



## How auditors identify and report key audit matters - An organizational routines perspective



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### ABSTRACT

Despite the volume of auditing research over the last decade, relatively little is known about how auditors apply specific codified requirements. We use organisational routines as a schematic and Power's (2003) distinction between the front and backstage of an audit to explore the link between the broad prescriptions in ISA 701 and the micro-level performances of individual auditors to report key audit matters (KAMs). Interviews with 42 senior staff from large and mid-tier audit firms reveal how the ostensive elements of auditing routines result in coercive, normative and mimetic forces. These forces regulate and coordinate how audit procedures are executed to yield a frontstage representation of technical and procedural rigour. Yet, at the performative level experience, professional judgement and dynamic operating environments counter isomorphic forces. The messier backstage of activities provides an opportunity for minor modifications to audit procedures which can accumulate and impact the routine at the ostensive level. That the responsibility for the reporting KAMs vests with engagement leaders increases the opportunity for variability as they exercise professional judgement to modify the routine. Overall, our paper adds to the literature on how auditing is socially constructed and reveals how technical concepts are "transmitted" among individual practitioners to illuminate an understudied aspect of auditing. The study provides an original action-orientated perspective of how routines work in professional settings. It complements the largely inferential work on KAM determinants and should be relevant for standard-setters conducting a post-implementation review of ISA 701 and regulators monitoring KAM reporting.

### 1. Introduction

An organisational routine is a 'repetitive, recognisable pattern of interdependent actions involving multiple actors' (Feldman & Pentland, 2003, p. 96). This paper is concerned with the functioning of routines in an auditing setting with a specific focus on the expanded reporting requirements for key audit matters (KAMs). A distinction is drawn between the routine to identify KAMs at the level of principle (an ostensive dimension) and practice (a performative one) to understand micro-level processes at work which contribute concurrently to the stability and variability in how auditors determine the final set of KAMs to be disclosed.<sup>1</sup>

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<sup>1</sup> For brevity, the routine refers to the processes and activities by which KAMs are determined while the KAMs, themselves, are the outcome of the enactment of the routine.

A routine-based analysis of KAMs is important and timely. International Standard on Auditing (ISA) 701<sup>2</sup> is one of the most recent technical developments in auditing and has material implications for the format and content of audit reports (Minutti-Meza, 2021). Numerous studies deal with the determinants and value-relevance of KAM disclosures in an international setting and the equivalent 'critical audit matters' in the USA (see, for example, Boolaky & Quick, 2016; Sirois et al., 2018; Segal, 2019; Sierra-García et al., 2019; Rousseau & Zehms, 2020; Pelzer, 2021; Burke et al., 2022; Duboisée De Ricquebourg & Maroun, 2022). The current paper builds on a predominantly positivist perspective on KAMs with an exploratory account based on interviews with 42 senior staff from large and second-tier audit firms to reveal how KAMs are being identified and reported.

That auditing is a compilation of tasks akin to a routine is not a new idea. Scholars have described audits as inherently mechanical processes (Dirsmith & Haskins, 1991). Interpretive practice based on expertise, judgement and scepticism has given way to structured methodologies designed to standardise, enclose and control how audits are performed (Francis, 1994). Nevertheless, auditing retains its ritualistic features. The practitioner does not rely exclusively on objective processes and scientific methodologies but on subjective sense-making and the 'emotional resource' called 'gut feel' (Humphrey & MOIZER, 1990; Pentland, 1993, p. 619). Auditing standards, practice guides, quasi-scientific methodologies and working papers provide a 'frontstage' appearance of structure and technical rigour de-coupled from the 'messy backstage' of opaque workflows, varying tasks and ambiguous outcomes (Power, 2003, p. 390).

The findings reveal how the ostensive features of the routines used to determine KAMs are a source of power in principle (Latour, 1986) which give rise to coercive, normative and mimetic forces regulating and coordinating how audit procedures are executed. This confirms earlier work on the bureaucratic socialisation of auditors (Fogarty, 1992) and reveals micro-level mechanisms by which audits are standardised (Dirsmith & Haskins, 1991; Francis, 1994) to yield a frontstage representation of technical and procedural rigour (Power, 2003). In the backstage, professional judgement, informal knowledge exchange and the difficulty of monitoring the audit process counter these isomorphic forces (see Feldman & Pentland, 2003). The enactment of activities provides an opportunity for minor modifications to the audit procedures which can accumulate and impact the routine at the ostensive level. That the responsibility for the reporting of KAMs vests with engagement leaders increases the opportunity for variability as they exercise professional judgement and the routine becomes a source of power in practice.

The current paper's contribution is threefold. Firstly, the study adds to the literature on how auditing is socially constructed and how technical standards inform specific practices, a process which is yet to be fully understood (Andon et al., 2015; Cooper & Robson, 2006; Kend & Nguyen, 2022). Secondly, the emphasis is usually on auditing as an ostensive construction. For example, much has been written on legitimacy (Humphrey & MOIZER, 1990; Power, 2003), socialisation (Chandler et al., 1993; Fogarty, 1992), professionalisation (Cooper & Robson, 2006) and logic contestation (Edgley et al., 2015; Kend & Nguyen, 2022) for shaping auditing at the level of policy or principle. Less is known about the accumulated activities constructing a performative understanding of auditing. Examining the interactions between professional standards and specific tasks, the micro-level adaptations being made by individuals as they operationalise prescriptions and the reflexive implications of endogenous changes for how an audit actually unfolds provide insights into what would otherwise remain a black box (Hay, 2015; Power, 2003). Finally, given the emphasis placed on expanded auditor reporting by regulators, standard-setters and stakeholders (Kend & Nguyen, 2022; Segal, 2019; Simnett & Huggins, 2014) an interpretive assessment of KAM determination provides useful findings for the academic and broader assurance community which will inform any post-implementation review of ISA701 and the US-equivalent.

The remainder of this paper is structured as follows: Section 2 outlines the notions of ostensive and performative aspects of routines and how these are applicable in KAM determination. Section 3 discusses the research design, followed by the findings in Section 4. Section 5 concludes, discusses the implications of the findings and identifies areas for future research.

## 2. Background and theoretical framework

### 2.1. Organisational routines

Routines draw on what Latour (1986) describes as ostensive (principle-based) and performative (action-based) dimensions of power. The ostensive aspects of a routine refer to 'patterns that participants use to guide, account for, and refer to specific performances' (Pentland & Feldman, 2005, p. 795) or the record of past practices and experiences which inform current actions (Pentland et al., 2012). Routines provide the schematic for describing, explaining and understanding the complexity of interconnected activities (Feldman & Pentland, 2003). They are part of the procedural knowledge templates which distinguish between questionable and legitimate activity (Feldman & Pentland, 2003; D'addorio, 2014). Together with physical representations of a routine or their 'artefacts' (such as models, manuals and lists) the ostensive aspects of a routine lead to cognitive efficiency, consistent reperformance of tasks and alignment of behaviours with established norms (Foucault, 1983; Feldman, 2000; D'addorio, 2014; Danner-Schröder & Geiger, 2016).

Individual agency is limited because the ostensive aspects of a routine guide behaviours and serve as a type of normative objective (Feldman & Pentland, 2003) making self-monitoring, external review and action to correct departures from generally-accepted norms possible (Foucault, 1983; Giddens, 1984). The routine 'enables us to ask others to account for actions that seem unusual and to provide reasonable accounts when we are called to explain' (Feldman & Pentland, 2003, p. 106) Its ostensive aspects are useful for summarising, explaining and referring to complex activities which may be difficult to observe and understand. This is the case even if 'all of the details

<sup>2</sup> ISA 701: Communicating Key Audit Matters in the Independent Auditor's Report.

of how it will be accomplished and what, exactly, engaging in [the routine] will entail' are not fully explicated (Feldman & Pentland, 2003, p. 107, p. 107).

The performative aspect of the routine creates and maintains the ostensive dimension. The process of enactment and reperformance means that a routine has substance and exists as a repeated and recognisable pattern of activity (Feldman & Pentland, 2003). This is especially the case when the routine is performed by experienced individuals who can remember sequences and accurately reproduce them (Pentland et al., 2011). The execution of a routine will, however, involve improvisation according to circumstances (Cohen et al., 1996; Feldman & Pentland, 2003; Giddens, 1984). As explained by Burns and Scapens (2000, p. 10) and Feldman and Pentland (2003), the enactment of a routine will be informed by parameters derived from its ostensive aspects but will also involve '*reflexive monitoring*' and '*tacit knowledge about how things are done*'. Each enactment of the routine '*has the potential to be relatively stable*' but reperformances provide the opportunity for adaptation and modification (Bertz & Quinn, 2014; Feldman & Pentland, 2003, p. 323). There is no guarantee of compliance, nor that a routine will be completely understood and executed consistently. Routines are best understood as '*a set of possible performances for a particular task*' rather than rules executed to the letter (Pentland & Rueter, 1994, p. 490, emphasis added; D'addorio, 2014; Danner-Schröder & Geiger, 2016).

