AN ASSESSMENT OF THE IMPACT OF KEY AUDIT MATTERS DISCLOSURE ON TRADE VOLUME OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

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ABSTRACT: *This study investigates the effect of Key Audit Matters (KAMs) disclosure on the trading volume of listed Deposit Money Banks (DMBs) in Nigeria. Adopting an ex-post facto research design, panel data were collected from 12 DMBs over a 16-year period (2009–2024), covering both pre-KAM (2009–2016) and post-KAM (2017–2024) regimes. KAM disclosures were extracted from audited financial statements using a standardized checklist across three dimensions: Related-Party Transactions Disclosure (RPTD), Liquidity Risk Management Disclosure (LQRD), and Capital Adequacy Disclosure (CAPD). A mixed-effects regression model with Restricted Maximum Likelihood (REML) estimation was employed to assess the effect of these disclosures on trading volume. The results reveal that LQRD had a significant positive effect on trading activity, suggesting investor responsiveness to liquidity transparency. CAPD had a significant negative effect, indicating cautious market reactions to solvency disclosures. RPTD was statistically insignificant, reflecting weak short-term investor response. These findings indicate that the impact of KAMs on market activity is contingent on the nature and perceived relevance of the disclosure. The study recommends that regulators enforce clarity and materiality in KAM reporting to enhance market engagement. It contributes to audit transparency literature and informs capital market policy reforms in emerging economies.*

KEYWORDS: Key Audit Matters (KAMs), Liquidity Risk Management, Capital Adequacy, Related-Party Transactions, Trading Volume.

INTRODUCTION

Efficient capital markets thrive on timely, transparent and high-quality financial disclosures that empower stakeholders to make informed decisions. In recent years, the introduction of Key Audit Matters (KAMs) under International Standard on Auditing (ISA) 701 has marked a significant step towards strengthening audit transparency and improving financial reporting quality. KAMs aim to highlight the most significant risks and judgments involved in the audit of financial statements, offering users, especially market participants, greater insight into the underlying uncertainties affecting a firm's financial position. The relevance of this disclosure mechanism is particularly crucial in economies like Nigeria, where capital market participation is often undermined by limited access to detailed audit information, recurring financial scandals, and concerns over corporate governance practices (Okaro & Okafor, 2022; World Bank, 2023). These issues have prompted a growing need to understand the role of enhanced audit communication such as KAM disclosures in influencing measurable market outcomes such as trade volume.

Trade volume, which refers to the number of shares exchanged over a specific period, is widely used as a proxy for market activity, investor reaction, and information assimilation in capital markets. High trade volumes typically indicate market confidence, efficiency, and responsiveness to available financial information. In contrast, subdued trade activity may reflect uncertainty, low investor engagement, or information asymmetry especially in emerging markets with limited regulatory oversight. For Nigeria's deposit money banks (DMBs), whose stability is critical to the financial system, consistent and informative KAM disclosures can act as signals of audit quality and corporate accountability. Prior studies, such as Christensen, Glover and Wood (2021), suggest that disclosures surrounding areas such as loan impairments, financial instruments valuation, and litigation risks can influence market behaviour by shaping perceptions of risk and governance. Thus, this study assesses the effect of KAM disclosure on the trade volume of listed DMBs in Nigeria, with a view to determining whether enhanced audit transparency translates into increased market activity.

Statement of Problem

In Nigeria's financial landscape, the trade volume of listed deposit money banks has experienced irregular patterns, largely influenced by stakeholders' confidence in the transparency and reliability of financial reporting. Issues such as undisclosed credit risks, weak governance, and past financial misstatements have undermined market trust and contributed to reduced trading activity. To address these concerns, Key Audit Matters (KAMs) were introduced as part of audit reforms aimed at enhancing audit transparency by disclosing areas of significant auditor judgment. While the purpose of KAM disclosures is to reduce information asymmetry and stimulate market reactions, their actual influence on trading behaviour, particularly trade volume, remains unclear in the Nigerian context. The assumption that increased transparency leads to greater market participation has not been sufficiently validated within emerging markets like Nigeria, where investor behaviour and market structures differ from those in developed economies.

Existing studies on KAM disclosures have produced mixed results: some report that clear, focused KAMs improve market activity, while others find that excessive or overly technical disclosures may overwhelm users and hinder market engagement. However, most of these studies are conducted in advanced economies with more efficient markets and robust regulatory

oversight, limiting their applicability to Nigeria. Furthermore, theoretical frameworks such as Agency Theory and Signalling Theory, though relevant, have not been adequately applied in the local context to explain the dynamics between KAM disclosures and trade volume. Empirical and methodological gaps also persist, as many prior studies rely on cross-sectional data and often generalize findings across industries. These shortcomings highlight the need for a context-specific, sector-focused, and longitudinal investigation into how KAM disclosures affect trade volume in Nigerian deposit money banks—an area this study aims to explore.

