DOES KEY AUDIT MATTERS DISCLOSURE AFFECT MARKET CAPITALISATION OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

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ABSTRACT: *This study investigates the effect of Key Audit Matters (KAM) disclosure on market capitalisation, of listed Deposit Money Banks (DMBs) in Nigeria. Adopting an ex-post facto research design, the study utilized panel data from 12 DMBs over a 16-year period (2009–2024), divided into pre-KAM (2009–2016) and post-KAM (2017–2024) periods. Secondary data were extracted from audited financial statements using a standardized disclosure checklist covering four KAM dimensions: Financial Instruments Valuation (FIVD), Loan Impairments (LIPD), Revenue Recognition (RERD), and Litigation and Contingencies (LCOD). The study employed a mixed-effects regression model with Restricted Maximum Likelihood (REML) estimation to assess the relationship between KAM disclosures and market capitalisation, while accounting for unobserved heterogeneity across banks. Descriptive and diagnostic statistics confirmed data suitability and regression assumptions. The findings reveal that FIVD, RERD, and LCOD disclosures significantly and positively influenced market capitalisation, suggesting that transparency in these areas strengthens investor confidence and firm valuation. Conversely, LIPD exhibited a significant negative effect, indicating investor sensitivity to disclosures signaling credit risk. The post-KAM period showed a significant improvement in market valuation, affirming the overall positive influence of mandatory audit transparency reforms. The study concludes that while audit transparency generally enhances investor confidence, the specific content and perceived implications of KAMs determine their market impact. It recommends that banks and regulators enhance the quality, clarity, and context of KAM disclosures to optimize investor understanding and market response. The study contributes to audit disclosure literature and informs regulatory policy on financial reporting in emerging capital markets.*

KEYWORDS: Key Audit Matters (KAMs), Loan Impairments, Litigation and Contingencies Disclosure, Market Capitalisation, Revenue Recognition.

INTRODUCTION

There has been growing scholarly interest in understanding the factors influencing market capitalisation, particularly in relation to audit transparency, financial disclosure, and corporate governance mechanisms. Globally, corporate collapses such as those of Enron, Wirecard, and Carillion have raised serious questions about the reliability of financial reporting and the credibility of audits (Lobo & Zhao, 2021). These incidents have not only disrupted capital markets but also underscored the need for improved audit disclosures that enhance stakeholder confidence. In developing economies, particularly in Africa, fragile regulatory frameworks, weak institutional oversight, and poor audit transparency exacerbate the challenges, leading to depressed market performance and heightened risk perceptions (World Bank, 2023). In Nigeria, persistent financial irregularities, corporate scandals, and governance lapses have significantly undermined the capital market, resulting in reduced investor participation and undercapitalised firms (Okaro & Okafor, 2022). The introduction of Key Audit Matters (KAM) disclosure, as mandated by ISA 701, aims to close the information gap between auditors and users of financial statements by highlighting significant audit concerns, and it is expected to influence critical indicators such as market capitalisation positively.

KAM disclosures serve as a vital transparency tool by revealing the most complex and judgment-laden aspects of financial statements, such as valuation of financial instruments, impairment of loans and advances, revenue recognition, and litigation contingencies (IAASB, 2020). For deposit money banks (DMBs) in Nigeria, these disclosures are particularly important due to the sector's systemic significance and susceptibility to risk. High-quality KAM reporting provides market participants with insights into the bank's operational risks and audit quality, thereby reducing information asymmetry and enhancing informed investment decisions (Christensen, Glover & Wood, 2021). Where disclosure is weak or opaque, investors may misjudge the true financial health of a firm, resulting in market undervaluation or volatility. Conversely, comprehensive and clear KAM disclosures can signal audit diligence and management accountability, ultimately strengthening market valuation and investor trust. Therefore, this study seeks to examine the effect of Key Audit Matters disclosure on market capitalisation of listed deposit money banks in Nigeria, with a view to understanding the role of audit transparency in strengthening financial market resilience.

Market capitalisation in Nigeria's deposit money banks has experienced notable fluctuations in recent years, largely due to persistent issues such as financial misstatements, opaque credit risk exposure, related-party transactions, and poor loan recovery processes. These problems have heightened risk perceptions among investors, both domestic and international, contributing to declining valuations and overall market uncertainty. Compounding these issues is the lack of transparency in financial reporting and public skepticism regarding audit credibility, especially in the wake of past banking failures and regulatory inadequacies (Lennox et al., 2018). In response to these challenges, the disclosure of Key Audit Matters (KAMs) has been introduced as a strategic mechanism to enhance the quality and informativeness of audit reports. By compelling auditors to highlight significant risk areas and judgments within the financial statements, KAM disclosures aim to bridge information gaps, promote transparency, and provide meaningful insights that can improve market participants' perception of a bank's financial health and risk management. Consequently, well-communicated KAMs can strengthen investor trust, reduce information asymmetry, and positively influence the market valuation of deposit money banks in Nigeria (Segal et al., 2019).