The ostensive and performative elements of a routine are closely interconnected. Policy, principle and structure constrain the actions taken by individuals but are also created, tested and modified as they are operationalised (Giddens, 1984). When moving from the ostensive to the performative, the emphasis is on power stemming from policy or ideal which promotes consistency, organises tasks and clarifies goals/objectives. Going from the performative to the ostensive recognises that how tasks ought to be performed and how they are executed can vary. Adjustment, improvisation and subjective sense-making are involved when operationalising the routine with the result that action has the power to modify reflexively the routine at the ostensive level (Feldman & Pentland, 2003).

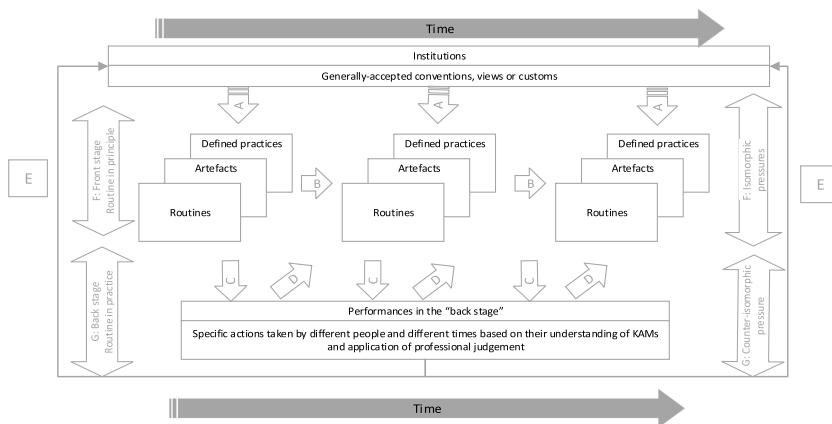
## 2.2. Viewing the determination of KAMs as an organisational routine

That auditing is a compilation of tasks akin to a routine is not a new idea. Scholars have described audits as inherently mechanical processes (Dirsmith & Haskins, 1991). Interpretive practice based on expertise, judgement and scepticism has given way to structured methodologies designed to standardise, enclose and control how audits are performed (Francis, 1994). Yet, how auditing is socially constructed (Andon et al., 2015; Cooper & Robson, 2006) and '*how new auditing concepts travel and are translated*' into practices and disclosures (Kend & Nguyen, 2022, p. 2), is still to be fully understood. This paper adds to this understanding by examining the functioning of routines associated with the recent introduction of ISA 701's expanded audit reporting requirements (Iaasb, 2016). While the determinants and consequences of expanded audit reporting have been examined in some detail (e.g. Duboisée De Ricquebourg & Maroun, 2022; Ecim et al., 2023; Lennox et al., 2023; Sierra-García et al., 2019), the primary focus of this study is to draw on organisational routines to show *how* KAMs are being identified and reported.

The interaction between the ostensive and performative aspects of the "KAM routine" is summarised in Fig. 1.

### 2.2.1. Ostensive aspects of the KAM routine: frontstage sources of isomorphic pressure

At the ostensive level, expanded reporting requirements detailed by ISA 701 reflect the view that actual or perceived limitations in the transparency of audits must be addressed by requiring auditors to identify the issues '*of most significance in the audit of the financial statements of the current period*' (Iaasb, 2016, para 8) and explaining these in the audit report. Fig. 1, arrows 'A', illustrates that doing so satisfies stakeholders' expectations, enables accountability and preserves confidence in the attest function (Christensen et al., 2014; Segal, 2019; Simnett & Huggins, 2014). This resonates with the generally accepted view that additional reporting enables transparency



**Fig. 1.** KAM determination as an organisational routine.

**Notes:** adapted from Burns and Scapens (2000) and Bertz and Quinn (2014) to show the determination of KAMs as an organisational routine.

**Key:** a = encoding; b = task replication; c = enactment of routine; d = modifications with each performance; e = reflexive changes to the ostensive elements of the routine based on accumulated past performances; f = isomorphic forces linked to the ostensive elements of routines in the "front stage"; g = counter-isomorphic pressures arising from performances in the "backstage".

and accountability and the appearance of a rational technical process confers legitimacy which substitutes for a complete non-expert understanding of underlying mechanics.

**2.2.1.1. Practices, artefacts and routines.** The process outlined by ISA 701 to identify and report KAMs constitutes the routine at the ostensive level. In the frontstage, ISA 701's definitions and application guidance provide the schematics for describing, identifying and understanding KAMs. They work concurrently with firms' technical guides, templates, illustrative examples, and working papers (the artefacts). The artefacts codify the routine's tacit knowledge templates and normative properties, provide a record of past enactments and contribute to the consistency with which specific practices are performed to identify KAMs appropriately (see D'adderio, 2008; Pentland et al., 2012). The auditor's work pattern is recognisable, easier to reperform, and stable from one client to the next (arrows marked 'B').

Routine stability points to the operation of power at the level of policy or principle (Latour, 1986). It guides behaviours by explaining how KAMs are filtered from risks of misstatement to yield only the most significant matters. ISA 701 offers a technical account of the steps followed before an issue is included as a KAM in an audit report. As a result, even though ISA 701 acknowledges the importance of professional judgement in KAM determination, the number, type and style of KAMs reported should be consistent. This is in keeping with the assumption of much of the academic research which relies on deterministic evaluations of KAM reporting (e.g. Burke et al., 2022; Rousseau & Zehms, 2020).

**2.2.1.2. The operation of isomorphic pressure arising in the "frontstage".** That the KAM routine has the potential to standardise or homogenise can be ascribed, in part, to the exertion of isomorphic pressure on individual auditors (arrow marked "F"). Building on Dimaggio and Powell's (1983) framework, explicit requirements to comply with professional standards and sanctions for non-conformance are a source of coercive pressure. If audits must be conducted according to ISAs, it follows that the faithful reperformance of the KAM routine is part of a process of demonstrating conformance to regulatory norms and avoiding the financial and professional ramifications of failing to do so. The emphasis is on adherence to policy, codified practices and working paper templates to standardise tasks (Dirsmith & Haskins, 1991; Francis, 1994).

The codification of expanded reporting requirements, along with their backing by professional bodies, leads to normative pressures which promote routine stability. Their enactment and documentation in audit files are not only an account of regulatory compliance but demonstrable evidence of how the norms of technical rigour and procedural appropriateness have been internalised by auditors. By providing a reference for the pattern of complex activity, that part of the audit which culminates in KAMs can be identified, at the level of principle, to clients and investors as evidence of how auditors serve the public interest by providing valued insights in audit reports.

Auditing standards are not all-encompassing. ISA 701, like other pronouncements of the IAASB, acknowledges the importance of a client's context, the unique circumstances of each audit and the relevance of professional judgement for engagement performance. Rather than undermine stability, practical uncertainties reinforce the importance of consistently enacting the KAM routine (see Feldman & Pentland, 2003; Fogarty, 1992).

As explained more generally by Dimaggio and Powell (1983), the mimetic replication of actions, signals conformance to prevailing heuristics, confers comprehensibility and mitigates scrutiny. Just as companies adopt the structures and processes of the most successful players on technical and legitimacy grounds (Meyer & Rowan, 1977) individual accountants and auditors may mimic the behaviours of colleagues who are regarded as having the best understanding of or comply most closely with well-established conventions (Fogarty, 1992).

It follows that ISA 701's incorporation of professional judgement in KAM determination enables less experienced auditors to replicate the activities of more experienced members of the audit firm, paradoxically, because it allows for some flexibility. When the specific steps which ought to be taken cannot be discerned based only on a reading of the standard and application guidance, duplicating the sound work effort of other auditors can be good judgement.

In summary, coercive, normative and mimetic isomorphism operate concurrently (Dimaggio & Powell, 1983) and shed light on how the ostensive features of routines have a homogenising effect on audit practice. They are not just a neutral compilation of tasks but an important means of coordinating, standardising and controlling complex activities (Feldman & Pentland, 2003; Pentland et al., 2012; Pentland & Feldman, 2005) including those at work in an auditing setting (Fogarty, 1992; Pentland, 1993).

## 2.2.2. Counter-isomorphic pressures from the performative aspects in the "backstage"

In institutionalised environments, the frontstage appearance of an audit as a rational, technical and procedurally consistent activity is separated from the backstage. The latter is concerned with the practicalities of implementing the routine where rules must be understood and applied as part of a performative exercise in gaining comfort over the numbers (Humphrey & MOIZER, 1990; Pentland, 1993; Power, 2003).

