018
	(1.71)	(1.24)	(1.18)
Big4	-0.0093***	-0.0095*	-0.0091***
	(-2.94)	(-1.87)	(-3.11)
Director	0.0097	0.0110	0.0183
	(0.70)	(0.56)	(1.41)
Constant	0.0631***	0.0824**	0.0900***
	(3.41)	(2.40)	(4.08)
Year FE	No	Yes	Yes

Industry FE	No	Yes	Yes
Region FE	No	Yes	Yes
Year FE × Industry FE	Yes	No	No
Year FE × Region FE	Yes	No	No
Cluster firm	No	Yes	No
N	10754	10771	11757
adj. R^2	0.170	0.176	0.177

Note: The T-statistics (in parentheses) represent the robust standard errors corrected for heteroscedasticity. ***, **, and * indicate significant at the 1%, 5%, 10% levels, respectively.

4.4. Potential channel analyses

To better understand how key audit matters (KAMs) disclosure affects corporate financialization, we would like to conduct further research on the underlying channel mechanisms. As mentioned in the hypotheses section, we expect to explore whether the inhibitory effect of key audit matters (KAMs) disclosure on corporate financialization is through easing corporate financial constraints and reducing managerial myopia.

Referring to Hu et al. (2021), we combine the existing English "short-term horizon" lexicon, MD&A Chinese corpus features, and Word2Vec machine learning to develop a Chinese lexicon reflecting managers' "short-term horizon", and then construct an indicator of managerial myopia through the lexicon method. We use it to measure managerial myopia *(MYOPIA*) and the data are from the WinGo text data platform for financial services. The higher the value of this indicator, the more short-sighted the manager. In addition, we use the SA index[1] to measure corporate financing constraints (Ju et al., 2013). We take absolute values for the SA index (*SA*), with larger values implying higher levels of financing constraints. We use the following equations to test the mediating channel effect:

$$Mediation_{it} = \delta_0 + \delta_1 KAMN_{i,t-1} + \delta_2 Size_{i,t} + \delta_3 Growth_{i,t} + \delta_4 Lev_{i,t} + \delta_5 ROA_{i,t} + \delta_6 MB_{i,t} + \delta_7 AS_{i,t} + \delta_8 Top1_{i,t} + \delta_9 Tobin_{i,t} + \delta_{10} ICQ_{i,t} + \delta_{11} Big4_{i,t} + \delta_{12} Director_{i,t} + \varepsilon_{i,t} \quad (2)$$

$$Fin_{it} = \theta_0 + \theta_1 KAMN_{i,t-1} + \theta_2 Mediation_{i,t} + \theta_3 Size_{i,t} + \theta_4 Growth_{i,t} + \theta_5 Lev_{i,t} + \theta_6 ROA_{i,t} + \theta_7 MB_{i,t} + \theta_8 AS_{i,t} + \theta_9 Top1_{i,t} + \theta_{10} Tobin_{i,t} + \theta_{11} ICQ_{i,t} + \theta_{12} Big4_{i,t} + \theta_{13} Director_{i,t} + \varepsilon_{i,t} \quad (3)$$

where $Mediation_{i,t}$ represents the channel variables. Table 9 reports the results of the channel test. Column (1) of Table 9 shows the relationship between key audit matters (KAMs) disclosure and managerial myopia. The coefficients of *KAMN* are -0.0028 and significant at the 1% level, indicating

[1] $SA = -0.737 \times Size + 0.043 \times Size^2 - 0.04 \times Age$

that key audit matters (KAMs) disclosure can reduce managerial myopia. Column (2) shows the results of Eq. (3) after adding managerial myopia. We can see that the coefficient of *MYOPIA* is significantly positive and the coefficient of *KAMN* is significantly negative. This suggests that disclosure of key audit matters (KAMs) reduces corporate financialization by reducing managerial myopia. Additionally, in Column (3) of Table 9, we can find that key audit matters (KAMs) disclosure can reduce financing constraints. After adding the mediator *SA*, we can find that the coefficient of *SA* is 0.0118 and significant at the 1% level, and the coefficient of *KAMN* is significantly negative. This suggests that financing constraints are also a key channel through which key audit matters (KAMs) disclosure affects the financialization of firms.

Table 9

Potential channel analyses.