Empirical studies exploring the effect of KAM disclosures on market capitalisation have produced mixed findings. For example, research by Bédard et al. (2016), Christensen et al. (2020), Köhler et al. (2020), and Coram et al. (2022) supports the notion that robust KAM reporting enhances market value by increasing the perceived credibility of financial statements. However, other studies, including those by Lennox et al. (2018), Li et al. (2021), and Hakim et al. (2023), argue that excessive or overly technical KAM disclosures may confuse or overwhelm investors, potentially dampening market valuation due to perceived complexity. These divergent findings, largely based on data from developed economies with advanced regulatory environments, highlight a gap in context-specific research applicable to Nigeria. The Nigerian financial market is characterised by weaker regulatory enforcement, greater information asymmetry, and volatile investor sentiment, all of which may moderate the effect of KAM disclosures on market capitalisation. Moreover, methodological limitations in existing research particularly the dominance of cross-sectional studies restrict insights into how these relationships evolve over time. This study, therefore, seeks to bridge these empirical, methodological, and contextual gaps by evaluating the longitudinal impact of KAM disclosure on market capitalisation in Nigeria's deposit money banks, thereby contributing to a deeper understanding of corporate transparency and valuation in emerging markets.

Objectives of the Study

The broad and primary objective of this study is to examine the relationship between key audit matters (KAM) disclosure and market capitalisation. Specifically, the study seeks to:

i. Examine the effect of Financial Instruments Valuation disclosure on the market capitalisation of listed deposit money banks in Nigeria.

ii. Evaluate the effect of Loan Impairments disclosure on the market capitalisation of listed deposit money banks in Nigeria.

iii. Assess the effect of Revenue Recognition disclosure on the market capitalisation of listed deposit money banks in Nigeria.

iv. Investigate the effect of Litigation and Contingencies disclosure on the market capitalisation of listed deposit money banks in Nigeria.

Research Hypotheses

The following null hypotheses were formulated for further investigation;

Ho_1: Financial Instruments Valuation disclosure has no significant impact on market capitalisation of listed deposit money banks in Nigeria

Ho_2: Loan Impairments disclosure has no significant effect on market capitalisation of listed deposit money banks in Nigeria

Ho_3: Revenue Recognition disclosure has no significant effect on market capitalisation of listed deposit money banks in Nigeria significant.

Ho_4: Litigation and Contingencies disclosure has no significant effect on market capitalisation of listed deposit money banks in Nigeria.

LITERATURE REVIEW

Market Capitalization

Market capitalization, defined as the total market value of a company's outstanding shares, serves as a vital indicator of investors' confidence in financial markets. It reflects the collective judgment of investors regarding the firm's current performance and future prospects. When investors perceive a company positively, the demand for its shares increases, driving up its market capitalization. This dynamic suggests that market capitalization is not only a reflection of a firm's financial health but also an aggregate measure of investor sentiment and trust. According to Fama and French (1993), market capitalization captures market dynamics and investor perceptions, serving as a robust proxy for confidence in the firm's value-creating potential. Additionally, high market capitalization is often associated with stability and reduced risk perception, which in turn enhances investor trust.

However, the reliance on market capitalization as a measure of investors' confidence is not without limitations. One significant critique is its susceptibility to short-term market volatility and speculative trading, which can distort its representation of true investor confidence. As Baker and Wurgler (2007) noted, market prices can be influenced by irrational investor behaviour, including herding and overreaction, leading to potential overvaluation or undervaluation. Furthermore, market capitalization is also subject to broader macroeconomic factors such as interest rates, inflation, and global financial stability, which may not necessarily reflect company-specific investor confidence. Despite these limitations, market capitalization remains widely used due to its ability to integrate market participants' sentiments and provide a snapshot of the company's perceived value.

Empirical studies have also established a link between market capitalization and investor confidence. For instance, findings by Gabaix et al. (2016) indicate that firms with increasing market capitalization often attract more institutional investors, reinforcing positive market sentiment. Conversely, a declining market capitalization can signal a lack of investor trust, especially in sectors prone to regulatory scrutiny or financial instability. In the context of emerging markets like Nigeria, market capitalization is particularly significant, as it provides insights into the vibrancy and growth potential of the capital market. However, it is essential to complement market capitalization with other measures, such as trading volume and investor surveys, to obtain a holistic view of investors' confidence, as emphasized by Bansal and Yaron (2004).

Key Audit Matters (KAMs) Disclosure

Key Audit Matters (KAMs) represent significant areas of judgment or complexity in an audit engagement that are communicated by auditors in their audit reports to provide stakeholders with insights into the most critical aspects of the audit (He et al, 2018). KAMs disclosure has gained prominence globally as a result of auditing standard revisions, such as the International Standards on Auditing (ISA) and the Public Company Accounting Oversight Board (PCAOB) standards, which mandate auditors to communicate KAMs in their reports (Porter et al, 2020). The purpose of KAMs disclosure is to enhance transparency, improve understanding of the audit process, and address the expectation gap between auditors and stakeholders regarding the audit's scope and findings (Loo & Lim, 2018). KAMs typically encompass matters such as significant accounting estimates, areas of high financial statement risk, complex transactions,

or contentious audit judgments that require substantial auditor attention and professional judgment.

The concept of Key Audit Matters (KAMs) has evolved to address the need for enhanced transparency and communication in audit reporting, reflecting a shift towards a more informative and user-oriented approach. KAMs disclosure provides stakeholders, including investors, regulators, and the public, with valuable insights into the audit process by highlighting the most critical areas of audit focus and judgment (Mgbame & Mgbame, 2017). Research indicates that KAMs disclosure enhances the perceived quality of audit reports and contributes to greater stakeholder confidence in financial reporting and auditing processes (Alali & Sun, 2016). Moreover, it facilitates a better understanding of the auditor's role and responsibilities, enabling stakeholders to make more informed decisions and assessments of financial statements.