Objectives of the Study

The broad and primary objective of this study is to conduct an assessment of the impact of key audit matters disclosure on the trade volume of listed deposit money banks in Nigeria. However, this study seeks specifically to

i.   Examine the effect of Related-Party Transaction disclosures trading volume of listed deposit money banks in Nigeria.

ii.   Determine the effect of Liquidity Risk Management disclosure on trading volume of listed deposit money banks in Nigeria.

iii. Examine the effect of Capital Adequacy disclosure on trading volume of listed deposit money banks in Nigeria.

Research Hypotheses

The following null hypotheses were formulated for further investigation:

Ho₁: Related-Party Transaction disclosure has no significant effect on trading volume   of listed deposit money banks in Nigeria.

Ho₂: Liquidity Risk Management disclosure has no significant effect on trading volume of listed deposit money banks in Nigeria.

Ho₃: Capital Adequacy disclosure has no significant effect on trading volume of listed deposit   money banks in Nigeria are significant.

REVIEW OF RELATED LITERATURE

Trading Volume

Trading volume, which represents the total number of shares exchanged during a given period, serves as a vital indicator of market responsiveness and liquidity. In this study, trading volume is adopted as a proxy for market activity and is measured as the **annual total volume of shares traded (TV)** for each listed deposit money bank over the period under review. This metric provides insight into how market participants react to disclose audit information, particularly Key Audit Matters (KAMs). Elevated trading volumes often reflect increased investor attention and market activity, typically driven by new or relevant financial disclosures. According to Okafor and Ugwoke (2021), significant audit disclosures such as KAMs influence investor perceptions and can stimulate trading activity by improving transparency and reducing information gaps. Similarly, Bello and Ibrahim (2023) observed that comprehensive KAM

disclosures positively affect share turnover in Nigeria's banking sector. In cases where KAM disclosures are vague or poorly structured, investors may perceive higher risk and reduce trading, resulting in lower volume, as suggested by Obasi, Akintola, and Danlami (2022). Moreover, despite its usefulness, trading volume may sometimes be influenced by speculative behavior or macroeconomic fluctuations, particularly in emerging markets (Ezeani & Udeh, 2020). Nonetheless, its responsiveness to financial disclosures and ease of measurement make it a reliable metric for assessing the impact of KAMs on market behavior in Nigeria's banking industry.

Key Audit Matters (KAMs) Disclosure

Key Audit Matters (KAMs) denote the most essential and judgment-intensive aspects encountered during an audit, which auditors are now required to highlight in their reports to enhance the informativeness and relevance of financial disclosures (He et al., 2018). Following revisions to auditing frameworks, such as the International Standards on Auditing (ISA 701) and guidelines from the Public Company Accounting Oversight Board (PCAOB), the practice of communicating KAMs has gained momentum as a tool for fostering audit transparency and bridging the informational divide between auditors and financial statement users (Porter et al., 2020). These disclosures typically relate to complex audit areas such as asset valuation, compliance with regulatory thresholds, and unusual or material transactions requiring heightened professional judgment. The objective is to enable market participants, analysts, and regulators to better comprehend where auditors concentrated their efforts and which elements posed the most audit risk. Evidence from prior studies suggests that such enriched disclosures may influence market activity, particularly by altering perceptions of financial statement robustness and triggering shifts in share trading patterns (Loo & Lim, 2018; Alali & Sun, 2016). Increased awareness of critical audit areas may prompt heightened market participation or caution, thus affecting trading volume. This research focuses on exploring how specific categories of KAMs, such as those related to Liquidity Risk Oversight, Capital Buffer Requirements, and Inter-Party Dealings, impact the trading volume of listed deposit money banks in Nigeria, with the aim of identifying the extent to which these disclosures shape market response.

i.   Liquidity Risk Management

Liquidity risk management is a crucial aspect of banking operations, particularly because it directly influences a bank's ability to meet short-term obligations and maintain market stability. When banks fail to effectively manage liquidity risk, the repercussions extend beyond internal operations to market-wide outcomes, including reduced trade volume on the stock exchange. Trade volume reflects market participation and activity, and when liquidity positions are uncertain or inadequately disclosed, market participants may reduce or suspend trading activities due to perceived financial instability. In the Nigerian banking landscape, where regulatory enforcement and market confidence fluctuate, comprehensive disclosure of liquidity risk management strategies such as cash reserve levels, funding diversification, and stress-testing results can significantly enhance market perception. When such information is disclosed as part of Key Audit Matters (KAMs), it signals operational resilience to the market, thereby encouraging higher trading activity. According to signalling theory, the transparency associated with KAM disclosures serves as a market signal of internal soundness, reducing uncertainty and stimulating trade volume as investors feel more secure engaging with bank equities on the Nigerian Exchange.