**2.2.2.1. The performative aspects of the KAM routine.** KAM determination is operationalised against the backdrop of the rules or prescriptions embodied in ISA 701 and any aids developed by audit firms to promote the consistent application of the standard (arrow marked 'C'). Each enactment of the routine '*has the potential to be relatively stable*' but reperformances provide the opportunity for misapplication, adaptation and modification (Bertz & Quinn, 2014; Feldman & Pentland, 2003, p. 323) with the result that the performative dimension of the routine simultaneously maintains and alters the construction of its ostensive dimension (Feldman & Pentland, 2003; Pentland et al., 2011). This is indicated by the arrow marked 'D'.

ISA 701 notes that assessing the significance of a matter and the impact on an audit involve judgement about the importance of an

issue '*relative to other matters in the audit*' (Iaasb, 2016, para A28). It is impractical to determine and list every issue which may be classified as a KAM with ISA 701 outlining only broad considerations (see Iaasb, 2016, para A29). As a result, the ostensive aspects of the routine can be understood and implemented differently by auditors and among clients. These differences may be due to the idiosyncrasies of engagement leaders, different circumstances at each client and the extent to which auditors are committed to the faithful reperformance of the routine. As explained by Burns and Scapens (2000, p. 10) and Feldman and Pentland (2003), the enactment of a routine will be informed by parameters laid out according to its ostensive aspects but will also involve '*reflexive monitoring*', subjective sense-making and '*tacit knowledge about how things are done*'.

**2.2.2.2. Counter-isomorphic pressure.** The more often a routine is executed, the greater the number of opportunities for improvisations, alternate application and error (Feldman & Pentland, 2003; Pentland et al., 2011). The isomorphic forces associated with the routine at the ostensive level are still at work, with the result that discrepancies between policy and action can be minor. They are, however, still important because:

‘... more repetitions contain more differences. Each performance is an occasion for repetition, but it is also an occasion for improvisation or error; thus larger numbers of performances create more opportunity for change’ (Pentland et al., 2011, p. 1371).

On one hand, professional judgement should enable accuracy, stability and alignment of activity with professional standards as noted above. Hierarchical review, consultation on difficult or contentious areas in an audit and brainstorming among engagement team members work in conjunction with an auditor's application of judgement and are integral parts of the audit quality model (Trotman et al., 2015). They ensure proper performance and maintain the normative aspirations of audit routines. On the other hand, auditing is characterised by complex technical requirements and opaque work processes (Power, 1995, 2003). Not all tasks can be evaluated objectively and linked to easily measured outcomes. They can only be assessed with reference to a general set of principles outlined in standards and the consensus of the professionals tasked with implementing those principles (Bonner & Lewis, 1990; Power, 1995). Even then, there is no guarantee that more experienced auditors are automatically better at making judgements and executing routines more faithfully than other practitioners. Innate ability, cultural considerations and broader environmental factors come into play.

How a routine is executed will also be influenced by circumstances encountered during the audit and the context at each client. The collection of routines making up an audit will be standardised to some extent but tasks must be tailored (see Power, 1995; Trotman et al., 2015). As a result, the process of KAM identification is the product of slightly different reperformances of tasks by individual auditors (consider Burns & Scapens, 2000; Bertz & Quinn, 2014; Corvellec, 2016). The selective retention and implementation of different parts of a routine, varied re-combinations of past performances and unintentional modifications result in what Feldman and Pentland (2003) describe as '*performative variability*' and the auditing literature refers to as '*gut feel*' (e.g. Humphrey & MOIZER, 1990; Pentland, 1993; Power, 1997).

Finally, even the best-defined routines can be applied legally. Short-cuts might be taken and workflows may be concealed when executing routines which are not fully understood or at odds with an individual's value-sets (Briot & Gendron, 2011; Durocher & Gendron, 2014; Tremblay & Gendron, 2011). Variations in the deployment of professional judgement and uncorrected misapplications of ISA 701 counter the isomorphic forces resulting from the ostensive elements of a routine as per the arrows marked "G". They account for the fact that '*different ostensive patterns may not always or completely be co-ordinated into the same performances but may sometimes give rise to different, and even conflicting performances*' (D'addario, 2014, p. 29). As a result, formal structure and policy representing the routine at the ostensive level may need to be separated from the execution of daily activities which constitute practical reality (see Meyer & Rowan, 1977). Alternately, the manner in and extent to which policy and procedure are enacted must be managed selectively (Besharov & Smith, 2014).

As indicated by the connector labelled 'E', the ongoing performance of the routine subject to marginal changes can also alter the routine itself (Feldman & Pentland, 2003; Pentland et al., 2011). Where this is the case, the identification and disclosure of KAMs are not the result of a precise re-enactment of ISA 701 at each audit but are constituted in practice through the repetition of similar, but not identical, performances by auditors (consider Burns & Scapens, 2000; Bertz & Quinn, 2014; Corvellec, 2016).

In summary, departures from codified requirements are not only a product of resistance (Tremblay & Gendron, 2011) or misunderstanding stemming from incompatible knowledge templates (Durocher & Gendron, 2014). They are the concomitant of routine duality. When going from the ostensive to the performative, the KAM routine appears to be consistent thanks, in part, to the operation of isomorphic pressure and underlying power in principle. When moving from the performative to the ostensive, variability results. Professional judgements, reliance on past experiences, knowledge exchanges and the opacity of audit counter isomorphic pressure. Each is a manifestation of power in practice and the fact that complex processes are seldom reperformed identically. The interaction between power in principle and practice means that routines are a concurrent source of stability and change (Feldman & Pentland, 2003). This is considered in more detail in Section 4. How the data for examining the KAM routine were collected and analysed is discussed next.

### 3. Method

We solicited views on how KAMs are identified and reported from 42 audit experts from both large and second-tier audit firms with multi-national clients and experience with regulatory inspections and PCAOB reviews. Only respondents with at least 5 years' experience in a senior role at their respective organisations were invited to participate in the study. Interviews were held with senior

staff engaged in providing mainstream audit services to a range of clients in different industries, and representatives from audit firms' technical units to explore training and review processes and the guides developed to determine KAMs and document them in working papers, as shown in [Table 1](#).

All interviews were conducted in South Africa from April 2020 to March 2, 2021.<sup>3</sup> We focused on this jurisdiction because South Africa has a long history of applying International Financial Reporting Standards and International Standards on Auditing. It has an efficient and well-regulated capital market, and its auditors are subject to inspections from both the local and international regulatory bodies (depending on listing status). ISA 701 has been applied since 2017 with the result that South African auditors have had time to develop and refine their KAM determination processes.

A time was set for each interview. The time was determined by the interviewees because of their seniority and busy schedules. To ensure consistency, the interviews were conducted by the same researcher. At the start of each interview, respondents were informed of the objective of the research, that it was being conducted for academic purposes and that anonymity was guaranteed. The order in which questions were put to interviewees varied but the same issues were covered during each interview. In summary, experts were asked about their views on the need for ISA 701 and the impact of KAM determination on financial statement audits, their understanding of KAMs, the steps they follow to identify and classify issues as KAMs, challenges encountered and the emphasis they place on ensuring consistency when identifying KAMs.<sup>4</sup> They were informed that the researchers had no position on the relevance or appropriateness of the standard and that there were no 'correct' or 'incorrect' answers.

Participants' views reflect their accumulated experiences with KAMs but, because of the focus on the routines enacted by practitioners, the interviews focused on how in-progress or recently completed engagements were performed. Where applicable, the researchers were provided with examples from audit manuals and working papers which were used to contextualise points. Observations based on these additional sources were recorded in field notes.<sup>5</sup>

An 'intuitive approach' similar to that reported by [Georgiou \(2018, p. 1304\)](#) and [O'Dwyer et al. \(2011\)](#) was followed guided by the research objectives, methodological approach and the inherently subjective manner in which audits are conducted. Each transcript was reviewed to gain a sense of the findings. After a high-level review of all transcripts was completed, each was analysed systematically for the factors considered when determining whether an issue was a KAM, the processes being followed, the interviewees' experience with applying ISA 701, and their use of any firm-developed guidance. To avoid restricting the analysis, the interview guide/questions were not used to identify emerging themes or open codes. These were flagged based on the points highlighted by respondents including emphasis and intonation, complemented by cross-referencing field notes taken during the interviews and observations based on the analysis of earlier interviews. The aim was not to identify only homogenous themes but different beliefs, views and patterns emerging from the interviews. This is in keeping with the study's theoretical framework which accommodates the fact that routines are a concurrent source of stability and variability (adapted from [Durocher & Gendron, 2014](#); [Georgiou, 2018](#)).

Examples of open codes include specific tests linked with KAMs, areas in client's businesses where KAMs were identified, discussion points from informal engagements among audit teams and quality review processes undertaken at the firm-level. Each code was recorded on a theme register. Similarities and contradictions among the responses were noted. As interviews were conducted and analysed, the codes assigned to previous transcripts were reconsidered and refined. In this way, the coding was an iterative exercise which continued until 'thematic concentration' was achieved. This occurred after the fourth round of reviewing transcripts when additional open codes were noted, further revisions to existing codes were not made and the researchers concluded that the findings could be categorised.