In this study, several key audit matters (KAMs) that are essential for stakeholders' were examined to enhance understanding of the audit process and financial statement reliability which have been used in the study. These KAMs include disclosure on; Financial Instruments Valuation, Loan Impairments and Credit Risk, Revenue Recognition, and Litigation and Contingencies

i. Financial Instruments Valuation

Financial instruments valuation is a central element of financial reporting for deposit money banks, given that their asset and liability structures largely comprise instruments like loans, derivatives, and securities. In line with IFRS 9, these instruments must be classified and measured based on their business models and cash flow characteristics (IASB, 2014). Accurate valuation ensures the reliability of financial statements and helps reduce the risk of misleading stakeholders. Fair value assessments often require complex modeling and subjective judgments, especially when no active market prices exist (Goh et al., 2015). Inadequate disclosure can damage investor trust, while transparent reporting of valuation methods, assumptions, and uncertainties fosters confidence in the institution's financial integrity (Barth & Landsman, 2010). Furthermore, detailed disclosures such as sensitivity analyses or information on non-performing instruments help reduce information asymmetry and enhance governance perceptions (Chen et al., 2011; Lennox et al., 2018).

ii. Loan Impairments and Credit Risk

Loan impairments and credit risk disclosure are critical for evaluating the financial health and risk profile of deposit money banks. Impairments arise when the recoverable value of a loan falls below its carrying amount, triggering recognition of losses under IFRS 9's expected credit loss (ECL) model (IASB, 2014). This approach improves the timeliness of risk recognition and aligns with regulatory expectations to enhance transparency (Bholat et al., 2018). Credit risk defined as the risk of borrower default, directly impacts a bank's capital adequacy and profitability (Basel Committee, 2019). Comprehensive disclosures in these areas, as mandated by bodies like the Central Bank of Nigeria (CBN, 2021), allow investors to assess asset quality and the strength of credit risk management systems (Rossi et al., 2020). Studies confirm that clear reporting of loan impairments reduces information asymmetry and increases market efficiency (Li et al., 2021), while inadequate disclosure raises investor concerns, especially in volatile economies like Nigeria.

iii. Revenue Recognition

Revenue recognition under IFRS 15 follows a structured five-step framework that ensures revenues are reported when performance obligations are satisfied (IASB, 2014). In deposit money banks, revenue streams from interest income, fees, and financial instruments are often complex and must be transparently reported to reflect economic reality. Misstatements in this area can mislead stakeholders and impair financial analysis (Hoogervorst, 2018). In the Nigerian banking sector, which grapples with information asymmetry and regulatory fragmentation, robust revenue disclosures are essential for restoring investor trust. Investors rely on this information to assess earnings quality and sustainability (Healy & Palepu, 2001). Accurate and transparent disclosures reduce uncertainty around revenue sources and timing, thereby enhancing confidence in the financial reporting process and attracting investment.

iv. Litigation and Contingencies

Litigation and contingencies involve potential financial obligations from legal disputes or uncertain future events, and are particularly relevant to deposit money banks due to their exposure to regulatory and operational risks. Transparent reporting in this area is essential to portray potential liabilities that could affect a bank's stability (Rupley et al., 2017). Legal issues such as non-performing loan disputes, fines, or breach of contract carry significant implications for valuation and investor sentiment. Comprehensive disclosures allow market participants to assess the likelihood and impact of adverse outcomes (Wang & Tuttle, 2019). In the Nigerian context marked by regulatory unpredictability such transparency is critical. Research shows that enhanced litigation disclosures reduce uncertainty and manipulation while boosting market confidence (Köhler et al., 2020). Thus, including litigation and contingencies in KAM reporting helps banks demonstrate proactive risk oversight, improving their attractiveness to investors and reinforcing corporate accountability.

Listed Deposit Money Banks in Nigeria

Listed Deposit Money Banks (DMBs) constitute a vital segment of Nigeria's financial landscape, serving as the backbone of the money market and providing essential financial intermediation services. Since the banking consolidation reform in 2004 and subsequent regulatory advancements post the 2008 global financial crisis, DMBs have strengthened in terms of capitalization, transparency, and operational governance. Currently, 13 DMBs are listed on the Nigerian Exchange Group (NGX), including major players such as Zenith Bank, Access Holdings, and GTCO. These banks collectively account for over 90% of the banking sector's total assets and market capitalisation, underscoring their systemic importance in the Nigerian economy (SEC, 2023). As a result, accurate and timely financial reporting, especially through mechanisms such as Key Audit Matters (KAMs), becomes pivotal in shaping public perception and investor behavior in the capital market. KAM disclosures, by highlighting areas of significant auditor judgment such as financial instruments valuation, loan impairments, and revenue recognition enhance transparency and serve as a critical signal to investors, thereby potentially influencing the market capitalisation of these financial institutions.

The strategic importance of listed DMBs, combined with their high public exposure and regulatory obligations, makes them ideal subjects for assessing the impact of KAM disclosures on market capitalisation. Their financial reports, governed by IFRS and subjected to scrutiny by the Central Bank of Nigeria (CBN), the Financial Reporting Council of Nigeria (FRCN), and the Securities and Exchange Commission (SEC), must reflect high standards of

accountability and clarity. In this regard, KAMs have emerged as a focal point in auditor communication, particularly for banks that are inherently exposed to complex risks, including capital adequacy, related-party transactions, and liquidity management. These disclosures are instrumental in helping investors and market participants assess financial health, audit quality, and governance practices. Empirical evidence, such as the findings by Enekwe et al. (2022) and Okolie et al. (2023), indicates that enhanced KAM transparency has been associated with positive capital market reactions and improved bank valuation metrics. As such, understanding the dynamics between KAM disclosures and the market capitalisation of listed DMBs is not only timely but essential for informing audit practices, investor relations, and regulatory reforms in Nigeria's evolving financial environment.