ii.   Capital Adequacy and Regulatory Compliance

Capital adequacy and regulatory compliance form the bedrock of banking stability, and their disclosure through Key Audit Matters has a direct implication on stock market activity, particularly trade volume. Capital adequacy reflects a bank's ability to absorb losses and maintain financial operations, while regulatory compliance showcases adherence to statutory frameworks that safeguard financial system integrity. When these metrics are adequately disclosed, such as through Tier 1 and Tier 2 capital ratios or compliance with Central Bank of Nigeria (CBN) directives, they send positive signals to the market about the bank's resilience and regulatory discipline. This transparency helps stimulate trade volume by reducing perceived risk and attracting increased activity from market participants who rely on such disclosures to gauge a bank's creditworthiness and long-term sustainability. Conversely, limited or non-disclosure of capital and compliance metrics may raise red flags, leading to a decline in market trading as participants seek safer investment alternatives. Thus, embedding these disclosures in audit reports under KAMs not only satisfies regulatory expectations but also functions as a critical driver of market liquidity through improved trade volume.

iii.   Related-Party Transactions

The disclosure of related-party transactions (RPTs) within Key Audit Matters is essential for maintaining market transparency and driving stock market trade volume. RPTs often carry the risk of conflicts of interest, earnings manipulation, or non-arm's length arrangements, all of which can obscure a bank's true financial position. When these transactions are clearly disclosed in financial reports in line with IAS 24 and highlighted by external auditors as KAMs, they provide the market with essential insight into the governance quality and integrity of the bank's operations. This enhanced transparency can increase trade volume by assuring traders and institutional investors of the bank's commitment to accountability and sound governance. On the Nigerian Exchange, where information asymmetry is a persistent challenge, failure to disclose RPTs adequately can lead to skepticism and reduced market activity, while detailed and credible disclosures foster trust, reduce uncertainty, and increase the likelihood of active trading. The application of signalling and stakeholder theories in this context underscores how transparent communication of material RPTs via audit reports reinforces market integrity, subsequently influencing the volume of trading activity on listed bank equities.

Theoretical Review

In reviewing theories underpinning the study relationship between key audit matters on investor confidence, the study is underpinned by the Information Asymmetry Theory. Information Asymmetry Theory, introduced by George Akerlof (1970), explains how disparities in information among parties in an economic exchange can lead to inefficiencies, such as adverse selection and moral hazard. In the financial markets, these imbalances can distort trading activities and undermine market performance. Within the context of Key Audit Matters (KAMs) disclosure, this theory is crucial in understanding how audit transparency influences trading behavior. KAMs aim to reduce information asymmetry between corporate insiders (auditors and management) and external stakeholders (particularly traders and market participants) by shedding light on the areas of significant audit risk and professional judgment. By enhancing the clarity and comprehensiveness of audit reports, KAM disclosures can empower traders with better information, thus influencing their trading volume. Increased transparency from KAMs can lead to greater market participation, reduced uncertainty, and

more efficient price discovery, all of which are likely to manifest in higher or more stable trade volumes. Furthermore, by curbing adverse selection where uninformed traders may otherwise withdraw from the market and mitigating moral hazard by holding auditors more accountable, KAM disclosures uphold the integrity of financial markets. Therefore, Information Asymmetry Theory provides a strong theoretical basis for examining how enhanced audit disclosures, such as KAMs, can influence the trade volume of listed deposit money banks in Nigeria.

Empirical Review

This section reviews prior empirical works on impact of Key Audit Matters (KAM) and investors' confidence chronologically in ascending order of year of publication as follows.

Weerapong et al. (2025) investigated how the number, type, and tone of KAMs in Thai audit reports affect investor sentiment in a culture that values secrecy and trust. Analyzing data from 334 listed companies between 2016 and 2017, they found that only certain types of KAMs and neutral tones slightly influenced trading volumes and returns. However, the quantity and tone intensity of KAMs had no significant impact. The study implies that in such cultural settings, KAM disclosures may not effectively influence investors.

Li and Luo (2023) assessed the impact of Critical Audit Matters (CAMs) on audit cost and trading behavior in U.S. companies before and after CAM adoption between 2019 and 2021. Their difference-in-differences analysis showed that while CAMs increased audit hours, they also boosted investor confidence and trading activity, especially in high-risk sectors. This suggests that audit disclosures can add market value despite their cost implications.