The final set of open codes was grouped under broader headings aligned with the ostensive and performative aspects of organisational routines and the associated sources of isomorphic and counter-isomorphic pressures. These headings were used to structure the findings. Examples included variations in how ISA 701 is applied, the difficulty of specifying every aspect of audit practice and the agency evident when ISA 701 is used.

For consistency, the data were analysed by the same researcher who performed the interviews. The open and axial coding was, however, reviewed by a research assistant to ensure accuracy and completeness, to test the logic of any inferences drawn and to identify possible bias. Quotations selected from transcripts to illustrate relevant themes/principles, reflect different perspectives, and ground the findings in the respondents' experiences, were also piloted with a group of academics and practitioners during two workshops hosted by the lead researcher.

#### **4. Analysis of the KAM determination process**

The ostensive and performative elements of routines work concurrently but, for brevity, each "part" is outlined below and linked to the operation of isomorphic forces which promote routine stability (Section 4.1) and the counter-isomorphic factors which enable variability (Section 4.2).

<sup>3</sup> Due to COVID-19 restrictions, the interviews were conducted online except for one interview with a Big 4 audit technical member which was done telephonically. Interviews were digitally recorded and transcribed shortly after each was completed and reviewed for consistency. Detailed notes were taken during the telephonically conducted interview.

<sup>4</sup> See Appendix A 'Interview protocol' for a full list of the questions covered during the interviews.

<sup>5</sup> Given confidentiality restrictions, examples from audit firms' working papers and technical manuals are not reproduced or referenced directly.

**Table 1**

Summary of interviews.

	Number of respondents	Average interview duration	Average experience
Big 4 audit partners	15	60 min	23 years
Second-tier audit partners	8	50 min	25 years
Big 4 Associate directors	5	45 min	11 years
Second-tier associate directors	1	60 min	12 years
Big 4 senior managers	3	50 min	6 years
Second-tier senior managers	3	50 min	6 years
Big 4 audit technical	5	60 min	10 years
Second-tier audit technical	2	60 min	10 years

**Note:** Details are listed alphabetically and only use generic titles/functions to protect the identity of the respondents. The Big 4 include Deloitte, EY, KPMG, and PwC. Second-tier firms include audit firms with local and international offices other than the Big 4. Details about respondents' functions, ranks and levels of experience have been withheld to preserve confidentiality. The views of partners from the Big 4 and other firms have been contrasted. Similarly, an analysis of how perceptions about KAMs differ among partners and other assurance experts has been conducted. Because no material differences were noted, the results are not reported.

#### 4.1. Isomorphic pressures in the frontstage of the KAM determination routine

At the start of each interview, respondents stated that KAM determination is driven by the provisions of ISA 701 and that the process followed to identify key issues and classify them as KAMs is '*pretty much the same on each audit*' and '*largely consistent among the firms*' (Audit Partner). The KAM routine appears stable and ISA 701 provides an important '*matrix*' (Senior Manager) for guiding, articulating, and reviewing the process followed to identify key issues:

*'I think that [ISA 701] gives a good framework. It lays out the principles and the process you need to follow when you identify issues for discussion with [those charged with governance]. You also have a litmus test that you can use when you discuss if something is serious enough to be a key audit matter and you know what you need to document on the audit file so that people can see your thought process and your thought process can be reviewed by the audit partner and the QRP [Quality Review Partner]' (Audit Technical).*

Underlying isomorphic pressures provide one explanation for how ISA 701 guides consistent KAM determination. As discussed in Section 2, the ostensive features of the underlying routine guide, enable accounting and provide a basis for referring to inherently complex tasks which culminate in additional disclosures found in an audit report. That isomorphic forces are at work in institution-alised settings (Dimaggio & Powell, 1983; Meyer & Rowan, 1977), including the broader audit profession, has been established (Fogarty, 1992). The more precise mechanisms by which these forces interact with the ostensive dimension of auditing routines are less clear and are considered in more detail below.

##### 4.1.1. Normative pressures

Respondents explained that ISA 701 is grounded in the well-established discourse of risk assessment and response. The provisions of ISA 701 are akin to the '*external definitions of authority and competence*' which are used to differentiate legitimate and illegitimate processes, systems and outcomes (see Suchman, 1995) and exert significant normative pressure on practitioners (see Dimaggio & Powell, 1983).

*'The steps for determining if something is a KAM are appropriate if they comply with ISA 701. That's your benchmark. Even if you put regulatory requirements aside, it comes down to alignment with the standards. These give you the best practices which the audit profession has collectively determined and if you cannot say that you have followed the standards, then your engagement is not to best standards, and you have a serious problem' (Audit Technical)*

With professionalism being an unmeasurable construct, the '*systematic identification of KAMs*' in keeping with '*laid out policies and best practices*' is an important signal of technical competence, methodical behaviour, and commitment to '*reporting in the public interest*' (Associate Director). Each is automatically associated with being a '*good professional*' (Audit Partner).

All the respondents confirmed that the detail in ISA 701, complemented by its application guidance, reduces ambiguity and further incentivises "faithful", "reliable" and "consistent" identification of KAMs among engagements. Professional judgement, which ISA 701 acknowledges is an integral part of reporting KAMs, is applied in the context of a logic of process and repetition:

*'I know that the standard says that KAMs are a matter of professional judgement and that's correct. But there is also a sense of following a process. The standard gets read as a combination of principles and rules, even if that was not intended by the IAASB. It lends itself to a procedural logic'*

(Audit Partner, emphasis added)

This 'logic' makes it difficult for auditors '*to stray too far*' (Audit Partner) because of the strong link between compliance and professionalism:

*'Even if you don't have a sanction for non-compliance, you are not a good auditor if you don't follow the process. How can you tell a client that their control systems are not up to speed if you can't follow what ISA 701 requires or you just decide to go off and do your own thing?' (Audit Technical)*

Application guidance in ISA 701 is supported by technical manuals developed by all the audit firms represented in this study. These reproduce sections of the standard and provide examples of issues which may be KAMs and how they should be processed by the engagement teams. The manuals are cross-referenced to firm-specific templates which detail questions which should be put to clients, examples of how to document the clients' responses and the factors which auditors should consider before accepting or rejecting an issue as a KAM.

*'The focus is very much on quality and part of that is showing that you have followed a consistent process which is backed by ISA 701. The [audit manuals] and the [working paper templates] help you organise your thoughts and put down a structured approach when you work with KAMs. They get you to think about KAMs in a certain way and to be consistent. And that's key'* (Audit Partner, emphasis added)

Technical manuals and working paper templates for documenting how KAMs are selected are artefacts of the ostensive element of the KAM routine (see D'addero, 2014; Danner-Schröder & Geiger, 2016). They promote the reproduction of the same patterns of behaviours by specifying when and what information is collected from clients and the sequence of steps followed to process the information. In doing so, the artefacts simplify what is an inherently complex and subjective process by making it more procedural and providing parameters for determining if ISA 701 has been applied adequately. In addition to serving as a source of structure, control, or normalising force (see Foucault, 1983; Giddens, 1984; Latour, 1986), the routine's artefacts also mitigate the risk of less experienced auditors being unable to remember and reproduce accurately the desired sequence of actions (see Pentland et al., 2011):

*'There is a lot going on in an audit. Laymen think that it's just a tick-and-bash job, but auditing has become very complex and very intricate. It's not possible to remember every consideration in the ISAs and what you did the last time you applied them so the [templates and manuals] are a great tool for helping you remember and making sure that you've covered all the bases ... The partners I work with all use them and I think that for guys with less experience, they are even more useful to help you remember and track things'* (Senior Manager)

Ironically, while the respondent criticises the 'layman' for thinking that auditing is a 'tick and bash job', the ostensive properties of the routine are being mobilised to constrain the behaviour of staff, especially those with less experience. As working paper templates are produced and expanded to standardise the audit approach and ensure that '*people remember what to cover*' (Senior Manager), more boxes are being created and more "bashing" needs to be done. To help staff remember the requirements of ISA 701 and to '*provide a rigorous basis for consistently determining KAMs*' (Audit Technical), both audit managers and partners receive extensive training:

*'The training is not just on KAMs. We have regular updates on new standards and updates on the [firm's] methodologies ... The training covers accounting issues, how this affects the audit procedures we do and, as part of the whole thing, KAMs being flagged at the engagements'* (Audit Manager)