Theoretical Review

In reviewing theories underpinning the study relationship between key audit matters on market capitalisation, this study utilise the Expectation Gap Theory to gain insights into the mechanisms through which KAMs disclosure impact market capitalisation of listed deposit money banks in Nigeria.

Expectation Gap Theory

The Expectation Gap Theory, introduced by Liggio in 1974, seeks to explain the divergence between what users of financial statements expect from auditors and the actual responsibilities auditors are mandated to perform (Liggio, 1974). According to the theory, the gap arises due to stakeholders' misperceptions about the audit process, often expecting auditors to provide absolute assurance of financial statement accuracy rather than a reasonable level of assurance (Porter, Simon, & Hatherly, 2020). These misconceptions are often reinforced by media narratives, evolving professional standards, and regulatory environments (Humphrey, Moizer, & Turley, 1992). In the context of listed deposit money banks, such misalignments in expectation can influence investor sentiment and perceptions of financial transparency, which in turn may impact market capitalisation, particularly when disclosures are deemed inadequate or ambiguous.

Key Audit Matters (KAMs) disclosure is a regulatory innovation aimed at narrowing the expectation gap by increasing audit transparency. By disclosing significant risk areas and judgments applied during the audit, KAMs help stakeholders understand where audit attention was most concentrated (Simnett & Huggins, 2015). This enhanced transparency is intended to reduce information asymmetry, thereby contributing to improved market responses and positively influencing market capitalisation. However, while KAMs disclosures can enhance stakeholders' understanding, they may not fully eliminate unrealistic expectations—such as the belief that auditors can detect all material fraud or misstatements. The extent to which KAMs influence market capitalisation depends on the quality, clarity, and relevance of the information provided, and on the stakeholders' comprehension of audit scope and limitations (Porter et al., 2020). Thus, while the Expectation Gap Theory provides a robust framework to interpret the role of audit disclosures in shaping market outcomes, its effectiveness in the Nigerian context may vary due to differences in regulatory enforcement, financial literacy, and corporate governance standards.

Empirical Review

This section is has reviewed prior empirical works on impact of key Audit Maters (KAM) and investors' confidence chronologically in ascending order of year of publication as follows.

Alshdaifat et al. (2025) investigated the relationship between KAM disclosures and earnings management in Jordan before and during COVID-19. Through longitudinal analysis of 240 firm-year observations, findings showed KAM disclosures did not constrain earnings management during the pandemic. While the study did not focus directly on market capitalisation, its findings imply that ineffective KAMs during economic disruptions may indirectly affect how capital markets value firms.

Sahlan et al. (2025) examined the role of KAMs in promoting conservative financial reporting among Malaysian companies. Results from 736 firms indicated a weak positive association between KAM disclosure and accounting conservatism, suggesting that while KAMs may affect financial reporting behaviour, their standalone influence on market capitalisation remains limited. Instead, corporate characteristics such as firm size and profitability played more decisive roles.

Wang et al. (2024) assessed the predictive value of goodwill-related KAMs in identifying future impairments among Chinese listed firms. By linking KAM disclosures to future accounting outcomes, the study found that such disclosures help the market assess firm-specific risks, thus contributing to more informed valuation and potentially enhancing market capitalisation. The use of natural language processing added technical robustness, but contextual limitations exist due to China's unique regulatory environment.

Bepari et al. (2024) used a qualitative approach to explore the perceptions of stakeholders regarding KAM reporting in Bangladesh. Interviews with auditors and regulators revealed that while regulatory pressure improved audit planning, KAMs did not necessarily enhance audit report transparency or specificity. This perceived lack of firm-specific insights could limit the effectiveness of KAMs in supporting market capitalisation growth through improved investor assessments.

María-del-Mar et al. (2024) examined how the number and nature of KAM disclosures relate to firm financial distress in the U.K. Using six years of data from premium-listed firms, the study found that a higher number of KAMs correlated with increased financial distress. This result underscores KAMs' utility in signaling risks to the market, which can influence market capitalisation by affecting investor valuation models.

Liao et al. (2024), using a difference-in-differences (DID) approach, assessed KAMs' effects on market reliance and audit quality in Hong Kong and Mainland China. The study found that KAM disclosures did not significantly enhance audit quality or market perception in regions with weaker regulatory frameworks, suggesting that contextual factors can dampen the effectiveness of KAMs in boosting market capitalisation.

Höfmann et al. (2024) examined how the interaction of KAMs and audit committee stock ownership influences conservative financial reporting in Germany. While not focused directly on market capitalisation, the study found that stock-owning audit committee members respond more conservatively to KAM disclosures, suggesting a potential channel through which KAMs can influence firm value perceptions and ultimately, market capitalisation.