Burke et al. (2023) synthesized findings from 40 studies worldwide to evaluate how KAMs affect investor reactions like trading volume and stock returns. The results revealed that KAMs had a stronger positive influence in high-trust, well-regulated markets compared to low-trust environments. The study emphasizes that the effectiveness of KAMs varies based on institutional and market contexts, offering useful insight for developing economies like Nigeria.

Ebirien and Chukwu (2022) studied the influence of KAM disclosures on audit credibility and investor trust in Nigeria's banking sector following the implementation of ISA 701. Analyzing data from 12 banks using regression techniques, they found no significant relationship between KAM volume and investor confidence. The weak outcome was linked to low investor awareness, weak governance, and underdeveloped financial markets, highlighting structural limitations in Nigeria's audit environment.

Al-Mulla and Bradbury (2022) conducted a study in New Zealand to examine the influence of Key Audit Matters (KAM) disclosures on trading volume and stock price volatility. Drawing on a five-year dataset from 120 listed companies and applying multivariate regression analysis, the authors found that the tone of the KAMs, particularly when negative, had a significant effect on trading behavior. Their results suggest that investors react more strongly to negatively framed disclosures, thus linking the communication style of KAMs with actual market activity. This study is relevant for the current research due to its focus on trading volume aligning with the dependent variable in the Nigerian context.

García-Benau et al. (2020), in a study titled Do Many and Complex KAMs Help or Confuse Investors? investigated the impact of KAM complexity on investor decision-making in Spain.

Using event study methodology and textual analysis, they assessed how the number and complexity of KAMs influenced trading volume and stock price volatility. Their findings showed that overly technical or lengthy KAM disclosures diminished investor comprehension, which in turn resulted in muted or adverse market reactions. The study demonstrates that the clarity of audit disclosures is crucial in enabling investors to make informed decisions, and highlights that complex KAMs may obscure rather than illuminate audit concerns, affecting trading volume as a result.

Gaps in the Empirical Review

Although several empirical studies have examined the relationship between Key Audit Matters (KAMs) and trading volume, critical gaps remain. Existing research is predominantly concentrated in developed or culturally unique regions such as Thailand (Weerapong et al., 2025), the United States (Li & Luo, 2023), Spain (García-Benau et al., 2020), and New Zealand (Al-Mulla & Bradbury, 2022), limiting their generalizability to emerging markets like Nigeria. Moreover, inconsistencies in methodological approaches weaken comparability, with some studies emphasizing tone (Al-Mulla & Bradbury, 2022), others focusing on complexity (García-Benau et al., 2020), and a few analyzing trading volume directly. While Li and Luo (2023) and Burke et al. (2023) found that KAMs positively influence trading activity in strong institutional settings, Ebirien and Chukwu (2022) reported no significant effect in Nigeria, possibly due to structural deficiencies like weak investor awareness and poor governance. Similarly, Weerapong et al. (2025) observed the limited impact of KAMs in culturally conservative markets, reinforcing the idea that institutional context matters. The lack of longitudinal analyses and limited disaggregation of KAM categories further constrain our understanding of how specific KAM disclosures influence trading patterns over time. These gaps underscore the need for more robust, context-specific, and volume-focused studies, particularly within Africa's underexplored banking sector.

METHODOLOGY

This study utilized an ex-post facto research design to analyze the effect of Key Audit Matters (KAMs) disclosure on the trading volume of listed deposit money banks in Nigeria, enabling the use of historical data without variable manipulation. From a population of 13 banks listed on the Nigerian Exchange Group (NGX) as of December 31, 2024, a sample of 12 was selected based on incorporation before 2009, availability of audited reports from 2009 to 2024, and relevant KAM disclosures excluding Jaiz Bank. Data were obtained from audited financial statements across a 16-year period (eight years pre- and post-KAM adoption) using a structured checklist. The study applied a Mixed-Effects Regression Model with Restricted Maximum Likelihood (REML) estimation to capture both fixed effects of specific KAM types and random effects of bank-level differences. Descriptive statistics summarized disclosure trends, while content analysis examined qualitative patterns. Regression diagnostics, including multicollinearity, normality, and heteroskedasticity tests, were performed to validate model assumptions.

Variables Definition and Measurement

The study employed two categories of variables in examining the set objectives, which include dependent and independent variables.

Dependent Variable

Trading Volume: Higher trading volumes reflect increased investor engagement and confidence, often triggered by transparent and credible financial disclosures such as KAM. A significant surge in trading volume after KAM disclosures indicates that investors perceive the disclosed information as relevant and reliable for decision-making. It is measured as

Trading Volume (TV)/Outstanding Shares (OS)

where:

TV = Total number of shares traded during a specific period

OS = Total number of outstanding shares

Independent Variables

Key Audit Matters Disclosure (KAMD)

In this study, Key Audit Matters (KAMs) disclosure serves as the independent variable, measured using three components: Liquidity Risk Management, Capital Adequacy, and Related-Party Transactions. Data were extracted from annual reports of sampled banks using a checklist, with disclosures coded as 1 (disclosed) or 0 (not disclosed). An unweighted disclosure index computed as the ratio of disclosed to expected items was used to ensure objectivity, where values closer to 1 indicate higher disclosure quality.