That university training and exams to control entry to the profession are a source of normative or socialising pressure has been established (Fogarty, 1992). Normative forces are also at work during specialised and ad hoc post-qualification training where auditors are encouraged to '*think about ISA 701 in the same way*' and homogenise how they identify and report KAMs (Audit Manager). This is especially the case for new appointees unfamiliar with the respective firm's '*culture for KAMs and how these get done*' (Audit Technical). KAMs are only part of a larger audit process and there is some flexibility in the sequence in which the '*audit steps*' are performed at each client (Audit Partner). For example, not every audit involves the same combination of risk assessment procedures, control and substantive tests and resulting KAMs. Nevertheless, codified requirements, firms' templates, and training to illustrate the correct use of those templates, promote routine stability:

*'ISA 701 is like the toolbox. The [template for documenting the KAM process] and [the details in the technical manuals] are the individual tools. The training is not a theory dump but about showing you how to use the tools so that, when you run your audit, you can apply the right tool for the right part of the job and get the right outcome'* (Audit Partner, emphasis added)

In practical terms, routines cannot be specified in sufficient detail to encompass every performance (Feldman & Pentland, 2003) and enclose individual behaviour completely (Foucault, 1983). Nevertheless, they are a source of stability thanks to normative pressures. These are inherent in professional standards and application guidance which are sufficiently prescriptive to deal with '*the core issues or principles*' (Audit Manager). They are given effect by training used to illustrate appropriate and inappropriate interpretations of those principles. Working papers and templates are not just neutral artefacts of the ostensive dimensions of the underlying routines but are an integral part of the process by which auditors are socialised to '*think about and spot KAMs*' (Audit Technical').

#### 4.1.2. Coercive pressures

Regulatory inspections and internal quality reviews reinforce the normative position on what is and is not a KAM and serve as a source of coercive pressure which encourages accurate replication of the actions making up the KAM routine:

*'[Inspections and quality reviews] are part and parcel of the audit. Everything you do is checked and double-checked because the consequences of [non-compliance with ISAs] are so high. No partner in his right mind is going to risk overlooking issues or cutting corners and ending up with an inspection finding [from a regulator or peer reviewer]. There are serious financial and reputational implications for you and for the firm. So, the short answer is yes, the inspections do make sure that you follow the policies when it comes to how you do the audit including your KAMs. KAMs are just a part of a bigger audit process'*.

(Audit Partner)

Inspections and peer review mean that working papers and the templates used to document the exercise of identifying KAMs have substance and contribute to the stability of the routine: ‘*It’s no point having a template if no one checks that you bothered to use it or comments on whether you filled it in correctly or not*’ (Audit Manager). The “checks” being carried out by regulators and internal quality control staff ensure that the enactment of the routine which would otherwise be unobserved by other members of an audit firm is subject to review.

*[Quality reviewers] are not watching over your shoulder every minute but the fact that someone is going to review that working paper sharpens the mind. You will do a double-check to make sure that you’ve covered everything. Dotting your ‘i’s and crossing your ‘t’s will save you a lot of trouble in the long run’.*

(Audit Partner)

Quality reviews by independent regulators or other members of an audit firm are only possible because of the ostensive aspects of the routine which contribute to the stability of underlying activity. Collectively, the provisions of ISA 701, technical manuals, working papers, templates and training programmes provide the schematic for defining KAMs and the procedures which are required to identify them. An auditor’s working papers are an account of how the routine has been enacted which can be evaluated against the normative aspirations of the routine and, in theory, used to hold non-compliant auditors accountable (consider [Feldman & Pentland, 2003](#)).

The ostensive features of the KAM routine are not only useful for coordinating and controlling the activities of individual auditors but also act as a means of exercising power over regional and national offices of larger audit firms.

*Most of the technical guidance comes from the firm’s UK or USA offices. When it comes to quality review, it’s not only about confirming that ISA 701 and risk mitigation policy is adhered to but a sense of wanting to check that network firms are towing the line. You see, after the technicalities have been sorted out and reduced to writing, you want your auditors singing from the same hymn sheet*’ (Audit Partner).

Technical manuals and policy guides (artefacts of the KAM routine) play an important role in standardising behaviour and ensuring that ‘subsidiary offices’ understand and apply auditing prescriptions in a manner pre-determined by the ‘lead office’ (Audit Partner).

A more detailed review of how a routine is used as an instrument of power and control at national and multi-national levels of an audit firm’s management is beyond the scope of this paper. The key point is that the ostensive elements of the KAM routine make it possible to account for and refer to a complex set of activities which would otherwise have been difficult to understand, evaluate and control. In doing so, the routine enables the types of internal monitoring and external inspections which have substituted for the profession’s self-regulatory franchise a possibility. At the micro-level, routines simultaneously result in and enable the existence of the coercive pressures which account for standardised audit methodologies ([Dirsmith & Haskins, 1991](#); [Francis, 1994](#)) and, in turn, the consistency with which issues, such as KAMs, are reported externally as documented by earlier empirical work (e.g. [Burke et al., 2022](#); [Rousseau & Zehms, 2020](#)).

#### 4.1.3. Mimetic pressures

Mimetic pressures contribute further to the stability of the KAM routine thanks to formal exchanges between audit firms’ technical staff and events hosted by regulators and professional accounting bodies where the application of ISA 701 (and other standards) is discussed.

*Two heads are better than one. It helps to have a forum where the auditing standards are discussed and where the [firm representatives] can share how they have been applying the ISAs. This promotes consistency, highlights issues and allows more detailed guidance to be developed. There is a shared understanding among the firms which makes it easier to regulate and to monitor for quality deficiencies ... Meetings hosted by [the regulator] provide one platform for knowledge sharing but this also takes place among the audit firms and with the [professional accounting body] as part of a collegial exchange of knowledge*’ (Audit Technical, emphasis added).

Consistent with [Cooper and Robson \(2006\)](#) and [Power \(2003\)](#), both audit firms and regulators are important for professionalisation but they are also a source of mimetic pressures which work at different parts of the audit profession to maintain and stabilise the ostensive dimensions of audit routines. Isomorphic pressures are relevant at the national and supra-national levels where accountants who are ‘most up to date’ (Audit Manager), ‘most knowledgeable’ (Senior Manager) and ‘the closest to the ISAs’ (Associate Directors) are involved in a process of collective sense-making to ‘firm-up what we have in the standards and provide more guidance to the audit firms so that, as an industry, we have a measure of consistency’ (Audit Partner).

Further interpretation and analysis take place within each firm in dedicated technical units. These are responsible for developing firm-specific guidance and the artefacts of the routines which form an integral part of how those routines are understood and implemented (see Section 4.1.2). ‘Without the technical guys, you don’t have [Template A] and [Template B]. That leaves you open to being inconsistent and when you are inconsistent, things get missed’ (Senior Manager).

At the Big 4, a third layer of development involves tailoring guides and templates for specific industry considerations so that ‘*your mining guys, your insurance guys and your banking guys have the sign posts they need to deal with KAMs consistently for their industries*’ (Audit Technical). That such extensive discussion, analysis and information exchange informs the development of the KAM routines codified by firm guides adds significantly to the credibility of the ostensive dimensions of the routine and, in turn, the stability with which the routine is performed.

Even though ISA 701 is principles-based and refers explicitly to KAMs being a matter of professional judgement, mimetic pressures

emanating from how the routine is constructed ostensibly have a homogenising effect:

*'There is supposed to be a lot of judgement in the whole [KAM] process which is why it's left to the audit partner. [The partner] is the most experienced and knowledgeable member of the team who has the insight to flag the most significant issues. That's what we're told and that's what the ISA also says but if you look at the KAMs [at various clients] there is a lot of standardisation based on the firm's position [referring to the firm's audit policies] on what are typically KAMs in the different sectors we cover'* (Senior Manager).

That professional judgement is incorporated as part of the ostensive dimension of the KAM routine further promotes task and outcome consistency. For less experienced auditors, 'generally accepted' KAMs are often identified based on other engagements which are 'good examples' of how a firm's guidelines have been applied (Audit Technical):

*'In addition to ISA 701 ... I think that many managers also look at what has happened on previous audits. Those are almost like examples of how the standards should be applied and so I think that it's a combination of what the standards say and what the firm policy says'* (Audit Manager).

Policy guides and past occasions where KAMs have been reported correctly coalesce and provide an important reference for auditors. Just under 20% of auditors referred to the mimetic replication of these "best practice examples" as the sound application of professional judgement in cases where it is difficult to decide if a matter is a KAM. A further 20% felt that comparing decisions based on one's judgement to the outcomes on similar audits was important for "judgement calibrating" (Audit Manager). In other words, for a judgement to be sound, it should lead to a recognisable work pattern and familiar outcome.