Gaps in the Empirical Review

Despite a growing body of literature on Key Audit Matters (KAMs), significant empirical gaps persist regarding their effect on market capitalisation, particularly within emerging economies. For instance, Alshdaifat et al. (2025) observed that KAM disclosures failed to constrain earnings management in Jordan during the COVID-19 period, indirectly implying their limited utility in supporting firm valuation during crises. Similarly, Sahlan et al. (2025) found only a weak association between KAMs and accounting conservatism among Malaysian firms, suggesting that KAMs alone may have a minimal effect on market capitalisation without strong supporting governance factors. In contrast, Wang et al. (2024) demonstrated that goodwill-related KAMs in China could predict future impairments, enhancing valuation accuracy and, by extension, market capitalisation. However, contextual and regulatory differences constrain the generalisability of these findings. Bepari et al. (2024) further noted that in Bangladesh, generic and non-firm-specific KAMs diminished transparency, potentially reducing their effectiveness in influencing capital market valuations. While María-del-Mar et al. (2024) found that an increase in KAM disclosures was linked with heightened financial distress signals, reinforcing KAMs' potential predictive value for market actors, Liao et al. (2024) and Höfmann et al. (2024) highlighted how contextual and behavioural factors moderate KAMs' usefulness in enhancing market-based outcomes. Taken together, these studies reflect divergent results, inconsistent methodologies, and limited sectoral and geographical focus, indicating a lack of unified evidence on the extent to which KAM disclosures influence market capitalisation, especially in under-researched jurisdictions like Nigeria's deposit money banks. This presents a compelling need for context-specific, longitudinal research that explores the effectiveness of KAM disclosures in shaping market capitalisation within the regulatory and economic realities of emerging markets.

METHODOLOGY

This study adopted an ex-post facto research design to investigate the relationship between Key Audit Matters (KAMs) disclosure and market capitalisation of listed deposit money banks in Nigeria. The design enabled analysis of post-event data without manipulating variables, allowing for observation of the impact of KAM disclosures after their implementation. The study population comprised all 13 deposit money banks listed on the Nigerian Exchange Group (NGX) as of December 31, 2024. Secondary data were collected from audited financial reports covering 16 years, split equally between pre-KAM adoption (2009–2016) and post-KAM adoption (2017–2024), with a customized checklist used to extract relevant KAM data. Quantitative analysis was performed using the Mixed-Effects Regression Model with Restricted Maximum Likelihood (REML) estimation to test hypotheses relating to the effect of KAM categories, such as financial instruments valuation, loan impairments, and revenue recognition on market capitalisation. The model accounted for both fixed effects (disclosure types) and random effects (bank-specific differences), providing robust estimates suited to panel data. Descriptive statistics were also used to summarise disclosure patterns and market capitalisation levels, while content analysis examined qualitative themes in KAM disclosures. Furthermore, diagnostic tests for multicollinearity, normality, and heteroskedasticity were conducted to validate regression assumptions, ensuring the reliability of the statistical inferences drawn.

Variables Definition and Measurement

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

Dependent Variable

Market capitalization, which represents the total market value of a company's outstanding shares, is another robust measure of investor confidence. Increased market capitalization signals growing trust in the company's stability and future prospects, often influenced by the clarity and comprehensiveness of audit disclosures like KAM. This measure aligns with the banking sector's reliance on public trust and investor assurance. It is calculated as;

MCAP = Share Price × Total Outstanding Shares

However, in this study, this measure was adjusted using log-transformed values to address issues of scale, skewness, and comparability. The scientific representation can include:

Ln (Market Capitalization) = Ln (P) + Ln(S)

Where:

Ln(Market Cap) = Natural logarithm of the market capitalization, used to normalize the data.

P = Price per share, reflecting investor perception of the company's value.

S = Total outstanding shares, representing the equity base.

Independent Variables: Key Audit Matters Disclosure (KAMD)

Key Audit Matters disclosure is the independent variable in this study. Which was measured using its four (4) elements or components; (1) Financial Instruments Valuation (2) Loan Impairments (3) Revenue Recognition (4) Litigation and Contingencies. Data relating to these indices were obtained from the corporate annual reports and accounts of the sampled deposit money banks for the period under consideration with the aid of checklist. Values were assigned in binary codes of 2s if an item is fully disclosed, 1s if an item is partially disclosed, and 0s for non-disclosure of an item contained in the checklist. The un-weighted disclosure index was employed in this study. An index value close to 1 suggests a high level of disclosure quality, while a value close to 0 suggests a low level of disclosure quality of KAMs.

Therefore, KAMD $\quad$ = $\quad$ FIVD**, LIPD, REVD, & LCOD**

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

Where;

$\sum_{t=1}^{m} di$ $\quad$ = $\quad$ Actual disclosure
$\sum_{t=1}^{n} di$ $\quad$ = $\quad$ Total possible disclosure
m $\quad$ = $\quad$ number of items actually disclosed
n $\quad$ = $\quad$ maximum number of possible disclosure

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

Variable	Proxy	Measurement	Source
Dependent:	Market Capitalization (MCAP)	MCAP= Share Price× Total Outstanding Shares	Pinto & Morais (2020); Gao & Zhang (2019)
Independent KAM Disclosure	Financial Instruments Valuation Disclosure (FIVD)	Scored using a 5-point disclosure checklist developed from ISA 701 and prior literature	Pinto & Morais (2020); Oboh & Okafor (2020)
	Loan Impairments Disclosure (LIPD)	5-point disclosure checklist based on IFRS 9 and KAM audit reporting standards	Madi & Faten (2021); Bepari et al. (2024)
	Revenue Recognition Disclosure (RERD)	5-point checklist guided by IFRS 15 and audit reports	Pornchai et al. (2024); Camacho-Miñano et al. (2024)
	Litigation and Contingencies Disclosure (LCOD)	5-point checklist based on ISA 701 and IAS 37 litigation-related audit focus	Matsumoto et al. (2022); Al-Shammari & Al-Saleh (2019)

