



FINAL REPORT

Research Project:

**Whether all Stakeholders of Audits are Overwhelmed by the New
Audit Report? Learning from Thailand's First Adoption**

Weerapong Kitiwong et al.

September 2019

Contract Number: MRG6080052

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**Whether all Stakeholders of Audits are Overwhelmed by the New
Audit Report? Learning from Thailand's First Adoption**

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Funded by The Higher Education Commission and The Thailand Research Fund

(The views expressed in this paper and its research content
are those of the authors alone.)

ABSTRACT

Our paper provides comprehensive evidence on the impacts of the implementation of the new audit report with key audit matters (KAMs) in Thailand in 2016. Evidence was derived from the analyses of semi-structure interviews, public seminars on KAMs, questionnaires, and archival data. We found that users pay little attentions to the audit reports and have a little understanding of the audit function with the result of the continuous presence of reasonableness gaps. Standard setter and regulators in Thailand have succeeded in narrowing deficiency standard gaps and deficiency performance gaps since 2010. However, in 2018 there remained the further big steps to close deficient standards gaps to move forward. There also remained the continuous presence of deficiency performance gaps and the continuous debate over auditors' responsibility to detect fraud. Interestingly, the new deficiency performance gap existed. We reported the weak evidence that the new audit report drives the improvement of audit quality with an increase in audit fees and audit delays and with unintended consequences. Users were confused about KAMs and felt that KAMs are little informative and redundant information. Thus, they did not impact market reaction.

Keywords: Key audit matters, Audit quality, Audit costs, Audit delays, Perception, Audit performance-expectation gap

EXECUTIVE SUMMARY

Our paper provides comprehensive evidence on stakeholders of audit's perceptions of KAMs, the audit expectation-performance gap and the impacts of the new audit report after the adoption in Thailand in 2016. Evidence is derived from the analyses of semi-structure interviews, public seminars on KAMs, questionnaires, and archival data. Our conclusion and suggestions are as follows.

(1) Users' paying little attentions to the audit report and having little understanding of the audit function with the result of the continuous presence of reasonableness gaps

Our interviews and observations provided evidence that users pay little attentions to the audit report and they also have a little understanding of the audit function with the result of the continuous presence of reasonableness gap. The reasonableness gaps are associated with an auditor's responsibility for assessing an audited company's ability to continue as a going concern and an auditor's independence. User requires auditors to assess audited companies' ability to continue as a going concern for longer than next twelve months. Users still unsure whether auditors are really independent from audited companies even though the new audit report provides more explanation of auditor independence.

Our survey also provided evidence that the reasonableness gaps were widened from 30 percent in 2010 to 78 percent in 2018. This is evidence that dynamic changes in the business world have magnified the reasonableness gaps. The changes have led to the more complex business transactions and the greater expectations of the auditing function than those in the past. The reasonableness gaps have turned to be bigger when the accounting scandals were reported by mass media.

To narrow the reasonable gaps, we suggest that the reforms of audit report should be done in parallel with proactive approaches to educating the users about the audit function. The standard setter's reforms of audit report might lead an audit report to be longer and lesser understandable. The longer and lesser understandable audit report leads the users to perceive that the audit report is less informative. Thus, they ignore reading the audit report. To change this perception, the standard setter and regulators in Thailand should look for efficient ways to promote the users understanding of the audit function and the greater recognition of the importance of audit function. Such ways are, for example, on-going and proactive education on auditing through mass media and seminar, educational media on auditing provided on the website of Thailand Federation of Accounting Professions (www.tfac.or.th), encouragement of public debate and discussion on audit issues, and educational materials (e.g.,

workshops, seminars, or booklets) used to educate users with the correct understanding of an audit report, especially technical terms.

(2) Standard setter's and regulators' success in narrowing deficiency standard gaps with the further big steps to move forward

Only our survey provided evidence that the deficiency standards gaps were narrower from 63 percent in 2010 to 23 percent in 2018. This may be resulted from the big reforms of the auditor's report and related auditing standards in 2016, especially, the requirement of auditors' disclosing key audit matters. However, the remaining gap is associated with society's reasonable expectations of auditors to examine and report in the audit report) on the effectiveness of the client's internal financial controls, the reliability of information provided on the Internet by the client in its audited financial statements and information in the client's entire annual report, the reasonableness of financial forecasts included in the client's annual report, the compliance with a specified set of the Stock Exchange's corporate governance requirements, and the adequacy of client's procedures for identifying financial risks. Performing these responsibilities would make audits more valuable and increase benefits to society while costs of the audits would be insignificantly increased. This would be the big step of the audit function.

(3) Standard setter's and regulators' success in narrowing deficiency performance gaps but the presence of the new deficiency performance gap in the auditors' responsibility to disclose in the audit report illegal acts by the client's directors/senior management which directly impact on the client's financial statements and the continuous presence of deficiency performance gaps in auditor's assessing going concern matter and professional skepticism

Our survey provided evidence which is contradictory to our interviews and observations. We find that the deficiency performance gaps were narrower after the implementation of the new audit report. The deficiency performance gaps were narrower from 7 percent in 2010 to 1 percent in 2018. The auditors' existing responsibilities to detect deliberate distortion of the client's financial statements and to disclose it in the audit report which contributed to the deficiency performance gap in 2010 were disappeared in 2018. This may be because the close monitoring (e.g., audit firm inspection) of auditors' performance by the Security Exchange and Commission and the tremendous effort of the Thailand Federation of Accountants to promote audit quality. However, the new deficiency performance gap was found in 2018. The gap is the auditors' responsibility to disclose in the audit report illegal acts by the client's directors/senior management which directly impact on the client's financial statements. This may be resulted from the series of illegal acts by the listed companies' directors/senior management reported by mass media in the past few years. Society has therefore perceived that the auditors' performance was unsatisfied. To close this gap, the standard setters should raise auditors' awareness of detecting

and reporting illegal acts committed by companies' management and should also closely monitor the auditors' performance.

(4) Continuous debate over auditors' responsibility to detect fraud

Only our interviews provided evidence that there remains the continuous debate over auditor's responsibility of detecting fraud. Supporters agreed that auditors are responsible for detecting their audited companies' fraud. However, detractors viewed that auditors are not expected to detect fraud. As concluded by the UK House of Commons (2019, 16), "fraudulent reporting by directors is almost always material, by nature if not by size. The detection of material fraud is, and must continue to be, a priority within an audit. Audits must state how they have investigated potential fraud, including by directors." We therefore suggest that standard setter and regulators in Thailand should encourage the public debates over and discussions auditors' responsibility to detect fraud and should educate auditors and other stakeholders of audit with the correct understanding of auditors' responsibility to detect fraud.

(5) Mixing evidence of perceptions of new audit report's informativeness but weak archival evidence of the new audit report's driving the improvement of audit quality with some economic and unintended consequences

Our interviews and observations provided mixing evidence of whether the new audit report is informative and valuable. Supporters perceived that the new audit report provides more useful information about an audit and an audited company for users. The new audit report provides more information about an audited company's going-concern matter and responsibilities of those charged with governance. Importantly, the section of KAMs in the new audit report helps auditors highlight the key information which would draw the user's attentions. However, detractors perceived that the new audit report is uninformative and invaluable and creates unintended consequences. The new audit report is perceived to provide too much broad information and does not signal any unusual matters. It is also difficult to understand because of technical terminologies and language used and lack of standard format and content. The additional description of going concern matter does not give an unclear conclusion of going concern matter which may in turn lead to the misunderstanding of audited company's going-concern matter. Disclosing KAMs may tarnish audited companies' image and may also lead to the more confusions and misunderstanding of KAMs and auditors' opinion.

Our archival data analyses provided weak evidence that the new audit report with KAMs improves audit quality by reducing discretionary accruals. This is because disclosing KAMs leads auditors to feel being more responsible (Bédard, Gonthier-Besacier, & Schatt, 2018a; Li, Hay, & Lau, 2019) and accountable (Li et al., 2019), thereby looking for more and better audit evidence and having more professional skepticism in their audits (Bédard et al., 2018a). Disclosing KAMs also improves the

communication between auditors and those charged with governance (Li et al., 2019) and interaction between auditors and those charged with governance (Wei, Fargher, & Carson, 2017). Our evidence is consistent with that of Li et al. (2019) but inconsistent with that of Almulla and Bradbury (2018) and Wei et al. (2017). Li et al. (2019) and Almulla and Bradbury (2018) provided evidence of the impact of disclosing KAMs on audit quality in New Zealand. Wei et al. (2017) provided evidence of the impact of disclosing KAMs on audit quality in Australia.

Archival data analyses also provided weak evidence that the implementation of disclosing KAMs in Thailand in 2016 also has economic consequences by increasing audit fees and audit delays. After the implementation of the new audit report, audit fees and audit delays increased by approximately 14.4 percent and 3.2 percent, respectively. Audit firms have to spend resource and time on preparing their staff for the implementation and training of KAMs in the first year of the implementation of KAMs (Li et al., 2019; Reid, Carcello, Li, Neal, & Francis, 2018). Costs of preparing and training may be added into audit fees and absorbed by their clients. Increase in audit fees may compensate for increase in audit risk and audit effort. Auditors may face the higher litigation risk when misstatements are found (Wei et al., 2017) after their disclosing KAMs. Disclosing KAMs increases audit effort (Almulla & Bradbury, 2018; Bédard et al., 2018a). It increases in senior members' working hours on the disclosure of KAMs (Bédard et al., 2018a). As our interviews and observations found that disclosing KAMs may lead to the disagreements between auditors and managements, auditors may spend more time on discussing these matters with audited companies' managers and audit committees (Reid et al., 2018). Thus, audit fees and audit delays increase.

Our evidence of the impacts of disclosing KAMs on audit fees and audit delays are consistent and inconsistent with the previous studies. Our evidence of the impacts of disclosing KAMs on audit fees is consistent with that of Li et al. (2019) and Wei et al. (2017) but inconsistent with that of Bédard et al. (2018a), Almulla and Bradbury (2018), Reid et al. (2018) and Gutierrez, Minutti-Meza, Tatum, and Vulcheva (2018b).

Li et al. (2019) reported that disclosing KAMs increases audit fees in New Zealand. Wei et al. (2017) reported that in Australia disclosing KAMs increases audit fees only for non-Big 4 firms.

Almulla and Bradbury (2018) found that disclosing KAMs does not increase in audit fees in New Zealand in the first year of the implementation. Bédard et al. (2018a) found that the disclosing JOAs in the first year did not affect audit fees. Reid et al. (2018) and Gutierrez et al. (2018b) found that disclosing RMMs does not affect audit fees. Our evidence of the impacts of disclosing KAMs on audit delays is inconsistent with that of Reid et al. (2018), Bradbury (2018), and Bédard et al. (2018a). Reid et al. (2018) concluded that disclosing RMMs does not affect audit delays. Almulla and

Bradbury (2018) found that disclosing KAMs does not affect audit delays. Bédard et al. (2018a) reported that found that disclosing JOAs does not affect audit delays

The consistency and inconsistency of our evidence on the impact of disclosing KAMs on audit quality, audit fees, and audit delays may be resulted from country-level factors and the studies' methodologies. The effects of the implementation of the new audit reports with KAMs may vary across countries. Therefore, we suggest that the future research should examine the impacts of country-level factors, e.g., culture, legal systems, regulatory bodies, on the association between the disclosing KAMs on audit quality, audit fees, and audit delays. Using the match-pair sample methodology used by Reid et al. (2018) and Gutierrez et al. (2018b) should help future study capture well the impacts of impact of disclosing KAMs on audit quality, audit fees, and audit delays. For the further examination of the impacts of KAMs on audit fees, future research should use other measures of audit quality, e.g., financial restatements, real earnings management, and results of regulatory audit firm inspections.

(6) Users' being confused about KAMs and feeling that KAMs are little informative and redundant information and archival evidence of KAMs' being little informative to market

Our interviews and observations provided evidence that the users are confused about KAMs and feel that KAMs are little informative and redundant information. They do not know what KAMs are. They are unable to distinguish KAMs, matter of emphasis, other matters, and other information, thereby being confused about this information in an auditor report. The users do not read KAMs because they pay more their attentions to auditor opinion. They feel that KAMs are redundant information not new information and turn to be boilerplate when time goes by.

Findings of our archival data analyses supported evidence from our interviews and observations that KAMs are little informative and redundant information. We observed cumulative abnormal returns and abnormal trading volumes around the dates that audited companies filled their audited financial statements in the SEC's website. We found that disclosing KAMs does not impact market reaction. As pointed out by Almula and Bradbury (2018), investors in New Zealand had already known matters disclosed as KAMs in the year before the implementation of the requirement for disclosing KAMs. Wei et al. (2017) found that in Australia one-third of matters disclosed as KAMs had already been reported in audited clients' previous year annual report before the implementation of the requirement for disclosing KAMs. Our finding is close to those of Bédard et al. (2018a) and Gutierrez et al. (2018b). Bédard et al. (2018a) found that disclosing JOAs does not impact on both abnormal returns and abnormal trading volume in France. Gutierrez et al. (2018b) found that disclosing RMMs does not impact both absolute abnormal returns and abnormal trading volume in the UK.

To clear up users' confusion about KAMs and to reduce their feeling that KAMs are little informative and redundant information, the standard setter and regulators in Thailand should look for efficient ways to proactively educate the users with KAMs by using similar ways to promote the users understanding of the audit function and the greater recognition of the importance of audit function.

(7) Suggestions for further improvement in the audit report

Our interviewees gave suggestions for further improvement in the audit report as follows.

- *Using the audit report as the fundamental tool to educate user about audit function; therefore, information provided in the audit report should not been removed out:* The description of auditor's responsibilities for the other information in the company's annual report is perceived to be unnecessary and should be removed out of an audit report as the reference. Second, the section of auditor's and management's responsibilities is too long and some of information should be moved as the refer. However, we view that for Thai setting where the stakeholders of audits pay less importance to audit function, it should be better not to replace the standardized wording relating to the audit process with a cross-reference to the website. The audit report should be used to educate the users with the audit function.
- *Impracticality of disclosing audit material in the audit report:* The disclosure of audit materiality in the audit report as in the UK may be impractical in Thai context because its benefits may outweigh its intended consequences.
- *Format of presenting KAMs does not matter:* The presentation of KAMs as in neither table nor narrative do not affect the users.
- *The previous audit report is better:* There is the perception that the previous audit report is better than the new one.

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CHAPTER 1 INTRODUCTION

An audit report is the most important output of an audit. It is used to communicate results of the audit to users of financial statements. To make it more effective in communication, the audit report is standardized by containing an explanation of what is audited, an explanation of a management's and an auditor's responsibilities, and an auditor's opinion of whether the audited financial statements give a true and fair view of a company's financial position and performance.

Providing readers with the explanation of an audit in an audit report aims to make them clearer understanding of the audit. However, it also creates expectation gap. The expectation gap occurs when the readers' expectations of the audit deviates from the auditors' perceptions of their responsibilities and performance. The deviations are for example the difference between readers' and the auditors' views on level of assurance provided by the audit (Bédard, Sutton, Arnold, & Philips, 2012) and the difference between readers' and the auditors' perceptions of the auditor's responsibilities (McEnroe & Martens, 2001).

This expectation gap is magnified once the mass media reports on accounting scandals and irregularities. The exemplar of this magnification is indicated by public's question "Why doesn't an audit report give out any signal of fraud?" as a consequence of detected and reported high profile fraud. This question is posed even when the audit report is worded that the auditor's primary responsibility is not to detect fraud but to consider assessing the risks of material misstatement of the financial statements owing to fraud. This throws the communicative and informative value of the audit report into question.

In addition, standardized language and form is perceived to make the audit report less communicative and informative. An audit report is valuable by itself but less communicative (Church, Davis, & McCracken, 2008). Its standardized language leads the users of the financial statements pay less attention to the audit reports because they know what the audit reports mean without reading the reports thoroughly (Turner, Mock, Coram, & Gray, 2010). However, the audit report is perceived to be meaningful but insufficient for auditors' and users' demands as the auditors demand to provide more information whilst the users also demand to get more information (Ernst & Young Global Limited, 2014). As a consequence of previous accounting scandals and irregularities around the world, sceptics argues that the standardized audit report is less informative and even unreliable since every audit report looks similar unless it is signed on by an auditor (Peterson, 2015).

In response to the skeptics about the communicative and informative value of the standardized audit report and to the increasing demand of the auditors and the users, there have been many attempts to improve the standardized audit report, especially

the attempts made by the International Auditing and Assurance Standards Board (IAASB). In January 2015, IAASB announced six revised-International Standards Auditing (ISA) with the aim of improving audit report (Deloitte Touche Tohmatsu Limited, 2015b). ISA701 “Communicating Key Audit Matters in the Independent Auditor’s Report”, one of the six revised standards, leads the previous pass/fail audit report, which used since December 15, 2009, to have been replaced by the new one since December 15, 2016. ISA702 requires an auditor to disclose matters which is deemed to be the most significant in the current audit in the new audit report. This new audit report is expected to improve its communicative and informative value. Arnold Schilder, Chairman of IAASB, gave his opinion that *“This innovation in auditor reporting is radical, a step-change as some have called it. It makes the auditor’s work more transparent and relevant to users. It stimulates public debate and analysis on what auditor’s reports are most helpful”* (PricewaterhouseCoopers LLP, 2015a). In line with other countries, Thailand has adopted ISA701 for an audit of financial statement with the year-ending on or after December 15, 2016 but only applied to listed companies.

This paper provides comprehensive evidence on stakeholders of audit’s perceptions of key audit matters, the audit expectation-performance gap and the impacts of the new audit report with key audit matters after the adoption in Thailand. Evidence is derived from the analyses of semi-structure interviews, seminars, questionnaires, and archival data. The linkage of this evidence is shown in Figure 1.