The South African assurance market is not as litigious as the American one (see, for example, [Asbahr & Ruhnke, 2019](#); [Gimbar et al., 2016](#); [Kachelmeier et al., 2020](#)) and, as a result, respondents felt that legal liability was not a primary concern for KAM determination. They did, however, highlight the role played by Audit Committees in further "calibrating" how KAMs are flagged:

*'[Audit committees] are ultimately responsible for their companies' financial reporting and governance. They are constituted by very experienced and knowledgeable people who have their own views on the most significant issues which they expect the auditor to deal with ... The audit committee is not part of the audit team, but they are another layer of oversight which does work on the mind of some partners and makes them more aware of the need to be thorough; to check and to double check'* (Audit Technical).

*'Engagement with the audit committee reinforces the importance of applying firm methodology consistently. Clients expect to know how and why an issue has been identified as a KAM and [the firm guidance] helps to show the reasoning and demonstrates a consistent and methodological approach'* (Associate Director)

References to "oversight" and methodological consistency suggest that an audit committee could be a source of coercive isomorphic pressure contributing to a stable KAM determination routine. At the same time, there were no examples of an audit committee explicitly requiring an auditor to include or remove an issue as a KAM. The relationship between the engagement team and the audit committee is better understood as a 'symbiotic one' (Audit Partner) which was explained using the 'combined assurance model' (Associate Director) per South Africa's codes on corporate governance. Both parties are working to enhance the respective organisation's control environment and the quality of its financial reporting. *'They play a complementary role subject to the fact that each has its own statutory and professional obligations'* (Audit Technical). Audit committees are not trying to 'hijack the audit and tell you what a KAM is' (Audit Partner). The engagement leader continues to be responsible for conducting audits according to the provisions of the ISAs, including the identification and reporting on KAMs. Nevertheless, audit committees are an important 'sense check' (Audit Partner), 'calibration' (Associate Director) or 'litmus test' (Audit Partner):

*'it's unlikely that you just disregard something which has been brought to your attention by an audit committee. If it's been worrying them, chances are it will worry you as well'* (Audit Partner).

#### 4.2. Counter-isomorphic pressures in the backstage of the KAM determination process

While the operation of isomorphic forces contributes to routine stability, auditors still enjoy agency. Considering this paradox in the context of the KAM routine revealed factors which "off-set" the homogenising effects of coercive, normative, and mimetic isomorphism associated with the routine at the ostensive level. These include (1) professional judgement; (2) informal knowledge exchanges and (3) the opacity of the audit process. How each serves as a "counter-isomorphic" force when the KAM routine is evaluated from a performative perspective is discussed below.

##### 4.2.1. Professional judgement

Routine stability should be supported if experienced staff are responsible for enacting and monitoring the routine because they are more likely to be knowledgeable about the objectives of the routine and to recall the ideal sequence of performances ([Feldman & Pentland, 2003](#); [Pentland et al., 2011](#)). When it comes to KAM determination, the opposite is true:

*'The older guys are most likely to be your cowboys. These auditors have seen it all before and they become part of [the firm's] living memory which is great when you have a problem and you need to solve it and a nightmare when you have a policy and you want them to implement it. A partner with thirty years of experience doesn't always stick to the policy. It's not because he's being difficult but because he has so much experience and is much more comfortable exercising his professional judgement than someone who has only recently been made partner'* (Audit Technical)

“Cowboy behaviour” was explained further as the most experienced engagement leaders deriving KAM’s ‘from first principles’ (Audit Technical). This does not mean non-compliance with ISA 701 but that the respective auditors are:

*‘Making use of their massive experience with the client and the specific industry, acute business acumen and a clear understanding of exactly how an issue affects an audit which is part of their DNA rather than what is found in the [audit firm’s guide] as their starting point. The best way to explain it is that they can smell a KAM’ (Associate Director)*

For some audit partners, the starting point is ‘rolling up your sleeves and getting immersed in the client’s business and not the details in ISA 701 and [the firm’s audit guide]’ (Audit Partner). These “hands-on” or “KAM-smelling” audit partners fall broadly into two groups.

One will identify KAMs from “first principles” but use the firm’s policy guides, known examples of KAMs on similar audits and the guidance in ISA 701 as ‘*checking points*’ (Audit Partner). In these cases, the processes followed to identify KAMs depart from the firm’s prescribed operating practices but ‘you end up with the same answer’ (Senior Manager). This is akin to the process of routine maintenance (see [Feldman & Pentland, 2003](#)). Variations from the KAM routine are consciously selected and used to verify the outcome of the routine. That the same conclusion about the most significant issues on an engagement is reached affirms the appropriateness of the routine at the ostensive level and performative variability by experienced partners justifies conformance to firm guidelines among more junior staff.

The second group also use “first principles” to identify KAMs but the task of ‘*checking that the KAMs comply with the firm’s general position gets outsourced to [technical staff]*’ (Audit Manager). Their responsibility is to demonstrate compliance with firm policy, not because this could lead to a refinement of the identified KAMs, but to avoid issues being raised by quality reviewers. The routine is performatively modified based on professional judgement rather than seeing alternate applications of the routine only as confirmation of its ostensive integrity. For example:

*‘[The partner] identified [four KAMs] one of which was inconsistent with how the [technical team] understood ISA 701 and which was also inconsistent with the theme of KAMs coming out from similar clients. Now you can’t say that [the partner] was wrong *per se* because it’s not the same as saying one and one must be two but [that partner] was comfortable to depart from the general approach that had been taken and, at the end of it, the KAM stayed in the audit report and [the technical team] updated the guide to accommodate what [the partner] had done’ (Senior Manager)*

Audit partners confirmed that these types of revisions were more common in the years immediately following the release of ISA 701 when audit firms ‘had to make sense of KAMs’ (Audit Partner). Although they had extensive experience identifying significant issues arising during engagements, the firms needed to ‘experiment with how KAMs were formalised’ (Audit Partner). Nevertheless, modifications to how some KAMs are explained in audit reports continue to take place:

*‘Even after several iterations, there are still some partners who want to ‘polish’ the KAMs. You have a sense that the KAM deals with [accounting issues A and B] and the firms spend a lot of time with technical and risk management on the best way to word the KAM. That gets reported 99% of the time but there are a handful of partners who are going to be difficult and want more or less information depending on how they have understood the KAM. Their argument boils down to their experience and judgement and wanting to explain to people that some KAMs are not generic even if you [the technical reviewer] thinks that it is quite a standard one’ (Senior Manager).*

In the absence of an objective measure for what is or is not a KAM, it cannot be said that the ‘difficult partners’ have misapplied ISA 701 and firm policies (Senior Manager). Detecting non-compliance with audit standards is not, however, the aim of this paper. The key point is that the underlying KAM routine, which is set at the ostensive level and ought to guide practice, is modified by performances as engagement leaders draw on their personal experiences and judgements.

*‘The firm has its views on KAMs as a matter of policy and that was set up-front in line with ISA 701. I think the policy is clear and in our [risk management meetings] there are the standard issues which come up as KAMs. But I must admit that we do get some engagements where unusual issues pop up. You don’t want to discount a [senior partner’s] knowledge of the client and their professional judgement so you say, “it does not look like a KAM based only on what we have in our guide but we can’t say it’s not a KAM”. So I suppose then that the experiences on that engagement updates the firm’s knowledge on KAMs’ (Audit Technical, emphasis added)*

Detailed examples are not provided because of confidentiality restrictions but the following summarised commentary illustrates how, rather than the ostensive dimensions guiding performance, activities during an engagement modify the routine at the ostensive level.

*‘ISA 701 does not detail specific tests you must do specifically to identify KAMs but [one audit partner] insists on talking to [Client X’s] investor relations team and [the partner] will read analyst reports to verify KAMs. That testing has been built into our policy after the fact because it showed up in two cases where, based only on [the policy] guide, the team thought there was no KAM but, actually, there were significant issues which should be reported and the investors confirmed that they were looking for those KAMs a few weeks later’ (Senior Manager, emphasis added).*

A second audit manager explained how an audit partner insisted on tracing material line items in the cash flow statement to bank statements even though this was required by neither the audit firm’s operating manuals nor a specific ISA:

*‘The partner just told the team that the “numbers don’t make any sense” after he reviewed the interim numbers and the control work up to [interim date]. When we did the tests, we found errors ... We also ended up reporting the matter generally as a KAM. We didn’t do the tests specifically to prove the KAM, but I don’t think we would have noticed the KAM without that additional testing’ (Audit Manager).*

In addition to performances leading to revisions to the firms' policies or audit manuals, other routine artefacts are altered. For example, one senior engagement leader wanted open fields added to a working paper template because he was dissatisfied with the pre-determined questions and did not want to be '*boxed in by pre-set thinking*' (Audit Partner). The firm did not update the template, but that partner confirmed that he continues to modify the document on all of his engagements. At a second audit, the partner introduced his own working papers for KAMs. In several cases, '*taking stock meetings*' are used to encourage audit teams to '*think outside the box*' (Audit Partner). '*Casual conversations*' (Audit Manager) about how the audit is being done to '*get the best result instead of ticking boxes*' (Senior Manager) shifts the emphasis from task replication to informed selection of possible activities and their recombination to achieve the broader objectives of the ostensive aspects of the routine.