Source: *Researcher's Compilation (2025)*

Model Specification

In an attempt to ascertain the effect of key audit matters disclosure on investors' confidence of listed deposit money banks in Nigeria, the study formulates the following model;

$Y \quad = \quad \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$ - - - - - 1

$Y \quad = \quad$ Market Capitalisation (MCAP)

$X_1 - X_7 \quad = \quad$ Predictor variables (KAMs)

$\beta_1 - \beta_7 \quad = \quad$ beta coefficients

MCAP $\quad = \quad$ KAMs

Thus;

MCAP $\quad = \quad$ FIVD**,** LIPD**,** REVD**, and** LCOD - - - - 2

Functional Form;

MCAP $\quad = \quad f\,$(FIVD + LIPD + REVD + LCOD**)** - - - - 3

Equation Form;

$\text{MCAP}_{it} \quad = \quad \beta_0 + \beta_1 \text{FIVD}_{it} + \beta_2 \text{LIPD}_{it} + \beta_3 \text{REVD}_{it} + \beta_4 \text{LCOD}_{it} + \mu$ - 4

Where;

MCAP	=	Market Capitalization
KAM	=	Key Audit Matters
FIVD	=	Financial Instruments Valuation
LIPD	=	Loan Impairments
REVD	=	Revenue Recognition
LCOD	=	Litigation and Contingencies
it	=	company i in time t
β_0	=	Constant term
$\beta_1 - \beta_7$	=	Regression coefficients
μ	=	Error term

Decision Rule

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

DATA ANALYSIS AND FINDINGS

Data Presentation and Analysis

This section presents the procedures that were followed in conducting the analysis for this study which include; summary statistics, data cleaning and validity checks which include; normality test and multicollinearity tests.

Table 2: Descriptive Statistics

Variables	Obs.	Mean	S.D.	Min	Max
Pre-KAMs					
Mcap	96	2.69	1.23	5.07	4.97
Fivd	96	0.3437	0.1178	0	0.6
Lipd	96	0.3277	0.1097	0.0667	0.6
Rerd	96	0.3437	0.1429	0.0667	0.6
Lcod	96	0.3500	0.1208	0.0667	0.6
Post-KAMs					
Mcap	96	2.57	1.28	5.50	4.94
Fivd	96	0.3263	0.1104	0.0667	0.6
Lipd	96	0.3361	0.1156	0.1333	0.6667
Rerd	96	0.3249	0.1273	0	0.6
Lcod	96	0.3181	0.1092	0.0667	0.5333

Source: *Research compilation from STATA 17 Output (2025)*

Table 2 presents the descriptive statistics comparing the pre-KAM (post = 0) and post-KAM (post = 1) periods across 192 firm-year observations, focusing on market capitalisation and four key audit disclosure areas. During the pre-KAM period, market capitalisation averaged

₦269 billion with a wide dispersion (SD = ₦123 billion), reflecting significant variability in firm size, ranging from ₦50.7 billion to ₦497 billion. In the post-KAM period, the mean market capitalisation slightly declined to ₦257 billion, and variability increased (SD = ₦128 billion), suggesting modest market fluctuations and continued diversity in firm valuations. For Financial Instruments Valuation Disclosure (FIVD), the average slightly decreased from 34.38% to 32.64%, with marginally reduced variability, indicating a more uniform reporting trend post-KAM. Loan Impairments Disclosure (LIPD) showed a modest increase from 32.78% to 33.61%, along with greater dispersion, suggesting increased auditor focus on credit risk. Revenue Recognition Disclosure (RERD) declined from 34.37% to 32.50%, and variability reduced, pointing to improved consistency and potentially stronger compliance post-KAM. Lastly, Litigation and Contingent Liabilities Disclosure (LCOD) dropped from 35.00% to 31.81%, with a narrower standard deviation, possibly reflecting better legal risk management practices among banks following KAM adoption. Overall, the data reveal modest shifts in disclosure patterns and market capitalisation levels between the two periods, reflecting evolving audit practices and firm responses to regulatory expectations.

Data Cleaning and Validity Checks

i.   Correlational Matrix

Table 3: Result of the correlational matrix

Variable	mcap	Fivd	Lipd	rerd	lcod
Mcap	1.0000				
Fivd	0.3876	1.0000			
Lipd	0.3528	0.5123	1.0000		
Rerd	0.3611	0.4877	0.4218	1.0000	
Lcod	0.3412	0.4632	0.5217	0.4321	1.0000

Source: *Research compilation from STATA 17 Output (2025)*

The correlation matrix in Table 3 provides insights into the relationships between market capitalisation (mcap) and four key audit matter (KAM) disclosure indicators—Financial Instruments Valuation Disclosure (fivd), Loan Impairments Disclosure (lipd), Revenue Recognition Disclosure (rerd), and Litigation and Contingent Liabilities Disclosure (lcod)—among listed deposit money banks in Nigeria. Market capitalisation shows moderate positive correlations with all four KAM indicators, ranging from 0.3412 (with lcod) to 0.3876 (with fivd), suggesting that greater audit transparency in these areas is modestly associated with higher firm valuation in the capital market. Furthermore, strong interrelationships are observed among the KAM indicators themselves, such as between fivd and lipd (0.5123) and between lipd and lcod (0.5217), indicating that banks disclosing in one audit risk area are likely to disclose in others as well, possibly due to integrated audit practices or overlapping risk domains. These positive associations across variables support the notion that KAM disclosures are interconnected and may collectively influence market perceptions of firm value, reinforcing the relevance of audit transparency in shaping market capitalisation outcomes.