	(1)	(2)	(3)	(4)
	MYOPIA	Fin	SA	Fin
KAMN	-0.0028***	-0.0038***	-0.0115***	-0.0037***
	(-3.23)	(-2.83)	(-3.33)	(-2.79)
MYOPIA		0.0301**		
		(2.05)		
SA				0.0118***
				(3.32)
Size	-0.0017***	0.0007	-0.0240***	0.0009
	(-2.71)	(0.81)	(-8.56)	(1.08)
Growth	-0.0093***	-0.0122***	-0.0381***	-0.0120***
	(-6.14)	(-4.92)	(-5.40)	(-4.85)
Lev	0.0026	-0.1209***	0.0316**	-0.1212***
	(0.71)	(-21.52)	(2.15)	(-21.60)
ROA	-0.0157*	0.0160	0.1500***	0.0137
	(-1.94)	(1.25)	(4.27)	(1.08)
TOP1	0.0001	0.0141**	-0.1359***	0.0157**
	(0.02)	(2.27)	(-8.19)	(2.54)
Tobin	0.0005	0.0049***	-0.0059*	0.0050***
	(0.74)	(3.89)	(-1.87)	(3.96)
MB	0.0153***	0.0301***	0.0920***	0.0295***
	(3.62)	(4.53)	(5.32)	(4.44)
AS	-0.0132***	0.0032	-0.0322**	0.0032
	(-3.81)	(0.55)	(-2.26)	(0.55)
ICQ	0.0085***	0.0028*	0.0293***	0.0027
	(7.23)	(1.70)	(6.22)	(1.64)
Big4	-0.0034	-0.0094***	-0.0982***	-0.0084***
	(-1.37)	(-3.01)	(-8.38)	(-2.67)
Director	-0.0197**	0.0116	-0.2165***	0.0136

	(-2.03)	(0.85)	(-5.38)	(0.99)
Constant	0.1098***	0.0791***	4.5360***	0.0287
	(7.31)	(3.57)	(71.29)	(1.03)
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Region FE	Yes	Yes	Yes	Yes
N	10771	10771	10771	10771
adj. R^2	0.126	0.176	0.160	0.177

Note: The T-statistics (in parentheses) represent the robust standard errors corrected for heteroscedasticity. ***, **, and * indicate significant at the 1%, 5%, 10% levels, respectively.

5. Cross-sectional analyses

Building on the previous studies, which found that the number of key audit matters (*KAMN*) disclosure can reduce the degree of corporate financialization, we aim to further examine the influence of the information environment, corporate governance, and ownership type on this relationship.

5.1. Media attention

The media plays a very important role in the production and dissemination of information through its two main functions dissemination of information and monitoring of public opinion. For companies, the media acts as an information intermediary, which can effectively increase corporate transparency, and reduce the cost of investors' access to information and information asymmetry in the capital market (Deephouse, 2000; Graf-Vlachy et al., 2020). In addition, media coverage can make full use of its monitoring and reputational mechanisms (Luo, 2012). Media coverage can affect managers' reputations, thereby reducing their incentives to seek private gains; at the same time, the media can play an important role in shaping the public image, thereby regulating manager's behavior (Luo, 2012). The more business-related media coverage there is, the fewer stakeholders need to be concerned about the business through key audit matter disclosures, and the less of an incremental role that key audit matters (KAMs) play. Therefore, this paper argues that media attention can reduce the impact of the number of key audit matters (KAMs) disclosure on corporate financialization.

To examine the impact of media attention on the relationship between key audit matters (KAMs) disclosure and corporate financialization. Following Li et al. (2018), we measure media attention (*Media*) by dividing the total number of media reports by 100. We add the interaction terms $KAMN \times Media$ to Eq. (1). The results are shown in Column (1) of Table 10. The coefficient of

KAMN is -0.0045 and significant at the 1% level. The coefficient of *KAMN* × *Media* is 0.0003 and significant at the 5% level. This indicates that media attention has a negative effect on the relationship between key audit matters (KAMs) disclosure and corporate financialization. The dampening effect of key audit matters (KAMs) disclosure on corporate financialization is more significant when the level of media attention is lower.