For example, one audit partner departed from the pre-set approach of documenting KAMs only at the end of the audit. To encourage staff to be '*on the guard*' for important issues, each section of the audit file included a summary of team members' points which are then reviewed by senior managers and the engagement leader (Senior Manager). The modification is a relatively small one but illustrates that micro-level processes are changed based on experiences with how the routine per the policy is implemented. Small changes are not, however, immaterial.

Researcher: '*Did this change add any value?*'

Senior Manager: '*I think so. In a quality review, we were commended for being more on our toes and I think that our KAMs were much more insightful than what we did in the past. That's a point even [the client's audit committee] raised during our debrief.*'

Importantly, wanting to provide '*insightful KAMs*' is not an express part of the routine at the ostensive level but this has also been modified after experimenting with a different approach:

Researcher: '*Are "insightful" KAMs a pre-requisite in terms of the [audit guide] and, if not, what led you down this road?*'

Senior Manager: '*Funny enough, you don't have to come up with anything shattering. But we made a judgement call and decided not just to go through the motions and come up with stock-standard issues. We were happy to go the extra mile. The client was pleased and I also felt that we had added real value to the people who are reading the financials and the audit report*' (*emphasis in original*).

To summarise, Francis (1994, p. 236) warns that auditing characterised by significant reliance on professional judgement is at risk of being '*displaced*' by ever more structured audit methodologies and standardised practices. Even if this is not the case, relying on judgement comes at the expense of procedural consistency (see, for example, Pentland, 1993; Power, 2003; Rousseau & Zehms, 2020). How the ostensive features of the KAM routine are operationalised points to a more nuanced situation. Judgement and imitation work together and, as discussed in Section 4.1.3, are a source of mimetic isomorphic pressures which promote routine stability. At the same time, judgement leads to variability in how the KAM routine is operationalised at the micro-level. Additional tests are performed, the sequence of tasks is altered, and templates are adapted. Changes at the performative level lead reflexively to the alteration of the ostensive dimension of the routine with new "*steps*" added to audit guides, further illustrative examples provided and, in some cases, the additional requirement to use KAMs as a mechanism for providing investors with "*insight*" in addition to just demonstrating compliance with ISA701.

#### 4.2.2. Informal knowledge exchanges

Like formal training (see Section 4.1.1), informal knowledge exchanges reinforce or maintain the ostensive aspects of the audit routine. Partners focus on unique circumstances arising during engagements and the selection and recombination of tasks in response. One outcome is the generalisation of how KAMs are understood and identified. On other occasions partners share experiences during their informal exchanges with colleagues which capture modifications to routines:

*'We don't meet only to discuss KAMs, but we certainly talk about what KAMs are coming up and how we identify them and so on. If you have a new issue or you have a better way of doing something, that gets shared'* (Audit Partner, *emphasis added*).

Information sharing among engagement leaders is important for highlighting best practices and promoting routine stability. It is also the mechanism for disseminating routine modifications which result when an audit partner applies professional judgement under specific circumstances: '*what gets discussed becomes part of the unwritten code on how you think about things and what you do on an audit even if every thought is not being formally documented*' (Associate Director).

Amended routines are grounded in practicality and efficiency (Audit Partner) and legitimised further by the fact that modifications have been shared with and affirmed by other auditors of equivalent standing. In addition to these informal '*peer reviews*', changes are either cross-referenced to the requirements of the relevant standards as a normative calibration or used to address apparent deficiencies in the routine at the ostensive level:

*'ISA 701 is principles-based so it doesn't give the specific details. Judgement is essential. But, even at that level, the standard does not articulate the idea of substance over form as explicitly as it could. So, a lot of what happens when an experienced auditor applies his mind to KAMs is giving effect to substance over form and giving effect to the principles in addition to adding specific steps as the standard requires'* (Audit Partner)

The isomorphic forces outlined in Section 4.1 cannot be toggled on or off. Sharing routine modifications is, therefore, understood as '*filling in the blanks*' (Audit Partner) and making sure that '*we don't just have a checklist*' rather than '*coming up with something entirely new*' (Associate Director). Task consistency is, however, giving way to principles-based consistency and the possibility of endogenous change (see Danner-Schröder & Geiger, 2016).

Going from the ostensive to the performative, task A should be followed by tasks B and C to accept or reject an issue as a KAM. In practice, the routine is modified with the unseen decision-making by senior auditors substituting for the sequence of tasks which ought to be carried out to finalise the list of KAMs. For example:

*'... I have heard many people [in our firm] use [that senior partner] as their benchmark. If he has applied his mind and decided it's a KAM, other auditors, especially when they have less experience, will follow his lead on other engagements and use [that partner's] experience to guide how they identify KAMs. If they read ISA 701, it would be after the fact and just to check' (Associate Director)*

The individual's knowledge template should be guided by the KAM routine at the ostensive level but, for less senior auditors, is being informed by the patterns of behaviours undertaken on engagements overseen by most experienced members of the office. Where this is the case, the potential for audit standards, technical guides, and routine artefacts to coordinate and control behaviours is reduced.

*'Basically, a partner steps into the shoes of the standards and, for some staff, it's a question of what the partner wants and not what the standard wants' (Senior Manager)*

When the modified routine was maintained by and entrusted to the most experienced staff, interviewees were content to assume that ostensive aspects of the KAM routine are complied with automatically with each enactment of the routine:

*'A lot of people are happy to throw the [the firm guide] away and just rely on the [the partner's] conclusion. She has applied her mind that's good enough. [X], [Y] and [Z] must be the KAMs even if you don't see how she got there' (Senior Manager)*

The 'accumulated audit knowledge' (Senior Manager) and 'mass experiences' (Associate Director) of the most respected audit partners, sometimes referred to as 'CAKE'<sup>6</sup> (Audit Partner), becomes an unwritten but highly persuasive reference for deciding if an issue should or should not be classified as a KAM:

*'You always double-check with the partners in the office who have the most experience. These guys have done the rounds. They've been in the trenches, and they've probably seen it all before. They're the best people to talk to when you want to do a sense check for KAMs' (Associate Director).*

These comments provide an audit-specific example of how an individual's understanding of a routine is grounded in performance rather than the routine's ostensive properties. They also illustrate how what ought to happen and what actually occurs can differ (Feldman & Pentland, 2003). More specifically are the regulatory and transparency concerns when KAMs are based primarily on 'judgement and gut feel' instead of 'going through the motions and documenting the steps and the decisions at each point' (Audit Technical). Where judgement substitutes for process, the routine is not entirely in keeping with professional standards which require consultation on important matters supported by clear explanations of evidence collected and tests performed to support conclusions.

In summary, KAMs are not always identified by moving from the ostensive elements of the routine to stable performances. Performances can be modified according to context and prior experiences albeit that the same KAMs are, ultimately, identified. Also conceivable is that the reflexive application of past performances to inform how KAMs are understood and selected from the population of identified issues results in different matters included in an audit report. These differences reflect the degree to which KAMs are defined either ostensively or performatively but may also be the result of misapplications of ISA 701 which, because of the inherent opacity of audit processes, are difficult to identify and correct.

#### 4.2.3. The opacity of the audit process

Confidentiality requirements and the nature in which data are collected and analysed mean that one audit team does not have a complete understanding of how others have conducted their engagements. Faced with uncertainty, auditors rely on the good-faith assumption that the firm's technical guides and operating templates are interpreted consistently and have been applied correctly. The only "evidence" to support this position is the working papers completed by junior members of an audit team and reviewed by a manager:

*'Audit teams must document what evidence they collected, what tests they did and what conclusions they reached. The working papers must be such that another auditor could step into that person's shoes and reach the same conclusions. That's the general position and it applies to more judgemental areas of the audit like KAMs. You expect to see the issues flagged during the audit as significant and cross-referenced to what got discussed with management and the audit committee. There will be minutes of those meetings and from that you have the four or five KAMs. For each one, there is the explanation of how and why it ends up in the audit report' (Associate Director)*

Internal quality reviews are performed after audits have been completed based on the information documented in working papers and the quality reviewers' understanding of the audit process. The same is true of inspections performed by independent regulators. These "checks" are at a relatively high-level: 'it's certainly not a forensic investigation to audit the audit' (Audit Technical). This begs the question, can performative variability mean that an issue which is unlikely to be a KAM is misidentified as one (a Type I error) or an issue which ought to have been classified as a KAM was not (a Type II error)? Concerning the former:

<sup>6</sup> "Cumulative Audit Knowledge and Experience" is a term used by the respective firm members.