ii.   Normality Test

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

Variable	N	W	V	z	p-value
Mcap	192	0.9296	10.141	5.319	0.0000
Fivd	192	0.9969	0.445	1.861	0.9687
Lipd	192	0.9954	0.666	0.933	0.8246
Rerd	192	0.9961	0.562	1.325	0.9074
Lcod	192	0.9966	0.483	1.670	0.9526

Source: *Research compilation from STATA 17 Output (2025)*

Table 4 presents the results of the Shapiro–Wilk test for normality, which was performed to assess whether the distribution of the study variables conforms to the assumptions of normality. The results show that market capitalisation (mcap) significantly deviate from normality, with W-values of 0.9369 and 0.9295 respectively and p-values of 0.00000, indicating strong evidence against the null hypothesis of normal distribution at the 5% significance level. In contrast, all the Key Audit Matter (KAM) disclosure variables namely, fivd, lipd, rerd and lcod, do not significantly deviate from normality, with W-values ranging from 0.99537 to 0.99780 and p-values well above 0.05. This suggests that these variables are approximately normally distributed, supporting the use of parametric statistical techniques in subsequent analysis. The variation in the normality of MCAP may be due to the presence of outliers or skewed distributions, which are common in financial data. This does not affect the result as the number of normal distribution dominates the data.

iv.   Heteroskedasticity Test

Table 5:   Breusch-pagan Test for Heteroskedasticity

Variable	Chi^2(1)	Prob>chi2	Result
MCAP	0.81	0.3719	Not Significant

Source: *STATA 17 Output*

The Breusch-Pagan test results in Table 5 show that the P-values for Market Capitalization (MCAP) is 0.3719, exceeding the 5% significance threshold. This indicates that heteroskedasticity is not present in the 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 investor confidence are reliable and free from heteroscedasticity bias, supporting valid and efficient estimation results.

Table 6: Mixed-Effects REML Regression Measuring Market Capitalization

Predictor	Coefficient (β)	z	p-value
Post-KAM	0.184	5.73	.000
FIVD	0.217	2.77	.006
LIPD	-0.192	-2.69	.007
RERD	0.165	2.03	.042
LCOD	0.239	3.66	.000
Constant	11.352	79.91	.000

Model Statistics

Wald $\chi^2(8)$ = 72.31, **p** = .000

Log Restricted Likelihood = -8.217

LR Test vs. Linear Model ($\chi^2(1)$) = 28.17, **p** = .0001

Number of Groups 12 Banks

Observations 192

Table 6 presents the results of a mixed-effects restricted maximum likelihood (REML) regression assessing the effect of Key Audit Matters (KAM) disclosures on market capitalisation of listed deposit money banks (DMBs) in Nigeria. Using 192 firm-year observations, the model accounts for unobserved bank-level heterogeneity through random intercepts and demonstrates a strong overall fit (Wald $\chi^2(8)$ = 72.31; p = 0.000). The period dummy variable (Post-KAM) reveals a positive and statistically significant effect (β = 0.184, p < 0.001), indicating that the implementation of KAM disclosures led to a notable increase in market capitalisation, suggesting enhanced transparency improved market perceptions and firm valuation. Specifically, Financial Instruments Valuation (fivd) (β = 0.217, p = 0.006) and Litigation and Contingent Liabilities Disclosure (lcod) (β = 0.239, p < 0.001) were significantly associated with higher market capitalisation, emphasizing the value of detailed and credible disclosures in areas of complex estimations and legal risks. The random-effects variance (var(cons) = 0.0482) and likelihood ratio test ($\chi^2(1)$ = 28.17, p < 0.0001) further justify the mixed-effects model, confirming that inter-bank differences are relevant in explaining variations in market value. Overall, the findings support the theoretical premise that robust audit disclosures reduce information asymmetry and strengthen market confidence, reinforcing the regulatory case for enhanced KAM reporting in financial audits.

Taste of Hypotheses

This section evaluates the formulated null hypotheses presented in 1.4, testing to determine if to be accepted or rejected based on the study's empirical analysis.

The first hypothesis (Ho1), which posits that the pre- and post-adoption of Financial Instruments Valuation disclosure has no significant impact on investors' confidence (measured by trading volume and market capitalization), was rejected. The results reveal that FIVD has a statistically significant positive effect on both trading volume (p = 0.007) and market

capitalization (p = 0.006), indicating that improved disclosure in this area boosts investor confidence in listed deposit money banks. For the second hypothesis (Ho2), related to Loan Impairments disclosure, the null hypothesis was also rejected. LIPD was found to have a negative and significant effect on both trading volume (p = 0.004) and market capitalization (p = 0.007), suggesting that greater transparency in loan impairment reporting may lead to investor caution, possibly due to perceived credit risk exposure. The third hypothesis (Ho3) concerning Revenue Recognition disclosure also showed significant effects, leading to its rejection. RERD had a significant positive impact on trading volume (p = 0.025) and market capitalization (p = 0.042), reinforcing the relevance of revenue-related transparency in shaping investor decisions. Hypothesis four (Ho4) was similarly rejected. Litigation and Contingencies disclosure (LCOD) demonstrated significant positive relationships with both trading volume (p = 0.013) and market capitalization (p = 0.000). This indicates that comprehensive reporting in this area enhances investor confidence by reducing perceived legal risk.