5.2. Institutional investor shareholdings

Institutional investors are an important external force to supervise the normal operation of enterprises, and their professional advantages and investment capabilities make them tend to select enterprises with stronger innovation and more future potential (Fich et al., 2015; Aghion et al., 2013). When institutional investors are dissatisfied with the manager's behavior, they can question it by proxy voting rights, direct consultation with the management, and even transmit information to the market through informed trading, which triggers the market's attention (Li et al., 2022). At this time, the market can obtain more information through institutional investors, reducing the need for them to learn about the firm through the auditor, thus, squeezing out the auditor's monitoring role. Therefore, when institutional investors' shareholding is low, their regulatory capacity is weaker, and key audit matters (KAMs) disclosure is more likely to play a stronger external monitoring role. Therefore, this paper argues that institutional investors can attenuate the inhibitory effect of the key audit matters (KAMs) disclosure on the financialization of firms.

This paper uses the proportion of institutional investor shareholding (*Investor*) to measure the impact of institutional investor shareholding. We construct the cross-multiplier terms for institutional investor shareholding and the number of key audit matters (KAMs) disclosure and add them to Eq. (1) for testing. The results are shown in the Column (2) of Table 10. We can find that the coefficient of *KAMN* × *Investor* is positively significant and the coefficient of *KAMN* is still negatively significant. This suggests that firms with high institutional investor shareholding weaken the inhibiting effect of key audit matters (KAMs) disclosure on corporate financialization compared to firms with low institutional investor shareholding.

5.3. Ownership type

The nature of ownership type also has an impact on the relationship between key audit matters

(KAMs) disclosure and corporate financialization. State-owned enterprises (*SOEs*) take on more tasks and objectives in terms of social and national politics and face stricter regulation (Bai et al., 2006). In addition, government audits play a key role in curbing managers' short-sightedness and earning management, which can substitute the key audit matters (KAMs) disclosure to some extent (Chen et al., 2021). Therefore, we believe that the impact of key audit matters (KAMs) disclosure on corporate financialization is weaker in state-owned firms than in non-state-owned firms.

We use a dummy variable to measure the ownership type, assigning a value of 1 if the firm is a state-owned enterprise and 0 otherwise. We construct a cross-multiplier between the ownership type and the number of disclosures of key audit matters (KAMs), adding them to Eq. (1) for testing. The results are shown in the Column (3) of Table 10. The coefficient of *KAMN* is -0.0063 and significant at the 1% level. Meanwhile, the coefficient of *KAMN* × *Soe* is 0.0066 and significant at the 1% level. This indicates that the impact of key audit matters (KAMs) disclosure on corporate financialization will be restricted in state-owned enterprises.

Table 10

Cross-sectional analyses.

	(1)	(2)	(3)
	Fin	Fin	Fin
KAMN	-0.0045***	-0.0080***	-0.0063***
	(-3.26)	(-2.95)	(-3.63)
Media	-0.0004*		
	(-1.96)		
KAMN × Media	0.0003**		
	(2.42)		
Investor		-0.0004***	
		(-2.95)	
KAMN × Investor		0.0001*	
		(1.94)	
SOE			-0.0182***
			(-3.24)
KAMN × SOE			0.0066***
			(2.67)
Size	0.0003	0.0019**	0.0010
	(0.32)	(2.02)	(1.13)
Growth	-0.0123***	-0.0125***	-0.0127***
	(-4.99)	(-5.07)	(-5.10)
Lev	-0.1208***	-0.1211***	-0.1208***
	(-21.48)	(-21.53)	(-21.40)
ROA	0.0157	0.0140	0.0133

	(1.23)	(1.10)	(1.05)
TOP1	0.0145**	0.0239***	0.0163***
	(2.33)	(3.48)	(2.58)
Tobin	0.0049***	0.0051***	0.0050***
	(3.89)	(4.06)	(3.94)
MB	0.0313***	0.0284***	0.0315***
	(4.68)	(4.24)	(4.73)
AS	0.0026	0.0026	0.0032
	(0.44)	(0.44)	(0.54)
ICQ	0.0031*	0.0035**	0.0034**
	(1.88)	(2.12)	(2.07)
Big4	-0.0101***	-0.0087***	-0.0096***
	(-3.22)	(-2.80)	(-3.08)
Director	0.0097	0.0051	0.0081
	(0.71)	(0.37)	(0.59)
Constant	0.0912***	0.0692***	0.0814***
	(3.99)	(2.95)	(3.67)
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Region FE	Yes	Yes	Yes
N	10771	10771	10771
adj. R^2	0.176	0.177	0.177

Note: The T-statistics (in parentheses) represent the robust standard errors corrected for heteroscedasticity. ***, **, and * indicate significant at the 1%, 5%, 10% levels, respectively.