*'I think it's certainly possible that we have too many KAMs. Some auditors are too quick to rely on checkboxes and technical guides. They apply the rules without thinking and because they are so worried about the technical minutia in the ISA and the [firms' audit guides] they forget the substance of what they are doing'* (Audit Partner)

With the Type I error, the performative features of the routine are a function of compliance and risk management. They appear to maintain the ostensive elements of KAM determination by consistently identifying and reporting KAMs but this comes at the expense of professional judgement. KAMs based on experience, detailed industry knowledge and sound understanding of a client's context are not allowed to modify the routine to ensure that more relevant information is provided to the user of an audit report.

A Type-II may be more serious than a Type-I error because it amounts to a misapplication of ISA701 and an incomplete audit report with potential civil and criminal implications.<sup>7</sup> Audit partners conceded that, while uncommon, Type II errors are possible:

*'KAMs are not a hell of a complicated but they do require judgement and that is very clear from ISA 701. Is it conceivable that a partner misses something and it doesn't get reported to management and doesn't end up as a KAM? Yes, we have to accept that. Even if you put unethical behaviour aside, it's possible to drop the ball and it may not get picked up by the [quality review partner] or even by an [internal quality reviewer] or [the regulator]'* (Audit Partner).

The misapplication of a routine because of negligence is not the only risk. By its nature, the KAM routine is an amalgamation of broad principles outlined mainly in ISA 701 and iterated by audit firms' technical manuals. They are also the product of enactments which, because of isomorphic pressures, maintain the routine but, given the agency enjoyed by individual partners, incorporate degrees of performative variability. If these variations are not observed directly by a more experienced auditor, member of the technical team, or a quality reviewer, any errors in the modified routine go unnoticed and the routine continues to be applied, '*in good faith*' (Audit Technical) by the respective auditor. Stated simply: '*you don't know that you don't know*' (Audit Technical).

That a routine incorporating a flaw is aligned broadly with the ostensive features of ISA 701 means that '*there are no alarm bells going off; you continue to replicate the same mistakes*' (Audit Partner). Paradoxically, working papers and templates which are designed to reduce the risk of errors and omissions can be populated thinking that the relevant steps have been taken and give the false (but not disingenuous) impression that all the KAMs have been identified. At the same time, an internal quality review will not detect an error in how the KAM routine was applied or modified if the information included as part of the working papers is incomplete, inaccurate, or misinterpreted. Arrogance and fear of embarrassment increase the risk of a Type-II error:

*'Some auditors are quite happy to put up their hands when they don't know and ask for assistance. Ironically, it's normally the more experienced ones. Others don't want to acknowledge that they don't understand, and I think that has to do with a combination of being a bit arrogant but also being worried that asking for someone to double-check will undermine their position as a partner'* (Senior Auditor).

Paraphrasing Feldman and Pentland (2003, p. 112), any routine has the '*inherent endogenous capacity*' to yield '*novel patterns of action*'. '*Novel*' is often associated with an improvement and, as discussed in Sections 4.2.1 and 4.2.2, some changes to the KAM routine are guided by professional judgement and the desire to provide valuable insights into the audit process. Not all routine modifications are, however, desirable. When routines are concerned with activities which are difficult to observe, performative variability (even if implemented in good faith or occurring unintentionally) can result in subtle but important departures from the normative aspirations of the routine which are not value-adding.

More critically, artefacts of the auditing routines (like working papers and findings from quality reviews) are not just representations of the ostensive dimensions of a routine. They play an important role by de-coupling inherently subjective and varied performances from the principles and neatly sequenced steps constituting the routine in principle. The fact that '*what happens on the ground doesn't reconcile perfectly to the image presented by [the template]*' (Audit Partner) goes unnoticed. Because ISA 701 only establishes broad objectives, and the KAM determination process is unobserved by outsiders, claims to compliance with auditing standards and internal policy can coexist with an application of professional judgement which departs from these conventions.

## 5. Discussion and conclusion

Using organisational routines and Power's (2003) distinction between the front and backstage of an audit process this study interviews senior staff from large and second-tier audit firms to explore how practitioners understand and operationalise relatively new expanded audit reporting requirements, something which has been overlooked by prior research (Rousseau & Zehms, 2020). In the frontstage, the empirics confirm the relevance of isomorphic pressures for guiding behaviours in institutionalised settings (e.g. Fogarty, 1992; Maroun & Van Zijl, 2016; Rodrigues & Craig, 2007) and demonstrate how the ostensive features of a routine are the "pathways" by which these pressures are "transmitted" (Andon et al., 2015; Kend & Nguyen, 2022) allowing the routine to be a source of power in principle (Latour, 1986).

Feldman and Pentland (2003) argue that routines which are a source of stability can also enable change, a position confirmed by this study in an auditing setting. In the backstage, professional judgement is operationalised which causes or enables changes in the work patterns of audit teams. Informal exchanges and the derivation of KAMs performatively lead to routine adaptations becoming commonplace. Professional judgement, informal knowledge exchanges based on past performances and undetected routine modifications counter isomorphic pressures emanating from the ostensive elements of the KAM routine. Moving from the performative to the

<sup>7</sup> To avoid triggering obligations to report non-compliance with laws and regulations, the researchers dealt with Type-II errors more generally.

ostensive, the routine becomes a source of power in practice (Latour, 1986) allowing auditors to enjoy agency by performing additional tests, altering templates, challenging assumptions in policy guides and setting additional objectives for reporting KAMs.

Not all modifications to the KAM routine have desirable outcomes. Additional issues are included in some audit reports as KAMs to meet the expectations of, for example, technical departments even if they were not of significance. Given that every aspect of how the routine was enacted cannot be verified, unnecessary reporting goes uncorrected. Conversely, an issue which ought to have been classified as a KAM may be excluded from an audit report. Even if the auditor was acting in good faith, the sequence of steps taken at each client cannot be re-enacted precisely with the result that quality reviewers cannot identify every modified routine. Ironically, that working papers have been prepared and passed internal and external quality checks legitimises and perpetuates the misapplication of professional standards.

Routines are useful for coordinating and simplifying complex work processes but are not uniformly understood and can never be defined with sufficient precision to encompass every performance (Feldman et al., 2016; Feldman & Pentland, 2003). Performative variability could explain quality deficiencies reported in South Africa (Logie & Maroun, 2020) and other jurisdictions (Löhlein, 2016) notwithstanding efforts to improve the scope and efficiency of external regulations, quality management systems and internal review processes. Divergences between routines in practice and principle highlight the mechanisms which undermine exogenous efforts to prescribe minimum levels of audit quality.

An interesting area for future research is to examine exactly how laws aimed at curtailing undesirable behaviours among auditors are reduced to routines and how the interactions among the ostensive and performative elements of those routines result in the application of regulatory requirements to different extents and with unintended outcomes. If professionals are to be regulated more effectively, testing policies and examining routine artefacts cannot be the only approach. It may be necessary to consider actual performances using ethnographies, embedded technology and regular interaction with clients when regulators are considering the quality of the most important assurance engagements.

Like any paper, the current study has limitations. The focus is on the operationalisation of ISA 701 using the institutionalised context of auditing as the starting point. However, just as the ostensive aspect of a routine can be modified by repeated performances, it is possible for routines to be informed by and simultaneously to inform the construction of auditing institutions (consider Giddens, 1984; Burns & Scapens, 2000). The mechanisms by which regulatory, societal, and economic pressures influence the taken-for-granted features of contemporary assurance services, the routines by which these are enacted and the reflexive reconstitution of codified practices would provide an interesting perspective on how auditing prescriptions are constituted and applied.

This study's application of routines in an auditing setting focuses specifically on KAMs because these are one of the most recent regulatory developments affecting the profession. Other aspects of audit practice should be examined to understand better how these engagements are executed. Examples include (1) materiality determination, (2) the need for and use of risk assessment procedures; (3) the application of the risk-response model and (4) the process by which misstatements are identified and evaluated. Each can complement the auditing research which is often preoccupied with empirical verification of the determinants and consequences of higher-quality audits.

Overall, our paper addresses calls for additional fieldwork on how audit firms function (Hay, 2015; Kend & Nguyen, 2022) with a specific focus on the link between the broad prescriptions of professional standards and the resulting micro-level performances by individual auditors. The paper offers an original action-orientated perspective on how routines work in a professional setting rather than relying on macro-level analyses of professionalism. The study complements earlier research which has focused primarily on inferential testing of the number and type of KAMs reported by providing the first exploratory assessment of how auditors are identifying KAMs in the field. The explication of the features of the KAM routine which promote stability and flexibility concurrently provides a novel perspective on KAMs and may account for the mixed results based on quantitative analysis of KAM disclosures. The current paper's findings should also be relevant for practitioners interested in coordinating audit tasks, regulators wanting to monitor KAM determination and the standard-setter which, at the time of writing, was conducting a post-implementation review of ISA 701.

## Data availability

The data that has been used is confidential.

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## Appendix A. Supplementary data

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