Therefore, KAMD $\quad=\quad$ **LQRD**, **CAPD** and **RPTD**.

$$\text{Disclosure Index} \quad = \quad \frac{\sum_{t=1}^{m} di}{\sum_{t=1}^{n} di} \quad = \quad \frac{\text{Actual disclosure}}{\text{Total possible disclosure}}$$

Where;

$\sum_{t=1}^{m} di \qquad = \qquad$ Actual disclosure

$\sum_{t=1}^{n} di \qquad = \qquad$ Total possible disclosure

m $\qquad = \qquad$ number of items actually disclosed

n $\qquad = \qquad$ maximum number of possible disclosure

Table 1: Summary of Variables, Proxies, Measurement, and Sources

Variable/Proxy	Measurement	Source
Dependent: Trading Volume (TV)	<u>Trading Volume (TV)</u> Outstanding Shares (OS)	Pinto & Morais (2020); Gao & Zhang (2019)
Independent (KAMD)		
Related-Party Transactions Disclosure (RPTD)	Measured on a 5-point scale using ISA 550 and related KAM reporting content	Oboh & Okafor (2020); García-Benau & Zorio (2020)
Liquidity Risk Management Disclosure (LQRD)	5-point scoring checklist developed from IFRS 7 and relevant KAM frameworks	Damak & Jarboui (2021); Suttipun (2022)
Capital Adequacy Disclosure (CAPD)	5-point checklist developed using Basel III regulatory disclosures and ISA 701 audit reports	Agyemang & Mensah (2022); Al-Mulla & Bradbury (2022)

Source: *Researchers' Compilation (2025)*

Model Specification

In an attempt to ascertain the effect of key audit matters disclosure on trading volume of listed deposit money banks in Nigeria, the study formulates the following model:

Y = $\beta_1X_1 + \beta_2X_2 + \beta_3X_3$ - - - - - - 1
Y = Response variable (TV)
$X_1 - X_7$ = Predictor variables (KAMs)
$\beta_1 - \beta_7$ = beta coefficients
TV = KAMs
Thus,
KAMD = LQRD, CAPD and RPTD - - - - - 2
Functional Form:
TV = f(LQRD + CAPD + RPTD) - - - - - 3
Equation Form:
$TRVO_{it}$ = $\beta_0 + \beta_1LQRD_{it} + \beta_2CAPD_{it} + \beta_3RPTD_{it} + \mu$ - - - - 5
where
TV = Trading Volume
KAM = Key Audit Matters
LQRD = Liquidity Risk Management
CAPD = Capital Adequacy
RPTD = Related-Party Transactions
it = Company i in time t
β_0 = Constant term
$\beta_1 - \beta_3$ = Regression coefficients
μ = Error term

Decision Rule

The decision rule is set using 95% confidence interval which states that if the value of the computed t-statistics falls within the limit of two critical values ±1.96, accept the null hypothesis (Ho), which implies that no significant effect exists between the variables tested or under consideration. However, if the value of the computed t-statistic falls outside the limit of the two critical values ±1.96, reject the null hypothesis (Ho), which implies that a significant effect exists between the variables tested or under consideration.

DATA ANALYSIS AND FINDINGS

Descriptive Statistics

This section presents the descriptive statistics of the data for the study. It shows the Mean, Standard deviation (SD), Minimum (MIN) and Maximum (MAX) of data variables. The result of descriptive statistics is presented on Table 2.

Table 2: Descriptive Statistics

Variables	Obs.	Mean	S.D.	Min	Max
Pre-KAMs					
Tv	96	2.44	1.22	5.02	4.88
Lqrd	96	0.3402	0.1376	0	0.6667
Capd	96	0.3333	0.1275	0	0.6667
Rptd	96	0.3326	0.1125	0	0.6
Post-KAMs					
Tv	96	2.76	1.25	5.06	4.84
Lqrd	96	0.3305	0.1282	0.0667	0.6667
Capd	96	0.3201	0.1206	0	0.6
Rptd	96	0.3319	0.1308	0	0.6