Our paper provides comprehensive evidence on the impacts of the implementation of the new audit report with KAMs in Thailand in 2016. Evidence was derived from the analyses of semi-structure interviews, public seminars on KAMs, questionnaires, and archival data. We found that users pay little attentions to the audit reports and have a little understanding of the audit function with the result of the continuous presence of reasonableness gaps. Standard setter and regulators in Thailand have succeeded in narrowing deficiency standard gaps and deficiency performance gaps since 2010. However, in 2018 there remained the further big steps to close deficient standards gaps to move forward. There also remained the continuous presence of deficiency performance gaps and the continuous debate over auditors’ responsibility to detect fraud. Interestingly, the new deficiency performance gap existed. We reported the weak evidence that the new audit report drives the improvement of audit quality with an increase in audit fees and audit delays and with unintended consequences. Users were confused about KAMs and felt that KAMs are little informative and redundant information. Thus, it did not impact market reaction.

The remainders of this paper proceeds as follows. Section 2 gives a brief related literature. Section 3 explains sample selections and data collections. Section 4 reports results and Section 5 concludes.

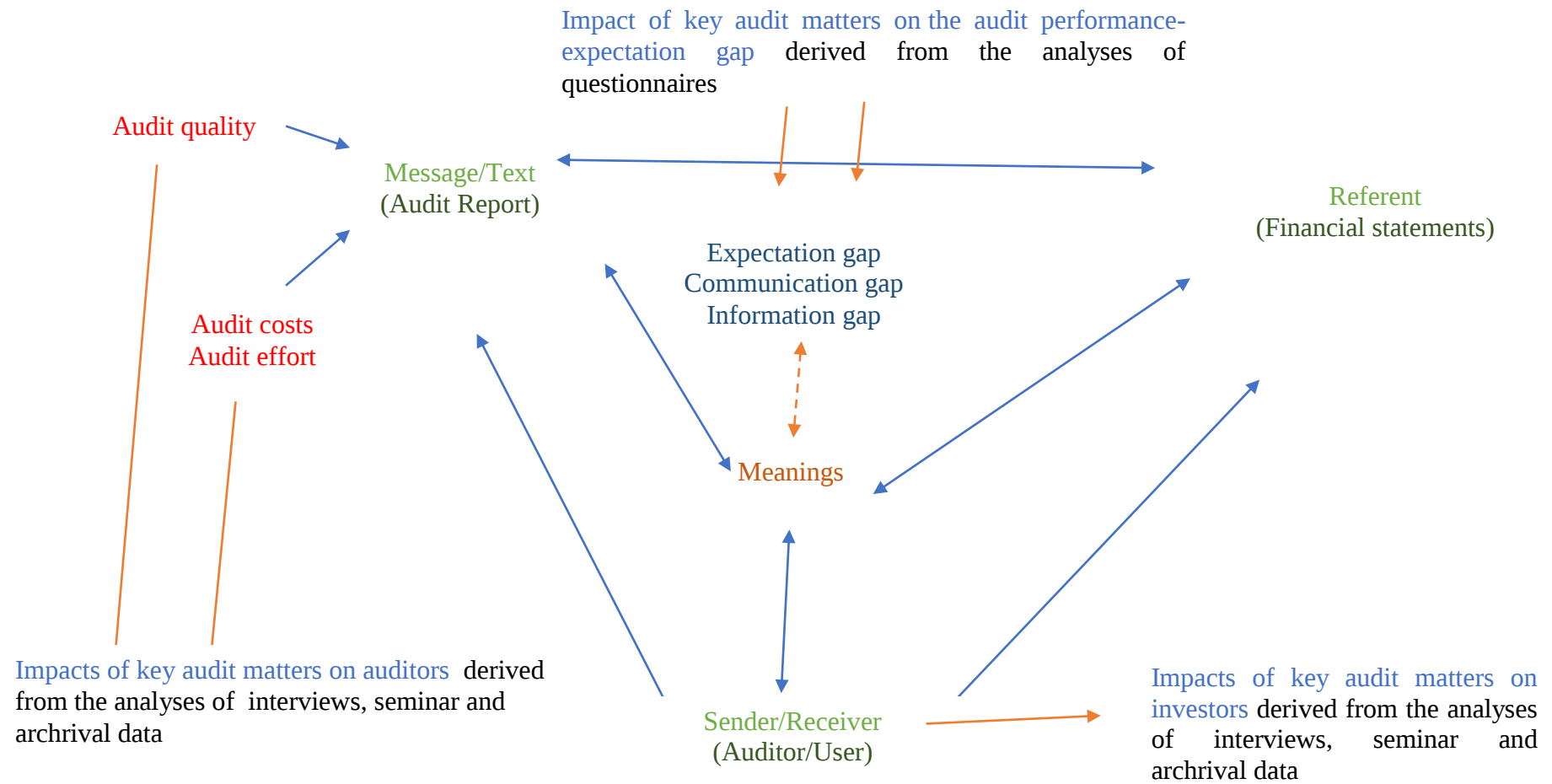


Figure 1 Conceptual framework of this paper adopted from Fiske (2002, 4) and Hronsky (1998)

CHAPTER 2 RELATED LITERATURE

2.1 Audit and demand for it

Porter, Simon, and Hatherly (2010, 9) highlighted that companies' dependence on external financial resources and their separation of roles between owners and management lead to the demand for communication in financial information. Family-owned companies with a small number of staffs have transformed into large companies and even multinational companies with a large number of employees. To support their transformation, they raise fund from a large number of investors and get credits from banks. The role of owners is also separated from the role of management. Owners hire professional managers to run their business. The managers are therefore needed to report on financial information to owners, investors and banks.

Porter et al. (2010, 9-11) indicated that reported financial information is needed to be audited to make receivers ensure the reliability of this information. There are four important reasons behind the need for audit of reported financial information which Arens, Elder, Beasley, and Hogan (2017, 30) referred them as "information risk". First, conflict of interests between preparers and financial information users may occur when managers have motivations to put bias into the reporting to make the report more favorable rather than giving the fair presentation as demanded by the users. Second, the users suffer from consequences of error from using unreliable reported financial information in decision making. Third, the users are unable to verify reported financial information by their own owing to the legal restriction, the remoteness, the time and budget limitation. Fourth, the enormous volume of transactions, the new transactions, the complexity of accounting systems, and the complexity of accounting standards lead the users unable to assess quality of reported financial information by their own.

The term "audit" is defined in many aspects broadly from the standard setter's objectives, to dictionary's definition and to auditing books' ones. From the overall objectives of an audit given by the standard setter, an audit refers to the task conducted by a qualified person with the objectives "to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework" and "to report on the financial statements, and communicate as required by the international standards on auditing, in accordance with the auditor's findings (IAASB, 2009, 74)". The dictionary gives general definition of audit as an official verification of a firm's accounts that is generally conducted by an independent body (OxfordDictionaries.com (<https://www.lexico.com/en>)). The book written by Porter et al. (2010, 3) defines that "*auditing is a systematic process of objectively gathering*

and evaluating evidence relating to assertions about economic actions and events in which the individual or organization making the assertions has been engaged, to ascertain the degree of correspondence between those assertions and established criteria, and communicating the results to users of the reports in which the assertions are made ”. The book written by Arens et al. (2017, 28) defines that “auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be done by a competent, independent person.”

The growth of business leads companies to heavily leans on external financial resources and to segregate the role of management from owners. Managers are then required to report on financial information to owners and external users. However, information risk leads reported financial information to be less reliable. This in turn leads to the demand for audit. Audit is a systematic process performed by an independent, competent party with the aim to gather and evaluate evidence and report on the degree of correspondence between the financial information and an applicable financial reporting framework.

2.2 Audit expectation-performance gap

Dynamic changes in the business world have magnified audit expectations gap. They create the more complex business transactions and thereby leading to the greater expectations of the auditing function than those in the past. The magnified audit expectations gap is obviously seen when auditing crisis occurs. For instance, when there is a collapse of a well-known company because of its accounting scandal, public are skeptical of the role of auditing function and to pose the question of where were the auditors (Al-Qarni, 2004, 49), and even the shareholders file lawsuits against the auditors. The collapse of Arthur Anderson, one of the previous Big 5 audit firms, in 2002 because of Enron’s accounting scandal, was the most classic example.

2.2.1 Why does audit expectations gap occur?

The gap between stakeholders’ expectations of the auditing function and auditors’ perceptions of their performance can be explained by the Limperg’s theory of rational expectation and Jensen and Meckling’s agency theory (Soltani, 2007, 31). The theory of rational expectation underscores the importance of the role of an auditor in giving the financial statement users and society the confidence. The auditor is rationally expected to perform his work in such a manner that he is not disloyal to the financial statement users’ and society’s confidence and trust, but this rational expectation may not be greater than the work possible done by the auditor nonetheless. The auditor has to do sufficient work at the highest possible level to satisfy financial statement users’ expectations and society’s needs. However, these expectations and needs change when time goes by, then the auditor needs to improve his auditing methods continuously in response to the change. The theory of rational expectation seems to

provide the broad explanation of what other people expect from the auditor. But, by contrast, the agency theory provides the simple explanation of what owners (principal) expect from the auditor. According to the agency theory, the owners (principal) hire managers (agency) to run their business on behalf of them. To monitor and reward the managers, the owners require the managers to report on the financial information to them.

2.2.2 What creates audit expectations gap?

Not only stakeholders' expectations of the auditing function but also auditors' perceptions of their performance create audit expectations gap. The gap occurs when the stakeholders perceive that the auditors' perceived performance and/or real performance falls below their expected performance.

2.2.2.1. Stakeholder Expectations

The Institute of Chartered Accountants in England and Wales (2008) indicates that stakeholders of audit include shareholders, directors, management, audit regulators, regulators of audited organizations, creditors and lenders, audit firms, auditors, employees, and others. However, for their study of audit expectation-performance gap in the United Kingdom and New Zealand in 2008, Porter, hOgartaigh, and Baskerville (2012a) group stakeholders of audit into four groups. First, auditors include audit partners and audit staff. Second, audited entities are comprised of internal auditors, financial directors, chief executives, and non-chief executive directors. Third, audit beneficiaries from financial community include stockbrokers, financial analysts, bankers, institutional investors, auditing/accounting regulators, and auditing academics. Fourth, audit beneficiaries from non-financial community include solicitors, financial journalists, and general public.

According to the Institute of Chartered Accountants in England and Wales (2008), these stakeholders expect from an audit differently. Their expectations depend on how they are associated with an audit and an audited organization. Shareholders may expect an auditor to help them protect their interests of the organizations, which they invested. Director may demand an auditor to support them in discharging their responsibilities. Management may need an auditor to give them value-added benefits, for example reducing cost, accessing finance, and giving business advices. Audit regulators may require an auditor to comply with the standards and to maintain audit quality. Regulators of audited organizations may need an auditor to help them ensure that the audited organizations comply with their regulations and rules. Creditors and lenders may expect an auditor to make them be comforted by telling them about their debtors' and borrowers' solvency. Audit firms may demand an audit to provide an auditor challenging tasks and good rewards, which this would help them, recruit the brightest and best people. Employees of audited organizations may need an auditor to help them comfort their job security and their employees' future direction.

2.2.2.2. Auditor Perceptions

Auditors' perceptions of their performance may deviate from stakeholders' expectations of auditor performance, especially when there is a diversity of stakeholder expectations. In general, auditor perceptions of duties and responsibilities are likely to be described by the auditing standards and the definitions of the term "auditing" provided by many scholars as discussed in Section 2.1. The deviation of stakeholder expectations from auditor perceptions inevitably leads to conflicts of expectations (Institute of Chartered Accountants in England and Wales, 2008).

2.2.3 How does audit expectations gap happen? And how to close the gap?

2.2.3.1 Audit expectation gap around the world

Previous studies provided evidence of the inconsistencies between stakeholder expectation and auditor perception. Chowdhury (1996) observed audit expectations gap of Comptroller and Auditor General's (CAG) performance audit in Bangladesh. CAG performed audits of all public companies in addition to the audits conducted by charter accountants. Chowdhury (1996) listed seven inconsistencies: (1) the auditor's responsibility to detect fraud, (2) the level of assurance provided by the auditor, (3) the auditor's responsibility to give early signal for company failure, (4) the auditor's responsibility to report whether the management of the company complies with statutory requirements, (5) the auditor's responsibility to evaluate and report management competence, (6) the perception of auditor independence, and (7) the parties for whom the auditor is responsible. Chowdhury (1996) found the significant gap because the users did not have the knowledge of the CAG audit function. Chowdhury (1996) therefore suggested that CAG should communicate the clear objectives of their audit to the users. Rather than having too much boilerplate results, the audit report should highlight more important points.

Al-Qarni (2004) investigated audit expectations gap in Saudi Arabia by using 5-point-likert-scale mailed questionnaire survey and the interview. Al-Qarni (2004) listed the three areas of audit expectations gap: (1) the auditor role in detecting error and fraud and giving early signal of company failure, (2) auditor independence, and (3) audit reporting. From the 24 interviews, Al-Qarni (2004) found the audit expectations gap in associated with auditor independence, the role of auditor with respect to fraud, guarantee the financial statement, giving early warnings of company failure, and numbers of transaction audited by the auditors. From the questionnaire survey, Al-Qarni (2004) gave evidence that there was the gap in the areas of auditor's performance and role and nature of auditing.

Porter and Gowthorpe (2004) used questionnaire survey to examine the audit expectations gap in the United Kingdom (UK) and New Zealand (NZ) in 1999. For

NZ, it was the reexamination of the one in 1989. The questionnaire consisted of 53 responsibilities of auditors. Porter and Gowthorpe (2004) found that in the UK in 1999 the reasonable, deficiency standards, and deficiency performance gaps accounted for 50% (23 responsibilities), 42% (10 responsibilities), and 8% (7 responsibilities), respectively. In NZ in the same year, the comparative proportions consisted of 41% (18 responsibilities), 53% (14 responsibilities), and 6% (5 responsibilities). For the comparative proportions in NZ in 1989, they constituted of 31% (9 responsibilities), 58% (10 responsibilities), and 11% (5 responsibilities). Porter and Gowthorpe (2004) indicated that in NZ the deficiency performance gap reduced from 58% in 1989 to 53% in 1999 because the auditors have improved the performance of their responsibilities. Lack of knowledge about the auditing led the reasonable gap to be the biggest proportion in both the UK and NZ. The auditors were expected to perform some works, which were not cost-effectiveness. The users misunderstood that the auditors guaranteed that audited financial statements were completely accurate. They also misunderstood that the company with the unqualified audit report was financially sound.

Porter and Gowthorpe (2004) highlighted that the components of reasonable gap in 1989 reappeared in 1999. This indicated that there was no progress in educating the stakeholders of auditing about the audit and the auditor's reasonable responsibilities. In 1999, deficiency standards gaps were in the auditor's responsibilities to report matters of concern, especially fraud and illegal acts, to the related authority, to report the reliability of the disclosure of the management's remuneration policy and the reasonableness of financial forecasts in the annual report, to report the effectiveness of internal control, and to report the adequacy of risk management.

Porter and Gowthorpe (2004) found that deficient performance gap was smallest proportion because of the professional bodies' effectively monitoring the auditors, the revision of auditing standards related to going concern, the revision of auditing standards that made the auditors' responsibilities clearer and more stringent. Porter and Gowthorpe (2004) suggested the ways to narrow audit expectations gap were to strengthen the monitoring of auditors, to improve audit firms' quality controls, to enhancing auditing practitioners' education, to set out new auditing standards, and to educate society about auditing.

Daud (2007) investigated audit expectations gap of performance audit in the public sector of Malaysia. Interview and document analysis were used to collect data. Daud (2007) reported that there were the gaps in the areas of (1) the auditor's responsibility to detect fraud, (2) the auditor independence from the company and outside parties, (3) the auditor competence in terms of qualifications, skills, and backgrounds, and (4) the content and the form of the audit report. For the gap in the audit report, Daud (2007) found that the report is perceived to be less informative, less useful, and too long to read.

Porter et al. (2012a) and Porter, hOgartaigh, and Baskerville (2012b) reexamined the audit expectations gap of 55 actual and potential responsibilities of auditors in the UK and NZ in 2008. They found that non-financial community (solicitors, financial journalists, and general public) was the biggest group who misunderstood the auditor's responsibilities. By comparison with the results of 1999, the gap in the UK was substantially narrowed meanwhile that in NZ was slightly widened. They explained that this was because there was different monitoring function in these two countries. In the UK, the reasonable, deficiency standards, and deficiency performance gaps constituted 52%, 45%, and 3%, respectively. In NZ, the comparative proportions consisted of 50%, 43%, and 7%. Porter et al. (2012a) and Porter et al. (2012b) pointed out that the UK's both performance and reasonable gaps decreased from 1999 while both of NZ increased. They provided the postulation of the contradictory results that, for the performance gap, it was because the UK had stricter monitoring of auditor's performance and annually reported the monitoring process and results to society. For the reasonable gap, it was because society in the UK had a greater awareness of and engaged more in open debate and discussion of financial, economic, and business issues.

Porter et al. (2012a) and Porter et al. (2012b) also found that the deficiency standards gaps in the UK and NZ were quite identical. The deficiency standards gaps were in the auditor's following responsibilities:

- to report matters of concern (e.g. embezzlement, illegal acts, financial statement distortions) discovered during the audit to the appropriate authorities and/or disclose those matters in the audit report;
- to report the effectiveness of the internal control, the adequacy of financial risk assessment, the significant difficulties faced by the auditor, and non-managerial employees' theft of high value assets; and
- to report company's specific information to the users of financial statements.

They gave the recommendations to bridge the gaps. First, the professional bodies and regulators should ensure that they have implemented strict monitoring systems of auditor's performance, appropriate actions to errant auditors, and reporting systems of monitoring process and its results. Second, the audit report should be improved by making it clearer, simpler, shorter, and more understandable. Third, the auditing standards should include the auditor's responsibilities to report company specific information and to report to matters of the public's concern discovered during the audit to the appropriate authorities. Fourth, auditing profession should seek opportunities to have public debate and discussion of financial, economic, and business matters, which are related to audit issues. This would help the public gain more understanding of auditing function and auditor's responsibilities.