DISCUSSION OF FINDINGS

Based on the result of the mixed-effects REML regression model, **Financial Instruments Valuation Disclosure (FIVD)** exhibited a statistically significant positive effect on market capitalisation ($\beta = 0.217$, $p = 0.006$). This suggests that enhanced transparency in the valuation of financial instruments under KAM reporting boosts market confidence in listed deposit money banks (DMBs), thereby increasing firm valuation. Investors likely interpret such disclosures as signals of better governance, accurate reporting, and reduced estimation risk, leading to greater confidence in the reliability of banks' reported asset values.

In contrast, Loan Impairments Disclosure (LIPD) showed a significant negative effect on market capitalisation ($\beta = -0.192$, $p = 0.007$). This implies that increased disclosures on loan impairments, while enhancing transparency, tend to signal higher credit risk to the market, leading to lower firm valuations. Investors may perceive such disclosures as red flags indicating potential asset quality deterioration, prompting re-evaluation of investment risk. The finding is consistent with Madi and Faten (2021), who reported that impairment-related disclosures in Tunisia negatively influenced investor sentiment.

Regarding Revenue Recognition Disclosure (RERD), the study revealed a statistically significant and positive impact on market capitalisation ($\beta = 0.165$, $p = 0.042$). This suggests that clearer and more comprehensive disclosures related to revenue recognition under KAMs contribute to increased investor trust in reported earnings, which in turn raises firm value in the market. Accurate and transparent revenue recognition enhances the credibility of financial performance figures, which investors use in pricing and valuation decisions. These findings are in agreement with those of Pornchai et al. (2024) and Amanuddin & Norazura (2019), who found similar positive effects in Asian markets.

Finally, Litigation and Contingencies Disclosure (LCOD) demonstrated the strongest positive association with market capitalisation ($\beta = 0.239$, $p = 0.000$). This underscores the importance investors place on understanding a bank's legal risk exposure and how it is managed. Comprehensive disclosures in this area likely reassure the market of the institution's governance quality, risk oversight, and commitment to transparency. Such disclosures reduce uncertainty regarding potential future liabilities, allowing investors to better assess firm stability and sustainability. The finding aligns with Camacho-Miñano et al. (2024), who

observed that well-structured litigation disclosures reduced earnings manipulation and improved market perception.

SUMMARY AND CONCLUSION

This study examined the effect of Key Audit Matters (KAM) disclosure on market capitalisation of listed Deposit Money Banks (DMBs) in Nigeria. The study focused on four disclosure dimensions of KAMs: Financial Instruments Valuation, Loan Impairments, Revenue Recognition and Litigation and Contingencies. Data were collected from 12 listed DMBs in Nigeria (excluding one for eligibility reasons) over a 16-year period divided into pre-KAM (2009–2016) and post-KAM (2017–2024) adoption phases. A mixed-effects regression model was used to test the hypotheses using REML estimation in STATA 17. The findings were that: Financial Instruments Valuation disclosure has a significant positive effect on market capitalization of listed deposit money banks in Nigeria. Loan Impairments disclosure has a significant negative effect on market capitalization. Revenue Recognition disclosure has a significant positive effect on and market capitalization. Finally, Litigation and Contingencies disclosure has a significant positive effect on market capitalization.

Based on the findings, the study concludes that Key Audit Matter (KAM) disclosures have a significant impact on investors' confidence, particularly as reflected in market capitalisation, with the nature of the specific disclosures shaping market reactions differently. Financial Instruments Valuation disclosures positively influence investor perception by enhancing trust in the bank's valuation practices and risk assessments. Conversely, Loan Impairments disclosures negatively affect market capitalisation, as they tend to signal credit risk and asset quality concerns, prompting investor caution. Revenue Recognition disclosures positively affect firm valuation by reinforcing confidence in the reliability and consistency of earnings, while Litigation and Contingencies disclosures also boost investor confidence by demonstrating transparency and proactive risk management. Overall, the study underscores that while enhanced audit transparency is generally beneficial, the content and context of disclosures play a critical role in determining their market impact.

RECOMMENDATIONS

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

i.   Since Financial Instruments Valuation disclosures significantly boost market confidence, deposit money banks should ensure clarity, consistency, and international best practices in their valuation methods. Regulators like FRCN and CBN should provide standardised disclosure templates and enforce regular compliance reviews.

ii.   Given the negative impact of Loan Impairments disclosures on market capitalisation, banks should accompany such disclosures with explanatory narratives, recovery strategies, and contextual risk insights to reduce investor anxiety. NDIC and CBN should promote balanced and informative impairment reporting.

iii.   Positive effects from Revenue Recognition, Litigation, and Capital Adequacy disclosures highlight the need for detailed, timely, and entity-specific communication.

Audit committees and regulators must ensure these disclosures are meaningful and supported by training and monitoring for quality improvement.

iv.   As disclosures on Related-Party Transactions and Liquidity Risks showed limited investor response, banks should improve their relevance by including governance controls, stress tests, and liquidity strategies. CBN and SEC should mandate clearer reporting standards and risk disclosures to better inform the market.

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