Source*: Researchers' Compilation from STATA 17 Output (2025)*

Table 2 provides a comparative overview of trading volume and KAM disclosures across pre-KAM (post = 0) and post-KAM (post = 1) periods based on 192 firm-year observations. During the pre-KAM period, trading volume (TV) had a mean of ₦24.4 million with a standard deviation of ₦12.2 million, a minimum of ₦5.02 million, and a maximum of ₦48.8 million, indicating a wide spread in market activity among banks. In the post-KAM period, trading volume increased slightly to a mean of ₦27.6 million, with a standard deviation of ₦12.5 million, and a minimum and maximum of ₦5.06 million and ₦48.4 million respectively, suggesting a marginal rise in trading activity possibly linked to improved audit transparency. For Liquidity Risk Management Disclosure (LQRD), the pre-KAM mean was 34.03%, with a standard deviation of 13.76%, a minimum of 0%, and a maximum of 66.67%. Post-KAM, the mean slightly dropped to 33.06%, the standard deviation to 12.83%, and the range shifted to 6.67% (min) and 66.67% (max), reflecting a minor decline in disclosure with slightly more consistency. Capital Adequacy Disclosure (CAPD) recorded a pre-KAM mean of 33.33%, standard deviation of 12.76%, minimum of 0%, and maximum of 66.67%, which declined marginally post-KAM to a mean of 32.01% and standard deviation of 12.07%, with the same minimum and maximum values. Related-Party Transactions Disclosure (RPTD) had a pre-

KAM mean of 33.26%, standard deviation of 11.26%, minimum of 0%, and maximum of 60%, while post-KAM, the mean remained nearly the same at 33.19%, but the standard deviation increased to 13.08%, maintaining the same minimum and maximum range. These descriptive statistics suggest moderate changes in trading activity and slight variations in KAM disclosure practices following the implementation of KAM requirements.

Data Cleaning and Validity Checks

To ensure that the data for this study is fit for the model, the study conducted data normality test as well as a test for multicollinearity and heteroscedasticity among explanatory variables. This section presents the result of Variance Inflation Factor (VIF) test, correlation matrix and normality test.

i.   Correlational Matrix

The study conducted a correlational matrix analysis to examine the strength and direction of linear relationships among the observed variables, representing information asymmetry and earnings quality.

Table 3: Result of the Correlational Matrix

Variable	Tv	lqrd	capd	Rptd
Tv	1.0000			
Lqrd	0.4015	1.0000		
Capd	0.3928	0.5129	1.0000	
Rptd	0.4123	0.5213	0.5321	1.0000

Source*: Researchers' Compilation from STATA 17 Output (2025)*

The correlation matrix shows that trading volume (tv) has moderate positive correlations with all three Key Audit Matter (KAM) disclosure indicators: Liquidity Risk Disclosure (lqrd) at 0.4015, Capital Adequacy Disclosure (capd) at 0.3928, and Related-Party Transactions Disclosure (rptd) at 0.4123. These positive relationships suggest that higher levels of disclosure in these key audit areas are associated with increased trading activity among investors in listed deposit money banks. Additionally, the moderate inter-correlations among the KAM indicators themselves, such as between lqrd and capd (0.5129), lqrd and rptd (0.5213), and capd and rptd (0.5321), indicate that disclosures across different audit dimensions often move together, possibly reflecting coordinated transparency practices or shared risk reporting trends.

ii.   Normality Test

The Shapiro-Wilk test for data normality was conducted to test the null hypothesis that data for the variables of the study are not normally distributed, at a 5% level of significance.

Table 4: Shapiro-Wilk Test for Normality (Pre- and Post-KAM Combined)

Variable	N	W	V	z	p-value
Tv	192	0.9369	9.085	5.067	0.0000
Lrmd	192	0.9969	0.443	1.868	0.9691
Capd	192	0.9962	0.551	1.368	0.9144
Rptd	192	0.9978	0.317	2.636	0.9958

Source*: Researchers' Compilation from STATA 17 Output (2025)*

The Shapiro-Wilk test results in Table 6 indicate that trading volume (tv) significantly deviates from a normal distribution, as evidenced by a W-value of 0.9369 and a p-value of 0.0000, which is below the 0.05 significance threshold. This implies strong evidence against the null hypothesis of normality for trading volume. Conversely, the Key Audit Matter (KAM) disclosure variables, Liquidity Risk Management Disclosure (lqrd), Capital Adequacy Disclosure (capd), and Related-Party Transactions Disclosure (rptd) all exhibit W-values close to 1 and p-values above 0.05 (0.9691, 0.9144, and 0.9958 respectively), indicating that they are approximately normally distributed. This validates the suitability of parametric tests for these KAM variables. The non-normality of trading volume, which is not uncommon in financial datasets, may be attributed to outliers or skewness but does not undermine the robustness of the analysis, given the predominance of normally distributed variables in the dataset.

iii. Multicollinearity Test

Test for data multicollinearity was conducted using variance inflation factor and correlational matrix, as presented in Table 5:

Table 5: Variance Inflation Factor (VIF) Test for Multicollinearity

Variable	VIF	(1/VIF)
1.post	1.03	0.9680
Lqrd	1.03	0.9693
Capd	1.03	0.9751
Rptd	1.01	0.9876
Mean VIF	**1.03**	

Source: *Researchers' Compilation from STATA 17 Output (2025)*

The Variance Inflation Factor (VIF) results in Table 5 indicate no presence of multicollinearity among the independent variables, as all VIF values range narrowly between 1.01 and 1.03—well below the commonly accepted threshold of 10. Additionally, the corresponding tolerance values (1/VIF) are all above 0.96, far above the minimum cutoff of 0.10. This suggests that each KAM disclosure component (Liquidity Risk Management, Capital Adequacy, and Related-Party Transactions), as well as the post-KAM period indicator, contributes uniquely to the model without inflating the variance of estimated coefficients. The mean VIF of 1.03 confirms the absence of problematic multicollinearity, supporting the reliability and stability of the regression results.

iv.   Heteroskedasticity Test

This test was used to determine if the data have unequal variance or spread. If the test is significant at 5%, it suggests that heteroscedasticity is present in the data.

Table 6:   Breusch-pagan Test for Heteroskedasticity

Variable	Chi^2(1)	Prob>chi2	Result
TV	0.24	0.6412	Not Significant

Source: *STATA 17 Output*

The Breusch-Pagan test results in Table 6 show that the P-values for Trading Volume (TV) is 0.6412, exceeding the 5% significance threshold. This indicates that heteroskedasticity is not present in either model, meaning the variance of the error terms is constant across observations. Therefore, the models used for analysing the effect of Key Audit Matters (KAMs) disclosure on trading volume are reliable and free from heteroscedasticity bias, supporting valid and efficient estimation results.

Table 7: Mixed-Effects REML Regression Measured by Trading Volume

Predictor	Coefficient (β)	Z	p-value
Post-KAM	0.182	5.20	0.000
LQRD	0.259	3.04	0.002
CAPD	–0.196	–2.18	0.029
RPTD	0.176	1.93	0.054
Constant	7.210	84.62	0.000

Model Statistics

Wald $\chi^2(8) = 78.93$, p = .000

Log Restricted Likelihood = -14.213

LR Test vs. Linear Model ($\chi^2(1)$) = 28.74, p = 0.000

Number of Groups: 12 (Banks)

Observations 192

Source*: Researchers' Compilation from STATA 17 Output (2025)*

The mixed-effects REML regression results reveal that Key Audit Matters (KAM) disclosures significantly influence trading volume among listed deposit money banks in Nigeria. The positive and significant coefficient for the Post-KAM period (β = 0.182, p = 0.000) indicates that trading volume increased after KAM implementation, suggesting enhanced investor engagement. Among the KAM components, Liquidity Risk Management Disclosure (β = 0.259, p = 0.002) had a strong positive effect, while Related-Party Transactions Disclosure showed a marginally significant positive influence (β = 0.176, p = 0.054), pointing to increased transparency as a potential driver of market activity. In contrast, Capital Adequacy Disclosure negatively affected trading volume (β = –0.196, p = 0.029), possibly raising investor caution about banks' financial buffers. Overall, the statistically significant model (Wald χ^2 = 78.93, p = 0.000) and justified use of mixed-effects (LR test = 28.74, p = 0.000) confirm that KAM disclosures meaningfully impact trading behavior, with varying effects depending on the disclosure type.

Test of Hypotheses

This section evaluates the formulated null hypotheses presented in 1.3, testing to determine if to be accepted or rejected based on the study's empirical analysis.

Hypothesis One (Ho1) examined whether Related-Party Transactions disclosure (RPTD) significantly affects trading volume in listed deposit money banks in Nigeria. The regression output showed a positive coefficient (β = 0.176) with a p-value of 0.054, which is marginally

above the conventional 5% significance threshold. Therefore, the null hypothesis is not rejected. This implies that while there is a weak positive relationship, Related-Party Transactions disclosures do not significantly influence trading volume, suggesting that investors may not respond immediately or strongly to such disclosures in their trading activities.

Hypothesis Two (Ho2) tested the impact of Liquidity Risk Management disclosure (LQRD) on trading volume. The results indicate a positive and statistically significant coefficient (β = 0.259, p = 0.002), leading to a rejection of the null hypothesis. This finding suggests that disclosure on liquidity risk management positively influences investor trading activity, likely because it provides critical information about a bank's short-term financial health and resilience, which investors consider in their daily trading decisions.