Abonawara (2013) used the 5-point-likert-scale mailed questionnaire survey and the interview to explore audit expectations gap in Libya. Abonawara (2013) listed the

audit expectations gap in the areas of (1) auditor independence, (2) fraud discovery, (3) report on going-concern difficulty, and (4) communication from the auditor through the audit report. For the gap in the area of the audit report, Abonawara (2013) added the points that the users did not read audit report thoroughly and that they also did not understand technical words and the audit opinion in the audit report. From the analysis of both qualitative and quantitative data, Abonawara (2013) found that in Libya at that time there was still a lack of audit framework, official auditing standards, and a system of continuing professional training. In addition, Libyan law did not provide a clear definition of an auditor's role and the users of the audit report did not understand the audit process. Furthermore, there were big audit expectations gaps related to the objectives of auditing, the auditor's responsibility for reporting on internal control, the correctness of audited accounting records, auditor's agreement with accounting policies used by the management. However, the gaps in the areas of auditor's responsibility to report the company's going concern and the efficient operation were smaller. Interestingly, even though Abonawara (2013) found that the users understood the audit work performance and the audit report, they were not certain about the usefulness of the audit report for making decision and for monitoring company's performance. This indicated that the audit report made the users confused and that the audit report did not respond to the users' demands. Abonawara (2013) suggested that wordings of audit report should be easy to understand for all users; especially the part of responsibility should be communicated clearly.

2.2.3.2 Audit expectation gap in Southeast Asia

There has been much evidence of audit expectations gap from different accounting and auditing environments around the world, e.g. the UK, Australia, New Zealand, China, Hong Kong, South Africa, Spain, Finland, Saudi Arabia, Egypt, Lebanon (Porter et al., 2012a), the US, India, and Bangladesh (Lee, Ali, & Gloeck, 2009). For Southeast Asia, Martinis, Aw, and Kim (2000), and Best, Buckby, and Tan (2001) provided evidence from Singapore; Fadzly and Ahmad (2004), Lee, Gloeck, and Palaniappan (2007) and Lee et al. (2009) reported the evidence of Malaysia; and Ongthammakul (2004) and (Lee, Ali, Gloeck, Yap, & Boonyanet, 2010) gave evidence of Thailand

Best et al. (2001) conducted the mail survey of 100 auditors, 100 bankers, and 100 with 97 responses received (32%). The survey questionnaire was adapted from previous studies by providing the respondents a sample of Singaporean short-form audit report. They found out that an expectation gap in Singapore was quite wide, particularly the gap in the auditor's responsibilities for detecting and preventing fraud, for maintaining accounting records, and for exercising judgement in selecting audit procedures. The gap also associated with the auditor's responsibility for reporting the effectiveness of internal control, the extent to which financial statements give s true and fair view, auditor's agreement with accounting policies used by the audited company, and the usefulness of audited financial statements to monitor the entity's

performance. From their findings, Best et al. (2001) suggested that to narrow the audit expectations gap a long-form audit report which was similar to that of Australia should be adopted in Singapore.

Fadzly and Ahmad (2004) used similar questionnaire to that of (Best et al., 2001) with minor modifications. The survey questionnaires were sent to 300 brokers, 300 auditors, 300 bankers, and 300 investors with 328 responses received (27%). However, Fadzly and Ahmad (2004) also did the experiment with additional investors of 100 by giving them the brochure which contained the explanation of the auditor's responsibilities and the audit functions. For the experiment group, the response received was 70. Fadzly and Ahmad (2004) compared their findings with those of Best et al. (2001). The findings of Fadzly and Ahmad (2004) and those of Best et al. (2001) are almost identical. Fadzly and Ahmad (2004) found that a wide audit expectation gap in Malaysia were pertinent to the auditor's responsibilities for detecting and preventing fraud, for maintaining accounting records, and for reporting the effectiveness of internal control. The comparison between the results of the experiment group and the control group led Fadzly and Ahmad (2004) to suggest that reading materials, e.g. a brochure, may help educate the users and correct their misunderstandings.

Unlike Best et al. (2001) and Fadzly and Ahmad (2004), Lee et al. (2007) incorporated the concept of Porter (1993) into their study in Malaysia. The survey questionnaire with auditors' 42 duties (34 questions) was distributed to 200 auditors, 200 bankers, 200 brokers, 200 investors, 200 publics, 200 directors, and 200 accountants. The responses received were 323 (23%). The comparisons across groups of auditees, audit beneficiaries, and auditors were performed by Chi-Square test. Lee et al. (2007) revealed that in Malaysia the reasonable, deficiency standards, and deficiency performance gap constituted 19%, 53%, and 28%, respectively. They suggested that to bridge the gaps, there should be communication with the public about audit function and its nature, stricter monitors of auditors, revisions and reviews of auditing standards.

Later, Lee et al. (2009) provided qualitative evidence by interviewing with 8 auditors, 5 participants from regulatory bodies, 4 financial controllers, 2 accountants, 4 company directors, 3 fund managers, 4 individual investors, 3 auditing professors, and 2 bank officers. They found that the causes of the audit expectations gap in Malaysia were complicated. The complication was resulted from the combination of the users' fallacies or ignorance, unreasonable expectation, the auditing function's complexity by its nature, deficiency legislations, and auditors' deficiency performance which was caused by "low balling" and unreasonableness of audit fees.

For evidence from Thailand, Ongthammakul (2004) distributed survey questionnaires to 350 auditors, 550 investors, 209 financial analysts, and 280 bankers. The responses received were 450 (29%). The participants were asked whether they agreed with the

statements which were associated with auditors' roles, audit reports' reliability and understandability, auditors' independence and auditors' legal liabilities. A five-point scale was used to indicate the participants' levels of agreement. Ongthammakul (2004) provide evidence that in Thailand the gap exists in the auditors' legal liability in case of expressing inappropriate audit opinions, the auditor's responsibility to detect both material and immaterial fraud, the auditors' independence when the auditors were familiar with the managements and accepted gifts from the auditees, the degree to which the financial statements were correctness and the extent to which the audit report guarantees that there was no fraud. Ongthammakul (2004) suggested that to narrow the gap, wordings of audit report should be simple and easy to understand, and auditing standards should be more publicized.

Lee, Ali, Gloeck, Yap, and Boonyanet (2010) incorporated the framework of Porter (1993) into their study of audit expectations gap in Thailand. The survey questionnaire with auditors 42 duties (34 questions) was distributed to 200 auditors, 200 bankers, 200 brokers, 200 financial analysts, 200 managements, and 200 accountants. The responses received were 132 (13%). The comparisons across groups of auditees, audit beneficiaries, and auditors were performed by Chi-Square test. Lee, Ali, Gloeck, Yap, and Boonyanet (2010) found that in Thailand the reasonable, deficiency standards, and deficiency performance gap constituted 46%, 46%, and 2%, respectively.

2.2.4 Summary

The audit performance-expectation gap occurs when the stakeholders perceive that the auditors' perceived performance and/or real performance falls below their expected performance. Similarly to many previous studies (e.g., Haniffa and Hudaib (2007), Porter and Gowthorpe (2004), Porter et al. (2012a) and Porter et al. (2012b)), this paper uses the composition of audit expectations gap provided by Porter (1993). Figure 2 showed Porter (1993)'s composition of audit expectations gap and Porter et al. (2012a)'s and Porter et al. (2012b)'s ways to bridge the gap. According to Porter (1993), audit expectation gap consists of three components. First, reasonableness gap occurs when society's expectations of auditors are greater the auditors' reasonable responsibilities. Second, deficient standards gap occurs when the auditors' responsibilities required by the standards are lower than their reasonable responsibilities. Third, deficient performance occurs when the auditors' actual performances are lower that their responsibilities required by the standards.

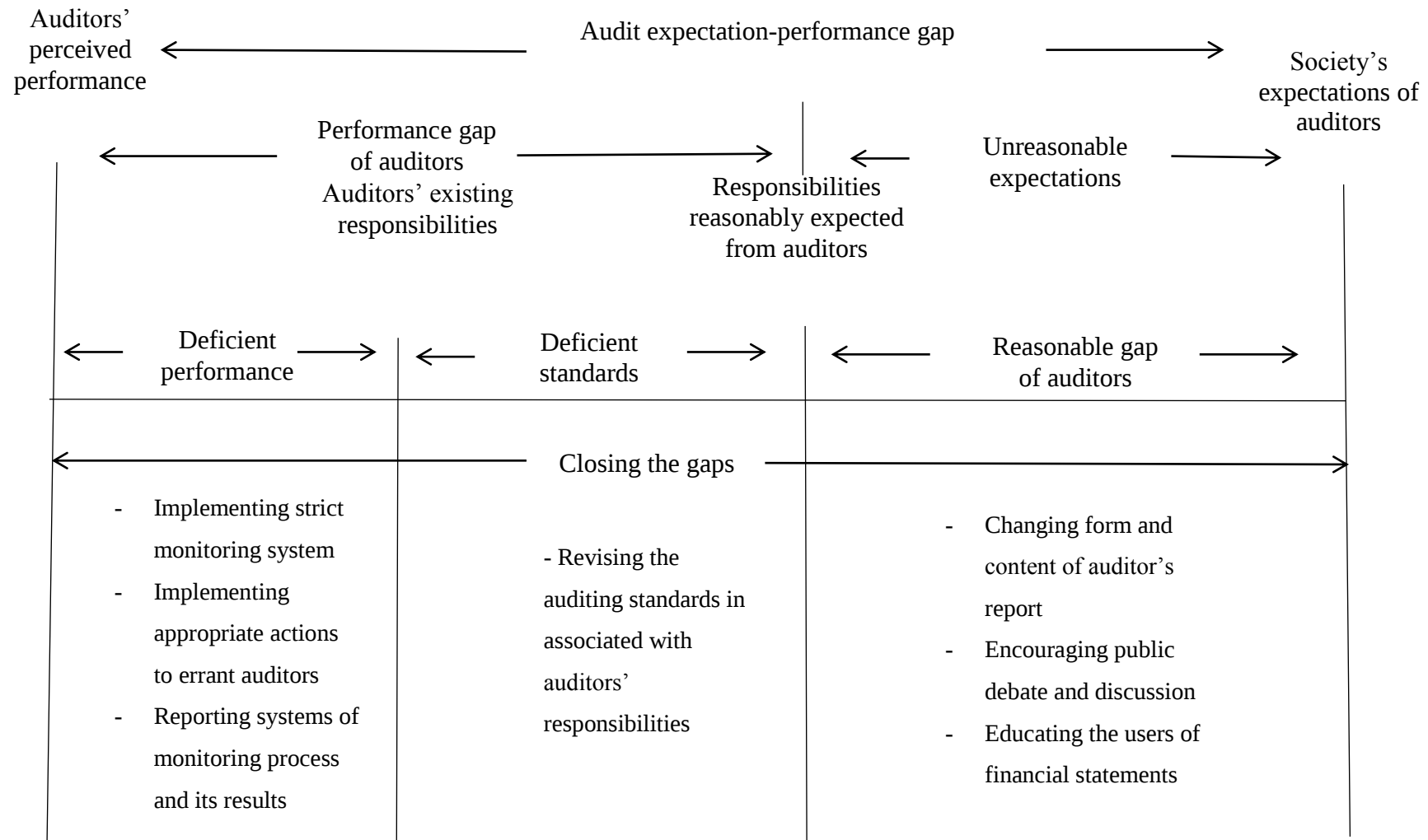


Figure 2 Porter's (1993) composition of audit expectations gap and Porter et al. (2012a)'s and Porter et al. (2012b) 's ways to bridge the gap

2.3 Audit report

An audit is like black box, which the other people have not seen or known what an auditor actually did. An audit report is then used by the auditor to communicate what he did and what he found from the audit to financial statement users. Hronsky (1998) used communication theory to explain the communication between the auditor and the users as shown in Figure 1. The communication process comprises four key elements: (1) auditor/user, (2) audit report, (3) financial statements, and (4) meanings. The auditor is the producer of the message about the audit and his opinion on the validity of audited financial statements, which heavily depends on his judgement and is unable to provide absolute outcomes. The users, who may have different sources of other information and different processes of decision making, are the receiver of the message. In order to transmit the message to the receiver, the auditor uses the audit report as the transmitter. The transmitted message is not only about the audit itself but also with the reference to the validity of audited financial statements. When the auditor and the users share the same meaning of the transmitted message, the communication process ends. However, the interpretations of the meaning of the transmitted messages are generally influenced by auditors' or users' behaviors.

2.3.1 Communicative and informative value of audit report

The effectiveness of communication in audit report hinges on its communicative and informative value. Communication value of audit report means the resemblance between what auditors communicates by audit reports to users and what the users desire and understand whilst the informative value of audit report means the users' perception of the usefulness of information provided by audit reports (T.J. Mock et al., 2013).

Previous studies observed the impacts of the audit reports' wording on communicative and informative value. Bailey, Bylinski, and Shield (1983) observed the change in audit report's wording in 1980 by conducting the experiment. They found that the change in audit report's wording creates change in perception of message in audit report as well. The readers perceived that the management was more responsible for the financial statements than the auditor. Bailey et al. (1983) also found that the knowledge of an audit impacted the readers' perception. They then suggested that there was also a need for educating people about the intended message of the audit report. Mong and Roebuck (2005) conducted the study on the effect of disclosing information in audit report on auditor's litigation risk exposure. They did the experiments with 69 participants in Australia. They found that the audit report with emphasis paragraph of going concern decreased the auditor's litigation risk exposure but the explanation of work performed by auditor did not.

Chong and Pflugrath (2008) contributed questionnaire conveyed 33 questions in Australia but got the low response rate. They used communication theory to test whether an audit report with expanded information helped reduce expectation gap.

They found that audit report formats had a weak impact on perception of auditors and shareholders and did not reduce the expectation gap. Therefore, the attempts to reformat an audit report, to change wording and to add other information seemed to be unsuccessful in closing the expectation gap.

Fakhfakh (2015) used linguistic framework to assess whether the audit report was readability and easy to interpreted. The techniques included, for example, word count, word length, and number of lines. Comparing between French and English versions helped Fakhfakh (2015) observe the impact of the translation. The study used Flesch Reading Ease and Gunning Fog Index in order to indicate the level of difficulty. Fakhfakh (2015) found that an audit report might not be readable for all users. Fakhfakh (2015) also suggested that before implementing the audit report, there should be a consultation with the linguistic expertise. This may help improve the structure of audit report.

2.3.2 Ways to improve communicative and informative value of audit report

Communicative and informative value of audit report remain problematic. The users still misunderstand the audit work, the auditor responsibilities, and the level of assurance (Church et al., 2008). Users also demand for more information since the business environment has dynamic changes (International Auditing and Assurance Standards Board, 2011). Ways to improve communicative value of audit report are as follows.

- giving more explanation of the term “*reasonable assurance*” (International Auditing and Assurance Standards Board, 2011; T.J. Mock et al., 2013) and “*misstatement*”(International Auditing and Assurance Standards Board, 2011);
- moving the opinion section into the first paragraph to make it more important (International Auditing and Assurance Standards Board, 2011);
- requiring the section “Basis for opinion” which previously mentioned only when giving modified opinion (Ernst & Young, 2016);
- adding affirmative statement of auditor’s *independence* (T.J. Mock et al., 2013);
- adding the new section “Other Information” that explains *management’s and auditors’ responsibilities for other information* (KPMG Huazhen LLP, 2015), especially other information in the annual report (Bedard, Coram, Espahbodi, & Mock, 2016);
- describing *the auditor’s responsibilities* which can be alternatively located to an appendix to make the readers focus more on KAMs (KPMG Huazhen LLP, 2015);
- describing *responsibilities of management and those charged with governance* pertaining to *going concern* (Deloitte Touche Tohmatsu Limited, 2016);
- improving the explanation of management’s responsibility for preparing financial statements (T.J. Mock et al., 2013);

- describing how the auditor communicates with those charged with governance; and
- improving the description of auditor's responsibility for fraud (T.J. Mock et al., 2013).

However, the suggestion about the disclosure of *materiality* (International Auditing and Assurance Standards Board, 2011; T.J. Mock et al., 2013) remains silent.

Ways to improve informative value of audit report are as follows.

- the "Other Information" section reports whether the auditors find any inconsistency between audited financial statements and other information (KPMG Huazhen LLP, 2015);
- Reporting on going concern and the adequacy for the disclosure of any existing material uncertainty, which are previously reported as an emphasis of matter section (Deloitte Touche Tohmatsu Limited, 2016) and which are useful for the readers to see the likelihood of company failure (Bedard et al., 2016; Carson, Fargher, & Zhang, 2016); and
- the "Key Audit Matters" section which provides more information about an audit (Bedard et al., 2016; International Auditing and Assurance Standards Board, 2011) and more specific information about the audited entity (Bedard et al., 2016). KAMs are informative by showing significant risk, significant audit risk, audit responsive, and audit results (T.J. Mock et al., 2013).

However, KAMs may have some side effects:

- the readers posing question about the audit process or the financial statements or the audit;
- the readers casting doubt as to whether KAMs affect the auditor's opinion;
- the readers misunderstanding that the auditor gives his opinion on KAMs separately from the opinion paragraph; and
- the readers seeing that KAMs are redundant information already disclosed elsewhere (International Auditing and Assurance Standards Board, 2011).

2.4 Revised audit report

Audit reporting in the UK and the US has a long history of its evolution. According to PricewaterhouseCoopers LLP (2015b), the audit report in the UK has developed over the past two centuries. In the 18th centuries, it was just one paragraph report of auditor's opinion, which in general had not more than 50 words. In the early 19th centuries in the US, lacking of authoritative body and accounting standards led auditors to freely write their audit reports (Public Company Accounting Oversight Board, 2010). Carmichael and Winters (1982) indicated that, in the US, there was the first official guideline for audit report in 1917 given by the professional organization. The professional organization introduced the British form of audit report to the US. Since that time, the audit report has been revised and developed, on the average, every

10 years. Long form of audit report was first introduced in the US in 1988 and was internationally applied in 1990s (Porter, hÓgartaigh, & Baskerville, 2009).