6. Further analyses

In addition to measuring the key audit matters (KAMs) disclosure by the number of matters disclosed, we can also evaluate the risk information they contain. Risk information can help information users more accurately predict the company's future cash flow, to make correct investment decisions. However, the heterogeneity and uncertainty of risk information make it difficult for investors to obtain effective risk information. Audit report reform requiring disclosure of key audit matters (KAMs) may address the problem to some extent.

Key audit matters (KAMs) disclosure is a way of early warning of risk and exemption from liability (Zhou et al., 2020). When an auditor fully discloses risk information about an enterprise in the key audit matters (KAMs) disclosure, it signals risk to market participants and attracts the attention of investors and the media. For investors, it enables them to easily capture corporate risk information and enhances their ability to interpret important corporate information. This eases the information asymmetry between companies and investors (Wang and Li, 2019). The media's

attention and continuous reporting will also enhance the external regulatory pressure faced by the firm, which in turn will reduce the manager's self-interested behavior as well as earning management, thus inhibiting the financialization of the firm to a certain extent.

We use the total frequency of keywords relating to risk indicators in the key audit matter section of the audit report and divide this by the total number of words in the text to calculate risk information on key audit matters (*KAMR*) and the data from the Wingo text data platform for financial services. The results are shown in Table 11. Column (1) shows the regression results after controlling only for industry, region, and year fixed effects, and Column (2) shows the regression results after adding the relevant control variables while controlling for industry, region, and year fixed effects. It was found that the coefficient of *KAMR* is -0.3909 and significant at the 1% level, without consideration for control variables. The coefficient of *KAMR* is -0.4527 and is still significant at the 1% level after adding the relevant control variables. This suggests that the risk information embedded in key audit matters (KAMs) disclosure can furnish extra details to curtail corporate financialization.

Table 11

Further analyses.

	(1)	(2)
	Fin	Fin
KAMR	-0.3909***	-0.4527***
	(-2.85)	(-3.43)
Size		0.0003
		(0.31)
Growth		-0.0126***
		(-5.09)
Lev		-0.1217***
		(-21.70)
ROA		0.0202
		(1.59)
TOP1		0.0155**
		(2.51)
Tobin		0.0049***
		(3.85)
MB		0.0304***
		(4.58)
AS		0.0039
		(0.67)
ICQ		0.0033**

		(1.98)
Big4		-0.0089***
		(-2.85)
Director		0.0113
		(0.83)
Constant	0.0830***	0.0840***
	(5.36)	(3.81)
Year FE	Yes	Yes
Industry FE	Yes	Yes
Region FE	Yes	Yes
N	10771	10771
adj. R^2	0.112	0.176

Note: The T-statistics (in parentheses) represent the robust standard errors corrected for heteroscedasticity. ***, **, and * indicate significant at the 1%, 5%, 10% levels, respectively.

7. Conclusion

Using data from Chinese non-financial listed companies, we investigate the impact of key audit matters (KAMs) disclosure on corporate financialization from an audit governance perspective. The results indicate that there is a negative relationship between key audit matters (KAMs) disclosure and corporate financialization. Our findings remain robust after using alternative measures, expanding the sample, and considering the impact of industry and regional heterogeneity. The negative effect of key audit matters (KAMs) disclosure on corporate financialization also remains strong after ruling out the endogeneity concerns by applying the entropy balance matching analysis and instrumental variables estimation (2SLS). Moreover, key audit matters (KAMs) disclosure can reduce corporate financialization by mitigating managerial myopia and easing financing constraints. Meanwhile, more media attention, high shareholding of institutional investors, and state-owned enterprises will mitigate this effect. In addition, further analysis suggests that the more risk information contained in the key audit matters (KAMs) disclosure, the lower the level of corporate financialization.

This study examines how key audit matters (KAMs) disclosure affects corporate financialization in terms of the amount of disclosure and revelation of risk information. The findings suggest that the key audit matters (KAMs) disclosure contributes to the oversight and governance functions, and can address the problem of excessive financialization of enterprises to some extent. It is suggested that regulators should, on the one hand, strengthen their efforts to guide auditors to make fuller disclosure of key audit matters (KAMs) to provide richer information to users. On the other hand, they should also actively guide market investors to pay attention to the specific

disclosures of key audit matters (KAMs) in the audit report and how to respond to them, so as to play the role of external governance fully.

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