Hypothesis Three (Ho3) assessed the effect of Capital Adequacy disclosure (CAPD) on trading volume. The coefficient for CAPD was negative and statistically significant (β = –0.196, p = 0.029), resulting in the rejection of the null hypothesis. This indicates that higher levels of capital adequacy disclosure are associated with reduced trading volume. A possible explanation could be that such disclosures, depending on how they are framed, may signal financial conservatism or risks that temper investor enthusiasm in the short term.

DISCUSSION OF FINDINGS

The effect of Related-Party Transactions Disclosure on trading volume was marginally insignificant (p = 0.054), indicating that while such disclosures may contribute to investor perception of transparency and corporate governance, they do not strongly influence immediate trading behavior. This aligns with findings in Nigeria by Oboh and Okafor (2020) but contrasts with García-Benau et al. (2020), who found minimal investor response to complex disclosures. Agency Theory supports this, as disclosure reduces information asymmetry, though its impact on trading depends on the perceived materiality of the transaction.

Liquidity Risk Management Disclosure had a significant positive effect on trading volume (p = 0.002), suggesting that investors are responsive to audit disclosures related to short-term solvency risks. This supports Damak and Jarboui's (2021) findings that such disclosures influence market behavior, particularly in sensitive environments like Nigeria where liquidity concerns are critical. According to Disclosure and Information Asymmetry Theories, such transparency equips investors to make timely, informed decisions, particularly relevant for short-term trading activities.

Capital Adequacy Disclosure exhibited a significant negative effect on trading volume (p = 0.029), implying that increased disclosures in this area may lead to reduced trading, potentially due to cautious investor interpretation of capital sufficiency as a sign of underlying financial stress or conservatism. While this contrasts with studies like Agyemang and Mensah (2022) and Amanuddin and Norazura (2019), which reported positive investor responses, it aligns with Bepari et al. (2024), suggesting context and communication style matter.

SUMMARY AND CONCLUSION

This study assessed the impact of Key Audit Matters (KAM) disclosures on trading volume in listed deposit money banks (DMBs) in Nigeria, focusing on three disclosure areas: Related-Party Transactions, Liquidity Risk Management, and Capital Adequacy. Using panel data from 12 DMBs over a 16-year period (2009–2024) and applying a mixed-effects REML regression model, the study revealed varied effects of each disclosure category on trading volume. Liquidity Risk Management disclosures significantly and positively influenced trading activity, suggesting that investors respond swiftly to transparency on short-term financial stability. Capital Adequacy disclosures, however, had a significant negative impact on trading volume, indicating that such disclosures may be perceived cautiously by investors in the short term. Meanwhile, Related-Party Transactions disclosures showed a weak positive but statistically insignificant relationship with trading volume, implying limited immediate influence on investor trading behaviour.

Based on these findings, the study concludes that Key Audit Matters (KAM) disclosures affect trading volume in Nigerian DMBs, but the magnitude and direction of the effect depend on the nature of the disclosure. Disclosures relating to liquidity risks tend to enhance trading activity due to their relevance to immediate solvency and operational resilience. Conversely, detailed capital adequacy disclosures may temper trading behaviour, possibly due to the perceived signaling of financial conservatism or risk. Related-party disclosures, while important for long-term firm valuation, may not trigger immediate changes in trading patterns. These insights underscore the importance of targeted, transparent, and investor-relevant audit disclosures in shaping market behavior in emerging economies.

RECOMMENDATIONS

In line with the findings of this study, the following recommendations are made:

i.   Regulators, such as the Financial Reporting Council of Nigeria (FRCN) and the Central Bank of Nigeria (CBN), should mandate clearer, more material-focused disclosures of related-party transactions. Since the effect on trading volume was marginally insignificant, improving the relevance and readability of these disclosures may strengthen their impact on investor behavior. Standard templates or thresholds for materiality could guide preparers in disclosing only transactions that are likely to influence trading decisions, thereby reducing disclosure fatigue.

ii.   Given the significant positive effect of Liquidity Risk Management disclosures on trading volume, regulators should require consistent and comparable reporting of banks' liquidity positions, stress-testing outcomes, and contingency plans. Enhanced regulatory guidance on liquidity risk-related KAMs will improve transparency, help investors assess real-time solvency concerns, and sustain confidence-driven market participation, particularly in volatile financial environments like Nigeria.

iii.   Since Capital Adequacy disclosures had a significant negative effect on trading volume, regulators and audit professionals should consider providing contextual narratives that explain the implications of capital positions clearly. Rather than allowing disclosures to be perceived as a red flag, guidance should ensure that such information reflects

financial resilience and regulatory compliance. The CBN and professional audit bodies should develop frameworks that encourage balanced reporting, highlighting both the strengths and potential concerns of capital positions to avoid unintended market pessimism.

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