In Thailand, the audit report has been developed in line with the international one. In 1975, the two-paragraph audit report was lunched and used until 1998. Its first paragraph indicated the scope of the audit while its second one presented the auditor's opinion. In 1998, it was later replaced by the three-paragraph audit report. The three-paragraph audit report added the statements of auditor's responsibilities and management's responsibilities and the short explanation of auditor's works. In 2012, the six-paragraph audit report with major changes of its previous one was introduced.

The recent version of audit report had improved and developed by IAASB in 2006 and completed in 2016. Improving the audit report is a challenging project. From disclosed information on their website of IAASB (2016), IAASB and AICPA (American Institute of Certified Public Accountants) agreed to jointly support four projects that aimed to improved quality of an audit report and financial statements. These four projects were as follows. First, Porter et al. (2009) conducted the study of the audit expectation-performance gap in the contexts of the UK and New Zealand. The study also aimed to gain users' understanding of, and desired improvement to, the audit report. Experiment and survey were used to collected data. Porter et al. (2009) recommended that it was better to move the opinion paragraph to the beginning of the audit report. Its wording should be clear and easy to understand. Some explanations of the managements' and the auditors' responsibilities and audit process should be moved to somewhere and make them as a cross-reference.

Second, T. J. Mock, Tuner, Gray, and Coram (2009) project was funded by ASB (Auditing Standards Board) and IAASB. The project looked for a way to reform the standard audit report. They used verbal protocol analysis and focus group. The verbal protocol analysis was the approach that asked the participant to talk about his idea while doing a task. The talk was taped and transcribed for analyzing the process of decision-making and information evaluation. Mock et al. (2009) provided the suggestion about the potential items, which might add into the audit report. These items were information about the audit in terms of materiality and independence, quality of the financial statements, quality of the financial reporting systems, and quality of the clients in terms of going concern and other business risk. They suggested that some items might be added into the existing audit report while some might be disclosed as footnotes. Later, Turner et al. (2010) suggested that French audit report model that required the section "Justification of Our Assessment" was interesting.

Third, Gold, Gronewold, and Pott (2012) provided evidence from Germany. They conducted the online experiment with 163 auditors, 105 financial analysts, and 202 students. The response rate was 15.5%. After reading the experimental case and manipulated audit report, the participants were asked to give their level of agreement

on auditor responsibility, management responsibility, and financial statement reliability. From testing their hypotheses, Gold et al. (2012) found that expectation gap of auditor's responsibility existed.

Fourth, Asare and Wright (2012) used automated internet-based experiment with 78 auditors, 43 investors and 33 lenders in the US. They used reader-response theory and hypothesized that the readers were the active reader not the passive one. The readers were able to understand what was conveyed in the audit report by their own. Once they could understand, they were able to interpret its meaning. Asare & Wright (2012) found that the readers expected more on an auditor's responsibility than the responsibility identified in the audit report. Asare & Wright (2012) suggested that rather than changing word and/or format of the audit report, educating each group of the users was needed since they interpreted the technical terms in the audit reports differently.

The results of these four studies led to the changes in many auditing standards. In June 2013, draft of proposed ISAs 700, 701, 260, 570, 705 and 706 was approved. They were finally approved in September 2014. (IAASB, 2016). As a result of this, there were the major revisions of the audit report as summarized in Table 1.

Table 1 Major changes in 2016 audit reporting

ISA 700 (Revised)	
Opinion	Move to the first paragraph
Basis for opinion	Follow the opinion section Add the referring to compliance with the ISAs and referring to the auditor's responsibilities paragraph Mention the auditor's independence
Key audit matters (KAM)	The new section which describes each key audit matter
Other information	The new section which describes the auditor's responsibilities for other information
Responsibilities of management and those charged with government for the financial statements	Add the explanation of the management's responsibilities with respect to going concern Add the explanation of those charged with governance's responsibilities for overseeing the company's financial reporting process
Auditor's responsibilities	Describe the auditor's responsibility under ISAs Indicate that the audit gives high level assurance with the limitations Add the section that gives more information about the audit but the

ISA 700 (Revised)

auditor is able to opt to present this section as in an appendix or as a cross –reference to applicable source

Report on other legal and regulatory requirements Depend on the nature of the auditor’s other reporting requirements

Date, address and signature Put the name of the engagement partner

2.5 Key audit matters

IAASB’s the new audit report, which has been effective in December 15, 2016, is hoped to improve communicative and informative value of the audit report. The significant improvement is that the new audit report requires auditors to disclose key audit matters (KAMs). ISA 701 defines KAMs as “those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements of the current period. KAMs are selected from matters communicated with those charged with governance.” Disclosing KAMs may help the users gain better understanding of audited companies’ nature of business (C. Tangruenrat, 2015). In addition, comparing KAMs with those of other companies in the same industries may help audit committees have better understanding of the companies (Deloitte Touche Tohmatsu Limited, 2015a).

IAASB’s KAMs are close to PCAOB (Public Company Accounting Oversight Board)’s critical audit matters (CAMs) but the latter are defined as the most significant difficulty of the audit (Ernst & Young Global Limited, 2014). KAMs and CAMs are also close to France’s justification of our assessments (JOAs) and the UK’s risk of material misstatements (RMMs). Selecting KAMs to be disclosed significantly depends on the auditor’s judgment. The disclosure should be flexible. As commented to IAASB by CFA (Charter Finance Analyst) Institution, the way to present KAMs should not be standardized (PCAOB, 2014).

2.6 Evidence of the new audit report

Apart from the studies funded by IAASB, other studies also tested whether disclosing KAMs really improved communicative and informative value of the audit report. Some of them observed the impacts of France’s JOAs and UK’s RMMs. Bédard et al. (2012) investigated costs and benefits of France’s mandatory for reporting JOAs, which has begun since 2003. They found France’s mandatory for reporting justification of assessments had a small impact on marketing reaction, audit quality, audit cost and even audit efficiency. It increased symbolic value not informative

value. Reid et al. (2018) conducted the investigation of RMMs in the UK where the new audit report began from September 30, 2013 onwards. From their regression analysis, audit quality is found to be increased with a small increase in costs of audit. Reid et al. (2018) also tested whether change in audit report and audit committee report was beneficial for investors in the UK. They found that the new report reduced the information asymmetry and provided useful information to the investors. There was some evidence that the companies were in favor of auditors who tended to give more information of audits in the audit report.

Some studies investigated potential consequences of CAMs by conducting the experiments before its implementation in 2019. Christensen, Glover, and Wolfe (2014) observed non-professional investors' responses to CAMs in the US. They found that CAMs influenced investors' investment decision. However, it had a negative influence when it followed by the paragraph of how auditors deal with it. A. G. Backof, Bowlin, and Goodson (2014) tested whether the new audit report with CAMs influenced the participant's assessments of auditor negligence. From testing their hypotheses, disclosing CAMs with audit procedure performed in response to the disclosed risk caused the perception of possible misstatement. This perception increased auditor's liability assessment. However, the assessment decreased if there was the word "reasonable assurance". S. J. Kachelmeier, Schmidt, and Valentine (2014) examined the effect of disclosing and wording CAMs in the audit report on perceived responsibilities of auditors. Testing their hypotheses gave them the results that auditor liability for misstatement and the confidence in financial statements were perceived to be lesser when disclosing CAMs. Brown, Majors, and Peecher (2014) tested the impact of judgment rules and CAMs on the assessment of auditor legal liabilities. They concluded that CAMs was effective to reduce both auditors' litigation risk exposure and damage assessment. Kelsey Brasel, Marcus M. Doxey, Jonathan H. Grenier, and Andrew Reffett (2016) tested the impacts of disclosing CAMs on auditor liability and found that CAMs reduced the assessment of auditor's liability. When related CAMs was disclosed, the readers with less legal knowledge perceived that there might be misstatement in the financial statements. Therefore, they less blamed to the auditor. Different types of CAM impacted auditors' litigation protection differently. They suggested that auditors should not act strategically in presenting CAMs. Gimbar, Hansen, and Ozlanski (2016) tested the impact of CAMs and accounting standard precision on auditor's liabilities. They found that disclosing CAM was effective only in precise accounting environment.

Some studies investigated potential consequences of KAMs by conduct experiment before their implementation in 2016. Sirois, Montreal, Bédard, and Bera (2014) tested whether the presentation of KAMs in the audit report impacted the report's informative value. They found that the readers of the audit reports paid more direct attention to KAMs. Providing too much information in the audit report might lead the reader to read only the most important information and to pay more attention on other disclosed information that was related to KAMs. The greater number of KAMs

indicated the auditor's poor communication. Importantly, providing additional information in the audit report might magnify the audit expectation gap.

Recent studies provided evidence of the impacts of KAMs after their implementation. Wei et al. (2017) provide evidence from Australia. Their regression of both absolute value and income-increasing discretionary accruals provides evidence that the disclosure of KAMs does not improve audit quality but increases audit costs. Almulla and Bradbury (2018) provide evidence from New Zealand and found that KAMs do not impact audit quality. Srijunpetch (2018), Boonyanet and Promsen (2018) and Boonlert-U-Thai, Srijunpetch, and Phakdee (2019) provide evidence from Thailand. Srijunpetch (2018) found that KAMs have a positive impact on stock trading-volume but do not have an impact on stock price. However, Boonyanet and Promsen (2018) found that KAMs slightly improve the informative value of audit reports. KAMs relating to allowance for doubtful accounts have a positive relation with stock prices. Boonlert-U-Thai et al. (2019) found that the disclosures of KAMs increase audit fee and audit delay because the auditors are more conservative.

CHAPTER 3 METHODOLOGY

3.1 Interview and observation: Stakeholders' perceptions on the new audit report

To explore the stakeholders of audits' perceptions on the new audit report, four interviews with auditors and one interview with the preparers of the financial statements were conducted and the list of interview questions is as follows.

- Do the readers read only this paragraph and ignore other information conveyed in the report?
- Do the readers clearly understand the statement “present fairly, in all material”?
- Do the readers ascertain that auditor is really independent from the audited company?
- Are the readers confused with (i) emphasis of matter, (ii) key audit matters, (iii) other matters, and (iv) other information?
- Is KAMs paragraph really communicative and informative?
 - Do the readers understand the criteria used by the auditors to make decision as to which matters are KAMs?
 - Do the readers focus only on related notes to the financial statements, which are referred in KAMs paragraph?
 - Do the readers understand the ways the auditors deal with KAMs?
 - Do the readers believe selected audit methods help the auditor militate against the risks arisen from these KAMs?
 - Do the readers know the results of auditor's dealing with these KAMs?
- Do the readers understand the auditor's responsibilities for the other information in the company's annual report?
- Do the readers misunderstand the auditor's responsibilities and responsibilities of management?
- Do the readers understand the term “reasonable assurance”?
- Do the readers understand the auditor's responsibility for detecting fraud?
- Do the readers understand auditing?
- Do the readers understand the technical terms presented in the audit report?
- Do the readers understand how the auditor reports matters of concern to appropriate authority?

Coding of the interviewees is as follows:

- A1: audit partner from the big 4 XXY;
- A2: audit partner from the second-tier audit firm YXX;
- A3: audit partner from the local audit firm XZX;
- A4: audit partner from the local audit firm XZY; and
- U1: accounting Manager from company AAA which employed the Big 4 XXZ and he is alumni of the Big 4 XXY.

Observations of two events related to public seminars on key audit matters were conducted were performed and the list of events is as follows.

Table 2 List of events related to public seminars on key audit matters attended

Events	Organized by	Speakers/Discussants	Participants
The New Auditor's Report in the first AGM	Federation of Accounting Professions	1 Academic 1 Professional financial analyst 1 Professional stockbroker	~200 financial statements users with more than two-year experience in stock investing
CPA Conference 2018: Future of Audit	Federation of Accounting Professions	2 Academic 1 Regulator 1 Professional body 8 Partners from audit firms	~200 CPAs

Data from interviews and observations were analyzed by each core questions. Key and/or interesting points of views were identified and discussed.

3.2 Survey: Audit performance-expectation gaps

The compositions, structure and the extent of the audit expectation-performance gap in Thailand after the implementation of the new audit report in 2016 was investigated by using mail survey. Our sample are stakeholders or users of audits with different relationship the audit function and auditors. By following Porter et al. (2012a), three broad interest groups of them were initially identified as follows:

- auditees – the group which is closely associated with the audit function;
- audit beneficiaries from the financial community – the group which is directly beneficial from the audit function, for example, financial statements users; and
- Audit beneficiaries from outside the financial community – the group which is indirectly beneficial from the audit function.

Subgroups of each broad interest groups were identified and samples of survey participants were randomly selected from their names and positions disclosed on the websites of the Securities Exchange and Commission, listed companies, universities, regulators, government bodies, and companies. In September 2018, questionnaires were mailed to 2,230 names individuals. Details of the interest groups are shown in Table 1. From the table, an overall response rate is 8 per cent. The disappointingly low response is a general problem in the study of audit expectation gaps by using questionnaire survey. The study of Porter et al. (2012a) achieved an overall response rate of 14 per cent in the UK in 2008 after they distributed 1,610 questionnaires and an overall response rate of 29 per cent in the New Zealand in 2008 after they distributed 1,555 questionnaires. The study in Thailand of Lee, Ali, Gloeck, Yap, Ng,

et al. (2010) achieved an overall response of 13 per cent after they distributed 1,000 questionnaires.

Table 3 Group included in the survey and their response rates

Survey group	No. in Survey	No. of usable responses	% usable responses
Auditees			
Independent committee	400	13	3%
Board of director	400	45	11%
Audit committee	400	27	7%
CFO/Accounting manager	400	19	5%
Internal auditors	400	8	2%
Total	2000	112	6%
Audit beneficiaries: Financial community			
Stockbrokers	30	21	70%
Financial analysts	30	3	10%
Bankers-corporate lenders	30	14	47%
Institutional Investors	30	0	0%
Auditing/Accounting regulator	10	0	0%
Auditing academics	30	5	17%
Total	160	43	27%
Audit beneficiaries: Non-financial community			
Solicitors	20	1	5%
Financial Journalists	20	1	5%
General public	30	21	70%
Total	70	23	33%
Combined totals	2230	178	8%

Even though our overall response is lower than those of Porter et al. (2012a) and Lee, Ali, Gloeck, Yap, Ng, et al. (2010), the number of usable responses of auditees group (independent committee, board of director, audit committee, CFO, accounting manager, and internal auditors), which is the key stakeholder of audits, are satisfied. Our number of usable responses are 111 whilst those of Porter et al. (2012a) are 42 in UK and 137 in New Zealand and that of Lee, Ali, Gloeck, Yap, Ng, et al. (2010) is 8.

3.2.1 Survey instrument

Our questionnaire was developed based on those of Porter et al. (2012a) and Lee, Ali, Gloeck, Yap, Ng, et al. (2010). It contains the questions on 64 actual and potential responsibilities of auditors which 53 of all are identified by Porter et al. (2012a) and

11 are from Lee, Ali, Gloeck, Yap, Ng, et al. (2010). These 64 actual and potential responsibilities of auditors are shown in table 4. Respondents were asked to give the opinion on each suggested responsibility listed in the questionnaire in respect of three questions (1) whether the suggested responsibility is an existing responsibility of auditors, (2) if so, how well the auditors performed the responsibility, and (3) whether the suggested responsibility should be auditors' responsibility.

Table 4 actual and potential responsibilities of auditors

Resp No.	Suggested responsibilities of auditors	Porter et al. (2012)	Lee et al. (2010)
		Resp No.	Resp No
2.1	Prepare the client's financial statements	2.1	1
2.2	Guarantee that the company's audited financial statements are completely accurate	2.2	2
2.3	State whether or not the financial statements fairly reflect the company's financial affairs	2.3	4
2.4	Guarantee that a company with a clean audit report is financially sound	2.4	16 and 24
2.5a	Report to an appropriate authority doubts about the client's continued existence	2.5a	26a
2.5b	Disclose in the audit report doubts about the client's continued existence.	2.5b	26b
2.6	Ensure compliance with the disclosure requirements of the Companies Acts	2.6	15
2.7	Report breaches of tax law to Revenue Department	2.7	18
2.8a	Detect theft of a material amount (e.g. > 5per cent of turnover or total assets) of the client's assets by non-managerial employees	2.8a	7 and 9
2.8b	Detect theft of a material amount (e.g. > 5per cent of turnover or total assets) of the client's assets by directors/senior management	2.8b	
2.9a	Detect minor (but not petty) theft of the client's assets by non- managerial employees	2.9a	
2.9b	Detect minor (but not petty) theft of the client's assets by directors/senior managements	2.9b	
2.10	Detect deliberate distortion of the client's financial statements	2.10	8
2.11a	In the absence of a regulated industry duty, report to an appropriate authority (e.g. Police, SEC), minor (but not petty) theft of the client's assets by non-managerial employees	2.11a	10a
2.11b	In the absence of a regulated industry duty, report to an appropriate authority (e.g. Police, SEC), theft of a material amount of the client's assets by non-managerial employees	2.11b	
2.11c	In the absence of a regulated industry duty, report to an appropriate authority (e.g. Police, SEC), embezzlement of the client's assets by directors/senior management	2.11c	10b
2.11d	In absence of regulated industry duty, report to appropriate authority (e.g. Police or SEC), deliberate distortion of client's financial statements	2.11d	10c
2.12a	Disclose in the audit report minor (but not petty) theft of the client's assets by non-managerial employees	2.12a	11a
2.12b	Disclose in the audit report theft of a material amount of the client's assets by non-managerial employees	2.12b	
2.12c	Disclose in the audit report embezzlement of the client's assets by directors/ senior management	2.12c	11b
2.12d	Disclose in the audit report deliberate distortion of the client's financial statements	2.12d	11c
2.13	In absence of a regulated industry duty, report to an appropriate authority (e.g., Police, SEC) suspicions of theft or deliberate distortion of the client's financial statements	2.1	12
2.14a	Detect illegal acts by the client's directors/senior management which directly impact on the client's financial statements (e.g. political payoffs)	2.14a	13a
2.14b	Detect illegal acts by the client's directors/senior management which only indirectly impact on the client's financial statements (e.g., breaches of environmental laws and regulations)	2.14b	13b
2.15a	Disclose in the audit report illegal acts by the client's directors/senior management which directly impact on the client's financial statements	2.15a	14a

Resp No.	Suggested responsibilities of auditors	Porter et al. (2012)	Lee et al. (2010)
		Resp No.	Resp No
2.15b	Disclose in the audit report illegal acts by the client's directors/senior management which only indirectly impact on the client's financial statements (e.g. breaches of environmental laws)	2.15b	14b
2.16	In the absence of a regulated industry duty, report to an appropriate authority (e.g. Police, SEC) illegal acts by client's directors/management that illegal acts have been committed by the company's management or directors	2.2	15
2.17a	Examine & report (in audit report) on reliability of information in the client's annual report about its equal employment opportunities policy and record	2.17a	34
2.17b	Examine and report (in the audit report) on the reliability of information in the client's annual report about its product safety policy and record	2.17b	
2.17c	Examine and report (in audit report) on reliability of information in client's annual report about its occupational health and safety policy and record	2.17c	
2.17d	Examine and report (in the audit report) on the reliability of information in client's annual report about its directors' remuneration	2.17d	
2.18a	Examine and report (in the audit report) on the effectiveness of the client's internal financial controls	2.18a	20
2.18b	Examine and report (in the audit report) on the effectiveness of the client's operating systems and internal non-financial controls	2.18b	N/A
2.19	Examine and report (in the audit report) on the client's IT systems	2.19	N/A
2.20	Examine & report (in the audit report) on client's non-financial performance	2.20	N/A
2.21	Examine and report (in the audit report) on the efficiency and effectiveness of the client's management and administration	2.21	28
2.22	Audit half-yearly published financial statements	2.22	N/A
2.23	Examine and report (in the audit report) on the reasonableness of financial forecasts included in the client's annual report	2.23	32
2.24a	Consider & report (in audit report) on client's impact on its local community	2.24a	23
2.24b	Consider and report (in the audit report) on the client's impact on its environment (other than its carbon footprint)	2.24b	34
2.24c	Consider and report (in the audit report) on the client's carbon footprint	2.24c	
2.25a	Examine and report (in the audit report) on the reliability of information in the client's entire annual report	2.25a	N/A
2.25b	Examine and report (in the audit report) on information in the client's annual report which is inconsistent with the financial statements	2.25b	33
2.26a	For listed company clients, examine compliance with a specified set of the Stock Exchange's corporate governance requirements and report (in the audit report) on compliance therewith	2.26a	N/A
2.26b	For listed company clients, examine compliance with all of the Stock Exchange's corporate governance requirements and report (in the audit report) instances of non-compliance	2.26b	N/A
2.27a	Examine and report to the client's directors (or audit committee) on the adequacy of the client's procedures for identifying financial risks (e.g.m], credit, interest rate, foreign exchange and liquidity risks)	2.27a	N/A
2.27b	Examine and report to the client's directors (or audit committee) on the adequacy of procedures for identifying operational risks (eg machinery breakdown, entering new markets, materials or labour shortages)	2.27b	N/A
2.28a	Examine and report (in audit report) on adequacy of client's procedures for identifying financial risks (e.g. credit, interest rate, foreign exchange risks)	2.28a	N/A
2.28b	Examine and report (in audit report) on adequacy of procedures for identifying operational risks (e.g. machinery breakdown, labour shortages)	2.28b	N/A
2.29a	Examine and report (in attached audit report) on the reliability of information provided on the Internet by the client in its audited financial statements	2.29a	N/A
2.29b	Examine and report (in attached audit report) on reliability of information (other than in its audited financial statements) posted on Internet by client	2.29b	N/A
2.30a	Report to directors (or audit committee) significant difficulties encountered during the audit (e.g. disagreements with senior managers re financial	2.30a	N/A

Resp No.	Suggested responsibilities of auditors	Porter et al. (2012)	Lee et al. (2010)
		Resp No.	Resp No
	reporting matters)		
2.30b	Report in audit report significant difficulties encountered during the audit (e.g. disagreements with senior managers about financial reporting matters)	2.30b	N/A
2.31	Verify every accounting transaction	N/A	3
2.32	Verify the accounting estimates in the financial statement	N/A	4
2.33	Prevent fraud and errors in the company	N/A	5
2.34	Plan the accounting system and internal control system	N/A	19
2.35	Comply with Code of Ethics for professional accountant	N/A	21
2.36	Maintain confidentiality and safe custody of the audit working papers	N/A	22
2.37	Report in the published auditor's report the future prospects of the company	N/A	25
2.38	Express an opinion on the company's accounts to shareholders in a general meeting	N/A	27
2.39	Report in the published auditor's report on failures of auditors in obtaining all the information and explanation in forming their opinion on the company's accounts	N/A	29
2.40	Report in the published an auditor's report on any deficiencies or failure on the manner proper accounting and other records (including registers) are kept by the company	N/A	30
2.41	Audit published quarterly company's reports	N/A	31

3.2.2 Coding and testing the survey results

Following Porter et al. (2012a), for the questions 1 and 3 above, the choices “yes”, “no”, and “not sure” were given and were later coded +1, -1, and 0 respectively. If the mean of the group’s opinion is positive, this indicates that the group members deemed the suggested responsibility is, or should be, a responsibility of auditors. The converse applies when the mean of the group’s coded opinion is negative. The absolute value of the mean, which ranges from a possible 0 to ± 100 , indicates the degree of the group members’ agreement on the suggested responsibility of auditors. The closer the mean to ± 100 , the greater the agreement. In addition, we interpreted the level of the agreement or disagreement as follows: +68 - + 100 agree strongly, +34 - + 67 agree moderately, 0 - + 33 agree slightly, 0 - -33 disagree slightly, -34 - - 67 agree moderately, and -68 - -100 disagree strongly.

For the question 2 which asked the respondents how well the auditors performed the responsibility, the choices “poorly”, “adequately”, “well”, and “unable to judge” were given and were later coded 1, 2, 3, and 0 respectively. If the mean of the group’s coded opinion on the suggested responsibility is less than 2.0, this indicates that the group members considered that the performance of auditors is not satisfied. As suggested by Porter et al. (2012a), 1.9 should be used as the point to differentiate adequate and inadequate performance. The differentiation was later affirmed by the additional test which helps us identify perceived sub-standard performance of auditors’ responsibilities if 20 per cent or more of the group members indicate that the “poorly”.

3.3 Archrival data analyses

3.3.1 Audit quality

KAMs may improve audit quality. Bédard et al. (2018a) stressed that auditors are required to disclosure additional information in audit reports which in turn increase auditor's accountability. The greater accountability drives auditors to obtain more and better audit evidence and exert more professional skepticism into their audits. Li et al. (2019) highlighted that KAMs increase the transparency of audits with a result that it increases auditor accountability and responsibility. KAMs also help promote the communication between auditors and those charged with governance. Wei et al. (2017) indicated that KAMs improve the interaction between auditors and those charged with governance.

Concurrent evidence from archrival studies of the impacts of JOAs, RMMs, or KAMs on audit quality in the first year of their implementation remain inconclusive. Bédard et al. (2018a) found that disclosing JOAs does not have relation with the absolute value of abnormal accruals¹, which are proxy for audit quality. Gutierrez et al. (2018b) found that disclosing RMMs does not impact audit quality as measure by accruals² but Reid et al. (2018) found that disclosing RMMs improves financial reporting quality measured by absolute abnormal accruals³. Almulla and Bradbury (2018) found that in New Zealand disclosing KAMs does not affect absolute abnormal accruals⁴ but Li et al. (2019) reported contradictory finding that in New Zealand disclosing KAMs reduced absolute abnormal accruals⁵. Wei et al. (2017) found that in Australia disclosing KAMs does not improve audit quality as measure by discretionary accruals⁶.

The inconclusiveness of this concurrent evidence leads us to state our following null hypothesis:

¹ Abnormal accruals are calculated using Sagar P Kothari, Andrew J Leone, and Charles E Wasley (2005)'s performance-adjusted cross-sectional variation of the Jones model and accruals are computed using Hribar and Collins (2002)'s cash flow approach.

² Abnormal accruals are calculated using the Jones model including ROA. Gutierrez et al. (2018b) use the match pair-sample between listed companies in the UK Financial Times Stock Exchange (FTSE) 100 index and those the LSE Alternative Investment Market (AIM). RMMs is required only for listed companies in the main board.

³ Abnormal accruals are calculated using the modified Jones (1991). Reid et al. (2018) use the match-pair sample between UK listed companies and US listed companies. The US has not yet had the requirement for CAMs disclosure.

⁴ Abnormal accruals are calculated by using the modified Jones (1991).

⁵ Abnormal accruals are calculated by using the modified Jones (1991).

⁶ Abnormal accruals are calculated using Sagar P Kothari et al. (2005)'s performance-adjusted cross-sectional variation of the modified Jones model

H1: Disclosing KAMs does not impact audit quality after the implementation of the requirement for KAMs in Thailand.

To test hypothesis H1, we use discretionary accruals as measurement of audit quality similarly to previous studies. Our regression model is as follows:

$$ABDAC = \alpha + \beta_1 KAMsDisclose + \beta_2 LOGASSETS + \beta_3 LEVERAGE + \beta_4 ROA + \beta_5 LOSS + \beta_6 SALEGROWTH + \beta_7 MB + \beta_8 CFO + YFIXEFF + INDFIXEFF + \varepsilon, \quad (1)$$

Where

<i>ABDAC</i>	= absolute value of discretionary accruals computed by modified Jones model including ROA;
<i>KAMsDisclose</i>	= 1 for the audit of financial statements for the year-ending on or after December 15, 2106 when disclosing KAMs is required, 0 else;
<i>LOGASSETS</i>	= natural logarithm of total assets;
<i>LEVERAGE</i>	= total debts divided by total assets;
<i>ROA</i>	= net income divided by total assets;
<i>LOSS</i>	= 1 if the company reported loss, 0 else;
<i>SALEGROWTH</i>	= sale volatility which is change in sales divided by total assets;
<i>MB</i>	= ratio of market to book value of equity;
<i>CFO</i>	= cash flow from operations;
<i>YFIXEFF</i>	= dummy variables of year's fixed effects; and
<i>INDFIXEFF</i>	= dummy variables of industry's fixed effects.

By following Bédard et al. (2018a) and Gutierrez et al. (2018b), we use the cross-sectional modified Jones model adding by return on assets to estimated discretionary accruals. The estimation model is as follows:

$$\frac{TA_t}{TotalAssets_{t-1}} = \beta_1 \left(\frac{1}{TotalAssets_{t-1}} \right) + \beta_2 \left(\frac{\Delta Sales_t - \Delta Ar_t}{TotalAssets_{t-1}} \right) + \beta_3 \left(\frac{PPE_t}{TotalAssets_{t-1}} \right) + \beta_4 ROA_{t-1} + \varepsilon_t,$$

where **TA**=net income less cash flow from operations, **Sales**=net sales, **Ar**=Accounts receivable, and **PPE**=gross property, plant, and equipment.

In model 1, we control company *LOGASSETS* as Wei et al. (2017) found it has negative relation with absolute value of abnormal accruals. We control *LEVERAGE* as Bédard et al. (2018a) reported it has positive relation with absolute value of abnormal accruals. We control *ROA*, *LOSS*, and *SALEGROWTH*. Almulla and Bradbury (2018) and Li et al. (2019) found *ROA* has negative relation with absolute value of abnormal accruals while Gutierrez et al. (2018b). Almulla and

Bradbury (2018) reported *LOSS* has negative relation with absolute value of abnormal accruals. Gutierrez et al. (2018b) found *SALEGROWTH* has positive relation with absolute value of abnormal accruals. We control *MB* as Wei et al. (2017) found it has positive relation with absolute value of abnormal accruals. We control *CFO* as Gutierrez et al. (2018b) reported it has positive relation with absolute value of abnormal accruals.

3.3.2 Audit fee

Disclosing KAMs is suspected to increase audit effort and audit risk, thereby increasing audit fee (Almulla & Bradbury, 2018; Bédard et al., 2018a). Auditors increase their audit fees because disclosing additional matters as KAMs in audit reports may lead them to face the higher litigation risk against auditors when misstatements are subsequently revealed (Wei et al., 2017). Similar to JOAs, disclosing KAMs should lead to the increase in senior members' effort because they have more works on considering, documenting, preparing, and reviewing the disclosure of KAMs (Bédard et al., 2018a). Disclosing KAMs also requires auditors to spend more time on discussing these matters with audited companies (Reid et al., 2018). For the first year, audit firms have to spend resource and time on preparing their staff for the implementation and training of KAMs (Li et al., 2019; Reid et al., 2018).

Recent archival studies of the impacts of JOAs, RMMs, or KAMs on audit fees in the first year of their implementation provide inconclusive findings. Bédard et al. (2018a) found that the disclosing JOAs in the first year did not affect audit fees. Reid et al. (2018) and Gutierrez et al. (2018b) found that disclosing RMMs does not affect audit fees. Li et al. (2019) reported that disclosing KAMs increases audit fees in New Zealand but Almulla and Bradbury (2018) found that disclosing KAMs does not increase in audit fees in New Zealand in the first year of the implementation. Wei et al. (2017) reported that in Australia disclosing KAMs increases audit fees only for non-Big 4 firms. According to these inconclusive, our null hypothesis is as follows:

H2: Disclosing KAMs does not impact audit fees after the implementation of the requirement for KAMs.

$$LAFEE = \alpha + \beta_1 KAMsDisclose + \beta_2 LOGASSETS + \beta_3 LEVERAGE + \beta_4 ROA + \beta_5 LOSS + \beta_6 SALEGROWTH + \beta_7 CURR + \beta_8 AR + \beta_9 INV + \beta_{10} BIG4 + YFIXEFF + INDFIXEFF + \varepsilon,$$

(2)

where

LAFEE = the natural logarithm of audit fee;

KAMsDisclose = 1 for the audit of financial statements for the year-ending on or after December 15, 2106 when disclosing KAMs is required, 0 else;

<i>LOGASSETS</i>	= natural logarithm of total assets;
<i>LEVERAGE</i>	= total debts divided by total assets;
<i>ROA</i>	= net income divided by total assets;
<i>LOSS</i>	= 1 if the company reported loss, 0 else;
<i>SALEGROWTH</i>	= sale volatility which is change in sales divided by total assets;
<i>CURR</i>	= current assets divided by current liabilities;
<i>AR</i>	= accounts receivable divided by total assets;
<i>INV</i>	= inventories divided by total assets;
<i>BIG4</i>	= 1 for the Big 4 firm, 0 else;
<i>YFIXEFF</i>	= dummy variables of year's fixed effects; and
<i>INDFIXEFF</i>	= dummy variables of industry's fixed effects.

From equation 2, we control company *LOGASSETS* as Wei et al. (2017), Gutierrez et al. (2018b) and Almulla and Bradbury (2018) found it has positive relation with audit fees. We control *LEVERAGE* as Almulla and Bradbury (2018) reported it has positive relation with audit fees. We control *ROA*, *LOSS*, and *SALEGROWTH*. Almulla and Bradbury (2018) and Gutierrez et al. (2018b) found *ROA* has negative relation with audit fees whilst they reported *LOSS* has negative relation with audit fees. Gutierrez et al. (2018b) found *SALEGROWTH* has positive relation with audit fees but Reid et al. (2018) found it has negative relation with audit fees. We control *CURR* as Wei et al. (2017) found it has negative relation with audit fees. We control *AR* as Gutierrez et al. (2018b) and Li et al. (2019) reported it has positive relation with audit fees. We control *INV* as Gutierrez et al. (2018b) found it has negative relation with audit fees. We control *BIG4* as Gutierrez et al. (2018b) and Wei et al. (2017) found it has positive relation with audit fees.

3.3.3 Audit delay

Disclosing KAMs increase audit work (Bédard et al., 2018a) and requires auditors to spend more time on discussing the matters with their audited companies (Reid et al., 2018). Therefore, audit delays are expected to be increased in the first year of its implementation. However, findings of concurrent studies are contradictory to this expectation. Reid et al. (2018) concluded that disclosing RMMs does not affect audit delays. Almulla and Bradbury (2018) found that disclosing KAMs does not affect audit delays. Bédard et al. (2018a) reported that found that disclosing JOAs does not affect audit delays. Our null hypothesis about the impacts of disclosing KAMs on audit delays is as follows:

H3: Disclosing KAMs does not impact audit delays after the implementation of the requirement for KAMs in Thailand.

To test hypothesis 3, we develop the following model:

$$LADELAY = \alpha + \beta_1 KAMsDisclose + \beta_2 LOGASSETS + \beta_3 LEVERAGE + \beta_4 ROA + \beta_5 LOSS + \beta_6 SALEGROWTH + \beta_7 MB + \beta_8 CFO + \beta_9 BUSY + \beta_{10} BIG4 + \beta_{11} LAFEE + YFIXEFF + INDFIXEFF + \varepsilon,$$

(3)

where

LADELAY = the natural logarithm of audit delay counting from the date of year-ending for accounting period to the date of auditor report;

KAMsDisclose = 1 for the audit of financial statements for the year-ending on or after December 15, 2106 when disclosing KAMs is required, 0 else;

LOGASSETS = natural logarithm of total assets;

LEVERAGE = total debts divided by total assets;

ROA = net income divided by total assets;

LOSS = 1 if the company reported loss, 0 else;

SALEGROWTH = sale volatility which is change in sales divided by total assets;

MB = ratio of market to book value of equity;

CFO = cash flow from operations;

BUSY = 1 for the date of year-ending for accounting period is December, 31, 0 else;

BIG4 = 1 for the Big 4 firm, 0 else;

YFIXEFF = dummy variables of year's fixed effects; and

INDFIXEFF = dummy variables of industry's fixed effects.

In model 3, we control company size *LOGASSETS* as Almulla and Bradbury (2018) and Reid et al. (2018) found it has negative relation with audit delays but Bédard et al. (2018a) found it has positive relation with audit delays. We control firm *ROA* as Almulla and Bradbury (2018) found it has positive relation with audit delays. We control *LOSS*, *LEVERAGE*, *SALEGROWTH*, *BUSY*, and *LAFEE* as Reid et al. (2018) found they have positive relation with audit delays. We control *MB* and *CFO* as Reid et al. (2018) found they have negative relation with audit delays. We control *BIG4* as Almulla and Bradbury (2018) found it has positive relation with audit delays but Reid et al. (2018) found it has negative relation with audit delays.

3.3.4 Market reaction

KAMs are informative to investors because KAMs are expected to alleviate information asymmetry problem (Almulla & Bradbury, 2018; Bédard et al., 2018a). Auditors' identified significant risks and responses to those risks are disclosed as KAMs (Almulla & Bradbury, 2018). This disclosure of KAMs may affect stock prices or trading volume, which are generally used to gauge its usefulness for market's decision, because it impacts on the quality of financial reporting and the estimation of

a company's ex ante cash flows (Gutierrez et al., 2018b). Unless they are difficult to understand, KAMs may affect market reaction in terms of investment decision and attention on information provided (Bédard et al., 2018a).

Concurrent studies provide evidence that disclosing RMMs or JOAs does not affect market reaction in the first year of their implementation. Gutierrez et al. (2018b) found that disclosing RMMs does not impact both absolute abnormal returns and abnormal trading volume. Bédard et al. (2018a) found that disclosing JOAs does not impact on both abnormal returns and abnormal trading volume. From these findings, we state our null hypothesis that :

H4: Disclosing KAMs does not impact market reaction at the earnings announcement date after the implementation of the requirement for KAMs in Thailand.

To test our hypothesis 4, we observe the impact of market reaction to KAMs by both abnormal returns and abnormal trading volume around the date of financial statement submission to the website of Thailand Security Exchange and Commission. Model 4 is developed for observing abnormal return whilst model 5 is developed for observing abnormal trading volumes. Model 4 is as follows:

$$CAR = \alpha + \beta_1 KAMsDisclose + \beta_2 LMKC + \beta_3 MB + \beta_4 LEVERAGE + \beta_5 CHNI + \beta_6 CAR3 + \beta_7 BIG + YFIXEFF + INDFIXEFF + \varepsilon, \quad (4)$$

where

<i>CAR</i>	= cumulative abnormal return;
<i>KAMsDisclose</i>	= 1 for the audit of financial statements for the year-ending on or after December 15, 2106 when disclosing KAMs is required, 0 else;
<i>LMKC</i>	= natural logarithm of market capitalization;
<i>MB</i>	= ratio of market to book value of equity;
<i>LEVERAGE</i>	= total debts divided by total assets;
<i>CHNI</i>	= current year's net income less previous year's net income divided by total assets;
<i>CAR3</i>	= the absolute value of the sum of the three-day absolute <i>CAR</i> during the period surrounding the financial statement submitting date;
<i>BIG</i>	= 1 for the Big 4 firm, 0 else;
<i>YFIXEFF</i>	= dummy variables of year's fixed effects; and
<i>INDFIXEFF</i>	= dummy variables of industry's fixed effects.

CAR_{it} is predicted as:

$$CAR_{i,(t0,t+1)} = \sum_{t=0}^{+1} AR_{i,t},$$

where $CAR_{i,(t0,t+1)}$ = cumulative abnormal return of company i on day t for the 2-day window from $t0$ to $t + 1$;
 $AR_{i,t}$ = abnormal return of company i on day t ; and
 $t0$ = event day which is the date of financial statements announcement.

$AR_{i,t}$ is calculated as:

$$AR_{i,t} = R_{i,t} - E(R_{i,t}),$$

where $AR_{i,t}$ = abnormal return of company i on day t ;
 $R_{i,t}$ = daily return of company i on day t ; and
 $E(R_{i,t})$ = expected return of company i on day t .

$E(R_{i,t})$ is computed by using five-factor pricing model of Fama and French (2015) as follows:

$$AR_{i,t} = a_t + AR_{f,t} + b_i(R_{m,t} - R_{f,t}) + s_iSMB_t + h_iHML_t + r_iRMW_t + c_iCMA_t + e_{i,t},$$

where $R_{f,t}$ = risk-free rate of return on day t ;
 $R_{m,t}$ = daily market return on day t ;
 SMB_t = day t 's average return of stock portfolio, to which company i belongs, based on quantile breakpoint of market capitalization at the end of the previous year adjusted by change in outstanding shares;
 HML_t = day t 's average return of stock portfolio, to which company i belongs, based on quantile breakpoint of ratio of book equity to market capitalization at the end of the previous year;
 RMW_t = day t 's average return of stock portfolio, to which company i belongs, based on quantile breakpoint of operating profitability which is [revenues – cost of goods sold – selling and administrative expense – interest expenses]/book equity; and
 CMA_t = day t 's average return of stock portfolio, to which company i belongs, based on quantile breakpoint of investment which is [total assets at end of the previous year- total assets at the beginning of the previous year]/ total assets at the beginning of the previous year.

For model 4, we control MB as Bédard et al. (2018a) found it has positive relation with abnormal returns. We control $LMKC$ and $CHNI$ as Gutierrez et al. (2018b) reported they have negative relation with abnormal returns. We control $LEVERAGE$, $CAR3$, and BIG as Gutierrez et al. (2018b) found they have positive relation with abnormal returns.

Model 5 for observing abnormal trading volumes is as follows:

$$ABTV = \alpha + \beta_1 KAMsDisclose + \beta_2 LMKC + \beta_3 ROA + \beta_4 LOSS + \beta_4 CAR3 + YFIXEFF + INDFIXEFF + \varepsilon, \quad (5)$$

where

$ABTV$	= cumulative abnormal trading volume;
$KAMsDisclose$	= 1 for the audit of financial statements for the year-ending on or after December 15, 2106 when disclosing KAMs is required, 0 else;
$LMKC$	= natural logarithm of market capitalization;
ROA	= net income divided by total assets;
$LOSS$	= 1 if the company reported loss, 0 else;
$CAR3$	= the absolute value of the sum of the three-day absolute CAR during the period surrounding the financial statement submitting date;
$YFIXEFF$	= dummy variables of year's fixed effects; and
$INDFIXEFF$	= dummy variables of industry's fixed effects.

Following Pevzner, Xie, and Xin (2015), the estimation period is [-120, -21] meanwhile the event period is [0, +1]. $ABTV$ is computed as;

$$ABTV_{i,(t0,t+1)} = \frac{\frac{\sum_{t=0}^{+1} TradeVolume_{it}}{2}}{\frac{\sum_{t=-21}^{-120} TradeVolume_{it'}}{100}}$$

where $TradeVolume_{it}$ = number of trading shares of company i on day t scaled by the total number of outstanding shares of company i on day t .

In model 5, we control $LMKC$, ROA , and $CAR3$ as Gutierrez et al. (2018b) found they have positive relation with abnormal trading volumes. We control $LOSS$ as Gutierrez et al. (2018b) reported it have negative relation with abnormal trading volumes.

3.3.5 Sample and data collection

We selected a sample of listed companies traded on the Main Board (SET) of the Stock Exchange of Thailand and used data covering the two years before and two years after the implementation of KAMs in Thailand in December 2016. We began with the list of 580 listed companies traded on the Main Board (SET) of the Stock Exchange of Thailand. 58 companies from financials sectors, seven companies with rehabilitation, and 87 companies with insufficient data for computing necessary variables were deleted. We then had 428 listed companies with 1,712 firm-year observations. We deleted 12 firm-year observations with extreme audit delay because of the SEC's enforcement of financial restatement. 13 firm-year observations without

data of KAMs were also deleted. We deleted observation which have value of our main variable below the 1st percentile and above the 99th percentile. Finally, our sample included 399 companies with 1,316 firm-year observations. Data were collected from the companies' financial statements, annual reports, and Form 56-1 which were published on the Thailand Securities and Exchange Commission website or the companies' websites.

CHAPTER 4 RESULTS

4.1 Stakeholders' perceptions on the new audit report

4.1.1 Benefits of the new audit reports

4.1.1.1 Highlight of key information drawing the user' attentions

Auditors believe KAMs are beneficial to users because KAMs highlight information required the user' attentions. Two of audit partners pointed out that:

"...KAMs help raise the users' awareness of significant areas highlighted by auditors. In the past, the auditors did not disclose them in the auditor's report..." (A1: Audit partner from the big 4 XXY), and
"...Key audit matters highlight the area to which the users have to pay attention while they are analyzing financial information. They may need to discount the amounts of accounts related to this area. The users will seek for information about this area..." (A2: Audit partner from the second-tier audit firm YXX).

4.1.1.2 More information about going-concern matter

The new audit's report provides more information about going-concern matter. Two interviewees gave their points of view that:

"In the past, we document it in our working paper. However, we now disclose it in the auditor's report. It makes the users clearer about the responsibilities of a going-concern issues between auditors and management" (A4: Audit partner from the local audit firm XZY), and

"...At least, the auditors make the users have more confidence in the audited company's ability to be a going concern..." (U1: Accounting Manager from the company AAA which employed the Big 4 XXZ and he is alumni of the Big 4 XXY).

4.1.1.3 Highlight the roles of those charged with governance

Auditors believe that the new audit report highlight the roles of those charged with governance and the communication between auditors and those charged with governance. Two of the interviewees gave their opinions that:

"It helps the users have a better understanding of audit process, especially how the auditors communicate with TCWG." (A1: Audit partner from the big 4 XXY), and
"It helps us to raise the TCWG's awareness of responsibilities." (A3: Audit partner from the local audit firm XZX).

4.1.2 Audit expectation gap

After the new audit report has been implemented in Thailand for the audits of financial statements for the year ended at 31 December 2016 afterwards, there remain some audit expectations gap as follows.

4.1.2.1 Auditor's responsibility for assessing the audited company's ability to continue as a going concern

The gap in the auditor's responsibility for assessing a company's ability to continue as a going concern remains unchanged. One professional financial analyst gave her opinion that:

"...Owing to the limitation to the auditors, they assess the company's going concern for the next twelve months. For us, the assessment must be done not just for the next twelve months..." (Professional financial analyst 1, New Auditor's Report in the First AGM, 2017).

4.1.2.2 Auditor independence

Even though the new audit report provides more explanation of auditor independence; the readers are not sure whether the auditors are really independent from the audited companies. One professional financial analyst pointed out that:

"...The auditors are hired by the audited companies. Therefore, they have to be very careful what they do. The auditor of [the name the company] was very brave to report negative information of the company to the public. To do like the auditor of [the name of the company], the auditors have to be very experienced and have tremendous bargaining power..." (Professional financial analyst 1, New Auditor's Report in the First AGM, 2017).

One professional stockbroker also shared the same view as follows.

"...For the case of [the name of the company], the auditor was really independent. The auditor was brave to report many things and wrote the report very clearly. Reading just only the first five pages led the readers knew what happened. Experienced readers of the financial statements would understand the audit reports very well but minor shareholders would give up reading it since the first page..." (Professional stockbroker 1, New Auditor's Report in the First AGM, 2017).

One of the interviewees provided evidence that the users remain unsure about auditor independence. However, the auditors themselves perceived that the users are more comfort in auditor independence. One of the auditors gave his view that:

"...Even there is no any wording of auditor independence, the users believe auditors are independent. It is deeply entrenched belief of auditor profession which everyone has known about it..." (A4: Audit partner from local audit firm XZY).

One of the interviewees argue that the additional description of auditor independence in the new audit report may not affect auditor independence. Her view is that;

"...The explanation of auditor independence in auditor's report is just for protecting the auditors. Increasing explanation of auditor independence in auditor's report neither strengthen nor lessen our independence. Auditor independence depends on individual auditors. It is in our mind..." (A2: Audit partner from the second-tier audit firm YXX).

4.1.2.3 Deficient performance

From investigations of audit reports, the users point to the deficient performance as follows.

- Evaluation of going concern matters

The users do not ascertain how well the auditors evaluate the management's assessment of company's going concern matter.

“...For the assessment of the company’s ability to continue as a going concern, the auditors should make sure that the managements of the companies provide reliable and unbiased information about cash flows, assets impairments, and cost of funds. This information may be unreliable, biased, or over statement.” (Professional financial analyst 1, New Auditor’s Report in the First AGM, 2017).

- Professional skepticism

Auditors have insufficient professional skepticism. One professional financial analyst indicated that:

“...One of key matters the auditors have to concern is listed companies’ acquisition loan. The auditors rarely talk about it in their audit reports. If we check these companies’ financial statements, we will find out that their financial structures are unusual. If we take out a loan from a bank, the bank would check how we spend the money...a short-term liability should be for purchasing raw materials. The company has to match fund. Now the listed companies take advantage by issuing bonds with/without rating or bill of exchange because it is easy to do so. Importantly, the interest rates are very low. Some companies have a short-term liability approximately 70-80% of total assets. This raises doubt about what these companies are doing...” (Professional financial analyst 1, New Auditor’s Report in the First AGM, 2017).

She also underscored that:

“...There is also doubt as to whether the auditors check how the companies spend their money from the issuance of bonds or bill of exchange. In case of a bank, the bank has to check that...” (Professional financial analyst 1, New Auditor’s Report in the First AGM, 2017).

Contrary to observable evidence, the interview provided inconclusive evidence of auditors’ performances. Two of the interviewees agreed that auditor’s performances met the users’ expectations. One of the interviewees viewed that auditors’ performances are greater than the users’ expectations. However, one of the interviewees was not sure about it.

4.1.2.4 Auditors’ responsibility of detecting fraud

Three audit partners share the same view that auditors are responsible for detecting their audited companies’ fraud. Two of the audit partners gave his view that:

“We do not have responsibility for detecting every fraud. We are responsible for fraud which affects financial statements.” (A2: Audit partner from the second-tier audit firm XYX), and

“The previous form of auditor’s report mentioned that auditors were not responsible for fraud. But the auditors are now responsible for it.” (A4: Audit partner from the local audit firm XZY).

However, the interviewee from the group of the users did not expect auditors to detect fraud. His view on users’ expectations of auditors is that:

“...Auditors’ are expected to certify the financial statements as it enforces by law, provide the confidence in the financial statements for users, and audit the internal control and give the suggestions of it...” (U1, Accounting Manager from the company AAA which employed the big 4 XXZ and he is alumni of the big 4 XXY).

4.1.3 Communicative and informative value of the new audit report

4.1.3.1 Users' insufficient knowledge about KAMs

KAMs are added into the new audit report in order to give the specific information of the audited company. However, financial statement users do not have a clear understanding of KAMs.

- What are KAMs?

Because of it was the first year of disclosing KAMs, the users were likely to have insufficient understanding of KAMs. One professional stockbroker raised the following point.

"...From my investigation of the audit reports, I found that most of them reported revenue recognition as key audit matters. In a general sense, every company runs its business and records revenue. I did not understand why the auditors reported it as key audit matters. From my experience, there is one company, which will do an initial public offering. I asked the auditor how the key audit matters would be reported. The answer was that the company's revenue recognition would be reported as key audit matters. I further raised doubt as to whether the company's revenue recognition was not okay. The auditor explained that it was not okay because the company's revenue recognition differed from those of other companies. Therefore, the auditor used his capability and strict audit methods to audit the company's revenue..." (Professional stockbroker 1, New Auditor's Report in the First AGM, 2017).

Audit partners from two different Big 4 firms viewed that the users do not understand what KAMs are. Their views are that:

"...Some of audit committees and users don't even know what KAMs are. Because they have ever never read the accounting standards..." (Partner from big 4 ZZZ, CPA Conference 2018: Future of Audit, 2018); and

"...The users do not understand how the auditors select areas to be disclosed as KAMs...(A1: Audit partner from the big 4 XXY).

- Confusion over key audit matters, matter of emphasis, other matters, and other information

Some of financial statement users misunderstood key audit matters and matter of emphasis. One professional analyst seems to be confused these two matters. Her expression was:

"In the past, the financial analysts seemed to ignore the auditor's reports. However, its reform in this year, especially, the matter of emphasis received our attentions. In the past, the financial analysts focused only on notes to financial statements because we used much information disclosed in notes to financial statements for our predictions. It is just like we used this information as pieces of the jigsaw to understand the company..." (Professional financial analyst 1, New Auditor's Report in the First AGM, 2017).

Even auditors themselves accept that it is difficult for the users to distinguish key audit matters, matter of emphasis, other matters, and other information. Two of them gave their views that:

"It is likely that the users are unable to distinguish these four paragraphs. However, if they read these paragraphs thoroughly, they would understand them. It is responsibilities of both the users and the auditors. The users have to educated themselves about all these paragraphs. Meanwhile, the auditors have to find the ways to write the report which leads the users to have clearer understanding of the auditor's report." A1: Audit partner from the big 4 XXY); and

“There are many questions about these paragraphs at shareholders’ meeting. Even CEO and CFO do not distinguish them.” (A3: Audit partner from the local audit firm XZX).

4.1.3.2 Users’ ignorance of reading KAMs

Users do not read KAMs because they pay more their attentions to auditor opinion. One of partner from one of Big 4 firms shared his view that:

“From my investigation by discussing with audit committees, other auditors, or financial statement users. They told me that they didn’t pay their attention to key audit matters. They only checked whether auditors’ opinions are clean or unclear. If they are clean, they are happy and don’t want read the remainder information conveyed in auditors’ reports. There is too much information in the auditor’s report...Some of audit committees and users don’t even know what are KAMs. Because they have ever never read the accounting standards...”(Partner from big 4 ZZZ, CPA Conference 2018: Future of Audit, 2018).

A1 and A2 viewed that moving opinion paragraph is moved into the first paragraph may have unintended consequence. The users may read only the opinion paragraph and then skip the remainder part of an audit report. One of them viewed that:

“...It is two sides of the same coin. Opinion paragraph is the most important part of the auditor’s report, thereby moving it into the first paragraph makes the users more comfortable because the users may focus only the opinion paragraph. Since the users focus only the opinion paragraph, they read only this paragraph and ignore the remainders...”(A1: Audit partner from the big 4 XXY).

In addition, the interviewees from the user group accepted that the users do not read KAMs even if KAMs are useful. His opinion is that:

“...Even though KAMs are expected to provide more specific information about audited companies, the users do not pay attention to KAMs...” (U1: Accounting Manager from the company AAA which employed the big 4 XXZ and he is alumni of the big 4 XXY)”.

4.1.3.3 Less informative

The new audit report is less informative because the auditors do not give clear conclusions and broad information.

- Redundant information

KAMs are less informative because they are redundant information. One professional financial analyst stated that:

“... I think the matters raised by the auditors in the audit reports are not the new thing. The auditors just highlight the matter in the notes to financial statements with which we need to be concerned. For investors and the readers of financial statements who do not get used to it, this is beneficial.....” (Professional financial analyst I, New Auditor’s Report in the First AGM, 2017).

- Unclear conclusion of going concern matters

One professional financial analyst indicated that:

“...The audit reports of many companies did give the clear conclusion of going concern matters. For me these matters were material but the auditors just reported them as key audit matters. I think the financial analysts remain doing our hard work because the auditor paid more focus on key audit matters but less report natter of emphasis...” (Professional financial analyst I, New Auditor’s Report in the First AGM, 2017).

- Broad and general information and boilerplate

One professional stockbroker pointed out that audit report has too much information, especially broad information. His point is as follows.

“...Some of them disclosed too much information while some reported broad information, which was useless...” (Professional stockbroker 1, New Auditor’s Report in the First AGM, 2017).

He added that KAMs are likely to provide general matters of all companies in the same industry. He added that:

“I checked audit reports of other companies in the same industry and found that the auditors of these companies also highlighted the companies’ revenue” (Professional stockbroker 1, New Auditor’s Report in the First AGM, 2017).

One audit partner worried that KAMs would turn to be boilerplate when time goes by.

- Not giving any warning signal

As documented in many previous studies, the audit report has to give early warning of unusual matters. However, the new audit report still faces this problem. One professional stockbroker gave his comment that:

“...the audit report should give early signal of something... like a company’s going concern ability and impaired asset. I think the impairment of assets is very important for us. We have never thought of it before. We use the information about the impairment provided by the auditors for starting our analyses...” (Professional stockbroker 1, New Auditor’s Report in the First AGM, 2017).

4.1.3.4 Not readily understandable

The new audit report is perceived to be difficult to understand as one stockbroker stated that:

“...After I read the audit reports, I did not understand what the auditors communicated with us. I think the auditors tried to tell us something they were not comfortable. But they did not tell us directly.” (Professional stockbroker 1, New Auditor’s Report in the First AGM, 2017).

This is because the following reasons.

- Technical terminologies and language used

Technical terminologies and language used in an audit report lead the audit report to be difficult to understand. One professional financial analyst shared her experience as follows.

“...Another limitation of the audit report nowadays is that it is difficult to understand and makes readers puzzled. To understand it, I have to reread it approximately ten times. I also have to ask the one, who has accounting knowledge, to explain some contents even they are in Thai language. Therefore, the audit report is difficult for people who are not accountant, especially for financial analysts and investors who do not get used to it...” (Professional financial analyst 1, New Auditor’s Report in the First AGM, 2017).

One of audit partner from one of Big 4 firms gave his view that:

“...Language used in an auditor’s report is blamed to be very difficult to understand. The usage of language is like legal wording. Why don’t the auditors make the report easily to understand? The auditors just state clearly and directly what they want tell other people...” (Partner from one of Big 4 firms, CPA Conference 2018: Future of Audit, 2018).

According to the interview, one of the interviewees from the audit partner group viewed that technical terms in the new audit report are not reduced. He gave his view that:

“...Technical terms increase not decrease. This makes the investors comment that the new audit report is difficult to understand and too long...” (A1: Audit partner from the big 4 XXY).

The users still misunderstand the terms “present fairly, in all material” and “reasonable assurance” in the new audit report. One of the interviewees from the audit partner group highlighted that:

“...Even auditors themselves still have different judgement on audit materiality...” (A2: Audit partner from the second-tier audit firm XYX).

The users see that it is difficult to measure the level of assurance. One of the interviewees from the user group gave his point that:

“...It is difficult to measure the level of confidence in financial statements provided by the auditors...The users believe that reasonable assurance provides the confidence at least 50%, sometimes 80% or 90%...”(U1: Accounting Manager from the company AAA which employed the big 4 XXZ and he is alumni of the big 4 XXY)”.

- No standard format and content

Since there is no any standard form and content of audit report, the audit report varies according to the audit firm’s formats. One professional financial analyst gave her view that:

“...From my investigation, I found that there is lack of the standard for writing the audit report to be as good as the one of [The name of company]...” (Professional financial analyst 1, New Auditor’s Report in the First AGM, 2017).

One professional stockbroker has the similar view. His view is that:

“...The format of the audit report varies from one audit firm to one audit firm. The different formats lead users or readers to be confused for the first time. We have to check whether there is the standardized format of unqualified audit report and how many pages it has. We have to compare those of the companies with the standardized one. To myself, I compare the audit reports of many companies and look for the one, which is general format... From my point of view, because it was just the first year of the implementation, many auditors have been looking for the best way to write key audit matters.” (Professional stockbroker 1, New Auditor’s Report in the First AGM, 2017).

He also added that:

“...The auditors should use the same standard for disclosing information. Some audit reports had 6, 7, or 8 pages. Some auditors used small fonts to helps them reduce the length of the audit report to 4 pages...” (Professional stockbroker 1, New Auditor’s Report in the First AGM, 2017).

One academic agreed with this. His statement was:

“...The language and format of the audit report was changed in order to better communicate with the investors. However, its contents and wordings vary from one audit firm to another one...” (Academic 1, New Auditor’s Report in the First AGM, 2017).

Auditors themselves also point to the problems with the communication in key audit matters. One of audit partner from one of Big 4 firms shared his point of view that:

“Auditors have to select the most important matters to disclose as key audit matters in their auditor’s reports...The problems of disclosing key audit matters are pattern and content of the communication...the problems are about what are key audit matters and how to communicate them to users...”(Audit partner from big 4 ZZZ, CPA Conference 2018: Future of Audit, 2018).

4.1.3.5 Unintended consequence

- KAMs may tarnish audited companies' image

There is the biggest worry that disclosing KAMs leads to unintended consequence. One audit partner from one of Big 4 shared his experience that management and audit committees of companies worries that disclosing KAMs may tarnish the companies' image. He told us that:

"...The most frequent case I found is the case of companies' management and audit committees. These group people were very serious concern about key audit matters. They worried that disclosing key audit matters would have negative consequence to companies. Disclosing key audit matters may tarnish the companies' image. For example, they worried that if the auditor discloses high-risk area as key audit matter, financial statements may get into a panic and be suspicious of companies about accounting manipulations or fraud..." (Audit partner from big 4 ZZZ, CPA Conference 2018: Future of Audit, 2018).

- More confusions and misunderstanding of KAMs and auditors' opinion

He also added that disclosing KAMs may lead users more confused and misunderstood.

"Key audit matters make the users confused and misunderstood. When the auditors give clean opinion, why they need to disclose key audit matters." (Audit partner from big 4 ZZZ, CPA Conference 2018: Future of Audit, 2018).

- Disagreements between auditors and managements

The interviewee from the user group and one of the interviewees from the audit partner group shared the similar view that disclosing of KAMs may lead to the disagreement between auditors and managements. One of them gave his view that:

"...The disagreement on reported KAMs between auditors and the management. Sometimes the auditors see the area are key audit matters but the management does not..." (A3: Audit partner from the local audit firm XZX).

- Misunderstanding of audited company's going-concern matter

One audit partner gave his opinion that the wordings of a going concern are strange to the users. The other audit partner also pointed out that the section of going-concern matters makes the shareholders have the puzzle of whether their companies have a going-concern issue.

4.1.4 Suggestions on the improvement of audit report

4.1.4.1 Description of auditor's responsibilities for the other information in the company's annual report is unnecessary and should be removed out of an audit report.

Auditors viewed that the description of auditor's responsibilities for the other information in the company's annual report is unnecessary and should be removed out of an audit report. Two of them one of them gave their views that:

"...It makes the users have the puzzle of what is other information. In general, the auditor's report and financial statements are published before annual report. Therefore, shareholders are always curious

about how the auditors will do if the auditors subsequently found the discrepancy in information between annual report and the audited financial statements. If the users do not read the annual report thoroughly, they will misunderstand that the auditors also audit all information in the annual report. However, if the users read every wording, they would understand it...” (A1: Audit partner from the big 4 XXY), and

“This section should be move out because it is not informative.” (A2: Audit partner from the second-tier audit firm XYX).

4.1.4.2 Section of auditor’s and management’s responsibilities is too long and some of information should be moved as the reference.

Auditors and users see that the section of auditor’s and management’s responsibilities is too long. Two of audit partners shared their views that:

“...It is too long. It is like we put all information in an engagement letter into the auditor’s report. Wording should be concise...” (A2: Audit partner from the second-tier audit firm XYX), and

“...They are just wordings. Everyone has already known about auditor’s and management’s responsibilities...” (A4: Audit partner from the local audit firm XZY).

There was the suggestion on the removal of some information as the reference because it would shorten an auditor’s report. However, there was also the argument over this suggest. One of audit partners gave his views that:

“It makes the users clearer about auditor’s and management’s responsibilities. If we remove and make it as the reference, the users may not search for reference and read it.” (A3: Audit partner from the local audit firm XZX).

4.1.4.3 The previous form of audit report is better than the new one.

Two interviewees gave their opinions that the previous form of audit report is better than the new one.

4.1.4.4. The audit materiality should not be disclosed in an audit report.

Auditors disagreed the disclosure of audit materiality in an audit report as in the U.K. Two of the interviewees gave their opinions that:

“It is beneficial for the users. They may have more confidence in the audited financial statements since they perceive that high value transactions were audited. However, its side effect is that since the clients know materiality level, the auditors’ task of detect material misstatements may be difficult.” (A1: Audit partner from the big 4 XXY), and

“It is better not to disclose audit materiality. Materiality should be confidential. CFO may play the game when they know the materiality.” (A4: Audit partner from local audit firm XZY).

4.1.4.5 The presentation of KAMs as in neither table nor narrative do not affect the users.

Even though auditors feel that presenting KAMs as in table is easier to understand, one of the interviewees indicated that either presenting KAMs as a table nor

presenting KAMs as a long narrative does not impacts the users' understanding of KAMs.

4.1.4.6 Users should be educated with an audit report.

One of the interviewees suggested that the users should be educated with an audit report especially technical terms, by using workshops, seminars, or booklets.

4.1.5 Summary

Our interviews and observations provided evidence of benefits of the new audit report as follows. The section of KAMs in the new audit report helps auditors highlight the key information which would draw the user' attentions. The new audit report provides more information about going-concern matter and also highlights the roles of those charged with governance in an audit process.

However, there remain some of audit expectations gaps as follows. The reasonableness gap is associated with the auditor's responsibility for assessing a company's ability to continue as a going concern and the auditor's independence. The user requires auditor to assess the company audited company's ability to continue as a going concern for longer than next twelve months. Even though the new audit report provides more explanation of auditor independence; the users are still not sure whether the auditors are really independent from the audited companies. The deficient performance gap is associated with auditor's assessing going concern matter and professional skepticism. The users do not ascertain how well the auditors evaluate the management's assessment of company's going concern matter. The users also perceive that auditors have insufficient professional skepticism in their audits. Apart from these audit expectation gaps, auditors' responsibility of detecting fraud remain debatable.

Even though the new audit report is implemented with the aim to improve communicative and informative value of the audit report, there are obstacles to achieving this aim. The users have insufficient knowledge about the new audit report. They do not know what KAMs are. They are unable to distinguish KAMs, matter of emphasis, other matters, and other information, thereby being confused about this information in an auditor report. The users do not read KAMs because they pay more their attentions to auditor opinion. They feel that KAMs are redundant information not new information and turn to be boilerplate when time goes by.

As opposed to the aims of the implementation of the new audit report, the new audit report is perceived to be less informative and communicative and may cause unintended consequences. It provides too much broad information and does not give any warning signal of unusual matters. It is also perceived to be difficult to understand because of technical terminologies and language used and lack of

standard format and content. There are also unintended consequences of the new audit report. The additional description of going concern matter does not give an unclear conclusion of going concern matter which may in turn lead to the misunderstanding of audited company's going-concern matter. Disclosing KAMs may tarnish audited companies' image. It may also lead to the more confusions and misunderstanding of KAMs and auditors' opinion and disagreements between auditors and managements.

There are suggestions on the improvement of audit report. First, the description of auditor's responsibilities for the other information in the company's annual report is perceived to be unnecessary and should be removed out of an audit report as the reference. Second, the section of auditor's and management's responsibilities is too long and some of information should be moved as the reference. Third, the users should be educated with an audit report especially technical terms, by using workshops, seminars, or booklets.

There are also interesting findings. First, the disclosure of audit materiality in an audit report as in the U.K. may be impractical in Thai context. Second, the presentation of KAMs as in neither table nor narrative do not affect the users. Third, there is the perception that the previous form of audit report is better than the new one.

4.2 Audit performance-expectation gaps

Components of the audit expectation-performance gap in Thailand in 2018

4.2.1 Society's expectations of auditors

The suggested responsibilities with the positive means of opinions were considered to be "society's expectations of auditors". The positive means indicates that the interest group agreed that these suggested responsibilities lie with auditors. In 2018, auditors were expected by the society to perform 58 of 64 suggested responsibilities. These 58 responsibilities are shown in the last column of table 5 and are labelled "S". Six suggested responsibilities on the list were not expected by the society. These are the responsibilities:

- to examine and report in the audit report on the reliability of information in the company's annual report about its policies and record in respect of equal employment opportunities (2.17a), product safety (2.17b), and occupational health safety (2.17c); and
- to consider and report in the audit report on the company's impact on its local community (2.24a), impact on its environment (other than carbon footprint) (2.24b), and carbon footprint (2.24c).

Table 5 Contribution of responsibilities to components of the audit expectations-performance gap in Thailand in 2018.

Resp No.	Suggested responsibilities of auditors ¹	Performance gap duties	Existing duties of auditors	Deficient standards gap duties	Duties reasonably expected of auditors	Reasonableness gap duties	Duties expected of auditors
		% ²		% ²		% ²	
2.1	Prepare the client's financial statements	-	-	-	-	41	S
2.2	Guarantee that the company's audited financial statements are completely accurate	-	-	-	-	44	S
2.3	State whether or not the financial statements fairly reflect the company's financial affairs	-	D	-	RE	-	S
2.4	Guarantee that a company with a clean audit report is financially sound	-	-	-	-	44	S
2.5a	Report to an appropriate authority doubts about the client's continued existence	-	-	-	-	53	S
2.5b	Disclose in the audit report doubts about the client's continued existence.	-	D	-	RE	-	S
2.6	Ensure compliance with the disclosure requirements of the Companies Acts	-	D	-	RE	-	S
2.7	Report breaches of tax law to Revenue Department	-	-	-	-	48	S
2.8a	Detect theft of a material amount (e.g. > 5per cent of turnover or total assets) of the client's assets by non-managerial employees	-	D	-	RE	-	S
2.8b	Detect theft of a material amount (e.g. > 5per cent of turnover or total assets) of the client's assets by directors/senior management	-	D	-	RE	-	S
2.9a	Detect minor (but not petty) theft of the client's assets by non- managerial employees	-	-	-	-	46	S
2.9b	Detect minor (but not petty) theft of the client's assets by directors/senior managements	-	-	-	-	61	S
2.10	Detect deliberate distortion of the client's financial statements	-	D	-	RE	-	S
2.11a	In the absence of a regulated industry duty, report to an appropriate authority (e.g. Police, SEC), minor (but not petty) theft of the client's assets by non-managerial employees	-	-	-	-	41	S
2.11b	In the absence of a regulated industry duty, report to an appropriate authority (e.g. Police, SEC), theft of a material amount of the client's assets by non-managerial employees	-	-	-	-	63	S
2.11c	In the absence of a regulated industry duty, report to an appropriate authority (e.g. Police, SEC), embezzlement of the client's assets by directors/senior management	-	D	-	RE	-	S

Resp No.	Suggested responsibilities of auditors ¹	Performance gap duties	Existing duties of auditors	Deficient standards gap duties	Duties reasonably expected of auditors	Reasonableness gap duties	Duties expected of auditors
		% ²		% ²		% ²	
2.11d	In absence of regulated industry duty, report to appropriate authority (e.g. Police or SEC), deliberate distortion of client's financial statements	-	D	-	RE	-	S
2.12a	Disclose in the audit report minor (but not petty) theft of the client's assets by non-managerial employees	-	-	-	-	47	S
2.12b	Disclose in the audit report theft of a material amount of the client's assets by non-managerial employees	-	D	-	RE	-	S
2.12c	Disclose in the audit report embezzlement of the client's assets by directors/ senior management	-	D	-	RE	-	S
2.12d	Disclose in the audit report deliberate distortion of the client's financial statements	-	D	-	RE	-	S
2.13	In absence of a regulated industry duty, report to an appropriate authority (e.g., Police, SEC) suspicions of theft or deliberate distortion of the client's financial statements	-	D	-	RE	-	S
2.14a	Detect illegal acts by the client's directors/senior management which directly impact on the client's financial statements (e.g. political payoffs)	-	D	-	RE	-	S
2.14b	Detect illegal acts by the client's directors/senior management which only indirectly impact on the client's financial statements (e.g., breaches of environmental laws and regulations)	-	-	-	-	64	S
2.15a	Disclose in the audit report illegal acts by the client's directors/senior management which directly impact on the client's financial statements	10	D	-	RE	-	S
2.15b	Disclose in the audit report illegal acts by the client's directors/senior management which only indirectly impact on the client's financial statements (e.g. breaches of environmental laws)	-	-	-	-	58	S
2.16	In the absence of a regulated industry duty, report to an appropriate authority (e.g. Police, SEC) illegal acts by client's directors/management that illegal acts have been committed by the company's management or directors	-	D	-	RE	-	S
2.17a	Examine & report (in audit report) on reliability of information in the client's annual report about its equal employment opportunities policy and record	-	-	-	-	-	-
2.17b	Examine and report (in the audit report) on the reliability of information in the client's	-	-	-	-	-	-

Resp No.	Suggested responsibilities of auditors ¹	Performance gap duties	Existing duties of auditors	Deficient standards gap duties	Duties reasonably expected of auditors	Reasonableness gap duties	Duties expected of auditors
		% ²		% ²		% ²	
	annual report about its product safety policy and record						
2.17c	Examine and report (in audit report) on reliability of information in client's annual report about its occupational health and safety policy and record	-	-	-	-	-	-
2.17d	Examine and report (in the audit report) on the reliability of information in client's annual report about its directors' remuneration	-	D	-	RE	-	S
2.18a	Examine and report (in the audit report) on the effectiveness of the client's internal financial controls	-	-	79	RE	-	S
2.18b	Examine and report (in the audit report) on the effectiveness of the client's operating systems and internal non-financial controls	-	-	-	-	47	S
2.19	Examine and report (in the audit report) on the client's IT systems	-	-	-	-	48	S
2.20	Examine & report (in the audit report) on client's non-financial performance	-	-	-	-	39	S
2.21	Examine and report (in the audit report) on the efficiency and effectiveness of the client's management and administration	-	-	-	-	46	S
2.22	Audit half-yearly published financial statements	-	-	-	-	74	S
2.23	Examine and report (in the audit report) on the reasonableness of financial forecasts included in the client's annual report	-	-	61	RE	-	S
2.24a	Consider & report (in audit report) on client's impact on its local community	-	-	-	-	-	-
2.24b	Consider and report (in the audit report) on the client's impact on its environment (other than its carbon footprint)	-	-	-	-	-	-
2.24c	Consider and report (in the audit report) on the client's carbon footprint	-	-	-	-	-	-
2.25a	Examine and report (in the audit report) on the reliability of information in the client's entire annual report	-	-	73	RE	-	S
2.25b	Examine and report (in the audit report) on information in the client's annual report which is inconsistent with the financial statements	-	D	-	RE	-	S
2.26a	For listed company clients, examine compliance with a specified set of the Stock Exchange's corporate governance requirements and report (in the audit report) on compliance therewith	-	-	61	RE	-	S

Resp No.	Suggested responsibilities of auditors ¹	Performance gap duties	Existing duties of auditors	Deficient standards gap duties	Duties reasonably expected of auditors	Reasonableness gap duties	Duties expected of auditors
		% ²		% ²		% ²	
2.26b	For listed company clients, examine compliance with all of the Stock Exchange's corporate governance requirements and report (in the audit report) instances of non-compliance	-	-	-	-	59	S
2.27a	Examine and report to the client's directors (or audit committee) on the adequacy of the client's procedures for identifying financial risks (e.g., credit, interest rate, foreign exchange and liquidity risks)	-	D	-	RE	-	S
2.27b	Examine and report to the client's directors (or audit committee) on the adequacy of procedures for identifying operational risks (e.g., machinery breakdown, entering new markets, materials or labour shortages)	-	-	-	-	51	S
2.28a	Examine and report (in audit report) on adequacy of client's procedures for identifying financial risks (e.g., credit, interest rate, foreign exchange risks)	-	-	52	RE	-	S
2.28b	Examine and report (in audit report) on adequacy of procedures for identifying operational risks (e.g., machinery breakdown, labour shortages)	-	-	-	-	39	S
2.29a	Examine and report (in attached audit report) on the reliability of information provided on the Internet by the client in its audited financial statements	-	-	75	RE	-	S
2.29b	Examine and report (in attached audit report) on reliability of information (other than in its audited financial statements) posted on Internet by client	-	-	-	-	60	S
2.30a	Report to directors (or audit committee) significant difficulties encountered during the audit (e.g., disagreements with senior managers re financial reporting matters)	-	D	-	RE	-	S
2.30b	Report in audit report significant difficulties encountered during the audit (e.g., disagreements with senior managers about financial reporting matters)	-	D	-	RE	-	S
2.31	Verify every accounting transaction	-	-	-	-	56	S
2.32	Verify the accounting estimates in the financial statement	-	D	-	RE	-	S
2.33	Prevent fraud and errors in the company	-	-	-	-	50	S
2.34	Plan the accounting system and internal control system	-	-	-	-	42	S
2.35	Comply with Code of Ethics for professional accountant	-	D	-	RE	-	S
2.36	Maintain confidentiality and safe custody of the audit working papers	-	D	-	RE	-	S

Resp No.	Suggested responsibilities of auditors ¹	Performance gap duties	Existing duties of auditors	Deficient standards gap duties	Duties reasonably expected of auditors	Reasonableness gap duties	Duties expected of auditors
		% ²		% ²		% ²	
2.37	Report in the published auditor's report the future prospects of the company	-	-	-	-	32	S
2.38	Express an opinion on the company's accounts to shareholders in a general meeting	-	D	-	RE	-	S
2.39	Report in the published auditor's report on failures of auditors in obtaining all the information and explanation in forming their opinion on the company's accounts	-	D	-	RE	-	S
2.40	Report in the published an auditor's report on any deficiencies or failure on the manner proper accounting and other records (including registers) are kept by the company	-	D	-	RE	-	S
2.41	Audit published quarterly company's reports	-	-	-	-	69	S
	No. of responsibilities	1	26	6	32	26	58
	Measure of unfulfilled expectation attaching to component	10		401		1322	
	Proportion of expectation-performance gap	1%		22%		76%	

¹ The suggested responsibilities presented here are shorten from those in the questionnaire.

² The percentage of respondents from auditees, financial and non-financial community who agreed that (1) auditors should perform the responsibility (in cases of reasonableness gaps and deficiency standards gap or (2) the auditors perform the responsibility poorly in case of deficiency performance gap.

D is coded for existing responsibilities of auditors which are adapted from Port et al. (2012) and Lee et al. (2010). The responsibilities 2.3, 2.5b, 2.6, 2.8a, 2.8b, 2.10, 2.12c, 2.12d, 2.14a, 2.15a, 2.17d, 2.25b, 2.27a, and 2.30a are from Port et al. (2012) while the responsibilities 2.32, 2.35, 2.36, 2.38, 2.39, and 2.40 are from Lee et al. (2010). The responsibilities 2.11c, 2.11d, 2.12b, 2.13, 2.16, 2.30b are from the implementations of the new auditing standards related to the new audit report with key audit matters.

RE is coded for responsibilities which are reasonably expected auditors to perform.

S is coded for responsibilities which the respondents indicate that should be performed by auditors.

4.2.2 Responsibilities reasonably expected of auditors

Table 4 also shows “responsibilities reasonably expected of auditors” which are labelled “RE”. REs are suggested responsibilities which 20 per cent of the combined group of respondents from auditees and those from financial community signified that auditors should perform these responsibilities. As explained by Porter et al. (2012a), these two groups are close to the audit function but from different views. Auditees which are the subject to be audited are more concern over the audit costs and are, therefore, more likely to limit responsibilities of auditors. On the other hands, the respondents from financial community are beneficiaries of the audits and are, therefore, more likely to extend responsibilities of auditors. These two groups’ opinions are thus useful to consider whether the benefits from suggested responsibilities of auditors outweigh their costs. The opinions of the respondents from non-financial community are excluded because they are too remote from the audits. In 2018, 32 of the 64 suggested responsibilities were reasonably expected to perform by auditors.

4.2.3 Reasonableness gap component of the audit expectation-performance gap

From Table 5, it may be seen that 26 suggested responsibilities are “reasonableness gap duties”. 23 of them are readily explainable and 3 of them are less readily explainable.

4.2.3.1 Responsibilities unreasonably expected of auditors – readily explainable

If auditors were required to prepare the client’s financial statements (2.1), planned the accounting system and internal control system (2.34) and also audited the financial statements, this is called self-review and is a threat of auditor independence. An auditor’s report also clearly informs that management of a company not an auditor is responsible for the preparation and fair presentation of financial statements.

Similarly, the purpose of audits is to provide reasonable assurance as to whether financial statements present fairly, in all material respects, but not to guarantee that the company’s audited financial statements are completely accurate (2.2) or not to guarantee that a company with a clean audit report is financially sound (2.4). It is also unreasonable to expect auditors to verify every accounting transaction (2.31). As explained in an auditor’s report, the term “reasonable assurance is a high level of assurance, but is not a guarantee that an audit will always detect an existing material misstatement. Inherent limitations of an audit cause auditors unable to provide absolute assurance. These limitations are the auditors’ use of judgement and sample testing, the client’s inherent limitations of internal control, and the nature of audit evidence which is persuasive not conclusive (Soltani, 2007).

It may be unreasonable to auditors to prevent fraud and errors in the company (2.33). However, according to Porter, Simon, and Hatherly (2008), auditors are required to be aware of risk of material misstatement due to fraud during all process of an audits. If the auditors detected or suspected fraud, in respond to the matter of fraud , the auditors have to modify

planned audit procedures in terms of nature, timing, and extent. In case that the matter of fraud leads to the material misstatement, the auditor must report to director, appropriate level of management, or shareholders, or to report in the auditor's report which is appropriate in that circumstance, or even to report to third parties outside the auditee if it is appropriate to do so.

As described in an auditor's report that "misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.", suggested responsibilities 2.11a, 2.9a and 2.12a fail to meet materiality concept. Costs of auditors' detecting (2.9a) , reporting to an appropriate authority (2.11a), or disclosing (2.12a) in an auditor's report minor (but not petty) theft of the client's assets by non-managerial employees may outweigh their benefits. Porter et al. (2012a) indicate that performing these three responsibilities may increase auditors' audit work and may negatively impact client-auditor relationship. Importantly, as also explained in the auditor's report, it is the responsibility of the management of audited company to establish and to maintain internal control which is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The auditors' suggested responsibility "to detect minor (but not petty) theft of the client's assets by directors/senior managements" (2.9b) also fails to meet materiality concept. Porter et al. (2012a) also indicate that performing this responsibility may significantly require auditors to examine evidence in more detail which in turn increases audits costs. Similar to the responsibility 2.9b, the auditors' suggested responsibility "to detect illegal acts by the client's directors/senior management which only indirectly impact on the client's financial statements (e.g., breaches of environmental laws and regulations)" is also costly to auditors since it may require auditors to collect evidence which may not related to the audit and beyond auditors' expertise.

According to Porter et al. (2012a), it is reasonable to demand auditors to detect and to disclose in auditors' reports the theft of a material amount of the client's assets by non-managerial employees but not reasonable to require auditors to report it to an appropriate authority (e.g. Police, SEC) (2.11b). It is also not reasonable to require auditors to examine compliance with all of the Stock Exchange's corporate governance requirements and to report in the audit report instances of non-compliance (2.26b). Porter et al. (2008) indicate that auditors' responsibility to report detected or suspected non-compliance with laws and regulations parallels to that to report detected or suspected fraud. The auditors issue qualified or adverse audit report only if the detected or suspected non-compliance with laws is material to the financial statements and inappropriate presentation and disclosure.

The auditors' suggested responsibility to audit half-yearly published financial statements (2.22) and quarterly financial statements (2.41) also fails to meet cost-benefit consideration. Porter et al. (2012a) explained that the benefits of audit of interim financial statements may

not outweigh the costs. The interim financial statements do not significantly deviate from the annual financial statements; therefore, it is not well worth fully auditing both of them.

Seven suggested responsibilities of auditors also fail to meet cost-benefit consideration possibly because, as pointed out by Porter et al. (2012a), they are beyond expertise of auditors and/or stray too far from financial statements. These suggested responsibilities include:

- to examine and to report to the client's directors (or audit committee) (2.27b) or to report in audit report (2.28b) on the adequacy of procedures for the company's identifying operational risks;
- to examine and report (in attached audit report) on reliability of information (other than in its audited financial statements) posted on Internet by client other than in its audited financial statements (2.29b);
- to examine and report in the audit report on the company's non-financial performance (2.20), IT systems (2.19), effectiveness of the operating systems and internal non-financial controls (2.18b), and efficiency and effectiveness of management and administration (2.21); and
- to report in the audit report on the company's future prospects (2.34).

4.2.3.2 Responsibilities unreasonably expected of auditors – less readily explainable

Responsibilities 2.15b, 2.5a, and 2.7 are unreasonable expected of auditors and less readily explainable. Surprisingly, society expected auditors to disclose in the audit report illegal acts by the client's directors/senior management even when they indirectly impact on the client's financial statements (e.g. breaches of environmental laws) (2.15b). This indicates that, as explained by Porter et al. (2012a), society does not see it costly to do so even when the consequences of auditors' disclosure of illegal acts may be greater than its benefits. The auditors may be faced with litigation risk and reputation costs arising from the directors/senior management's legal claim.

Responsibilities 2.15b, 2.5a, and 2.7 are unreasonable expected of auditors and less readily explainable. Surprisingly, society expected auditors to disclose in the audit report illegal acts by the client's directors/senior management even when they indirectly impact on the client's financial statements (e.g. breaches of environmental laws) (2.15b). This indicates that, as explained by Porter et al. (2012a), society does not see it costly to do so even when the consequences of auditors' disclosure of illegal acts may be greater than its benefits. The auditors may be faced with litigation risks and reputation costs arising from the directors/senior management's legal claim against auditors.

Auditors were also expected by society to report breaches of tax law to Revenue Department (2.7) but it is not cost-effective to do so, especially in case of tax avoidance which is perceived to be generally acceptable. Porter et al. (2012a) view that performing this responsibility would lead to the unfriendly auditor-client relations which make the auditors' jobs to be more difficult and in turn increase audit time and cost.

There was also society's expectation that auditors must report to an appropriate authority doubts about the client's continued existence (2.5a). It is reasonable to expect auditors to disclose in an auditor's report on the doubts and to communicate the doubts to those charged with governance. However, it may be costly to report the doubts to authorities out of the companies.

4.2.4 Deficient standards gap component of the audit expectation-performance gap

In Thailand in 2018, 32 responsibilities were reasonable expected of auditors. 26 of them were existing responsibilities and the remaining six were deficient standards gap. According to Porter et al. (2012a), it was reasonably expected auditors to perform these six responsibilities. Performing these responsibilities would make audits more valuable and increase benefits to society while costs of the audits would be insignificantly increased. In the U.S., the auditors have to report on the effectiveness of internal control over financial reporting. The auditors' suggested responsibility to examine and to report in the audit report on the effectiveness of the client's internal financial controls (2.18a) should be also possible in Thailand, especially for auditors of large listed companies.

It was also reasonable expected auditors to examine and to report the reasonableness of financial forecasts included in the client's annual report (2.23) and the reliability of information in the client's entire annual report (2.25a). Porter et al. (2012a) indicate that these should be the great step of audits that would extend the auditors' responsibilities to cover the reliability of all information in the companies' annual reports. There would also a need for guideline to review and to express an opinion on the reasonable of financial forecasts and other information in the company's annual report. Porter et al. (2012a) propose that the opinion should be a negative assurance opinion which states that nothing has come to an auditor's attention.

To examine and to report on the adequacy of client's procedures for identifying financial risks (e.g. credit, interest rate, foreign exchange risks) (2.28a) and on the reliability of information provided on the Internet by the client in its audited financial statements (2.29a) were also reasonably expected to be the responsibilities of auditors. Porter et al. (2012a) view that the information of company's procedures for identifying financial risks is within the knowledge of the auditor, therefore, the auditor's reporting on the adequacy of the company's procedures for identifying financial risks increases a minimal cost of audit. To prevent the case that the client may alter the audited financial statements published on the Internet, the auditors should examine and report on their reliability. For the auditors of listed companies, it was reasonably expected of them to examine compliance with a specified set of the Stock Exchange's corporate governance requirements and to report in the audit report on compliance therewith (2.26a). Porter et al. (2012a) indicate that this would to more beneficial to do so instead of reporting instances of non-compliance.

4.2.5 Deficient performance component of the audit expectation-performance gap

In Thailand in 2018, there was only one auditors' responsibility which constituted the deficiency performance gap. It was the auditors' responsibility to disclose in the audit report illegal acts by the client's directors/senior management which directly impact on the client's financial statements (2.15a).

Table 6 Assessment of auditors' performance of their existing responsibilities in Thailand in 2018.

Resp No.	Existing responsibilities of auditor ²	Means ³ of Responses	Poorly	OK	Well	Unable to judge	Contribute to deficient perf Gap ⁴
			% ³	% ³	% ³	% ³	%
	<u>Deficient performance gap responsibilities³</u>						
2.15a	Disclose in the audit report illegal acts by the client's directors/senior management which directly impact on the client's financial statements	1.9	10%	27%	43%	20%	100
	<u>Non-deficient performance gap responsibilities</u>						
2.13	In absence of a regulated industry duty, report to an appropriate authority (e.g., Police, SEC) suspicions of theft or deliberate distortion of the client's financial statements	2.0	7%	24%	49%	20%	
2.12c	Disclose in the audit report embezzlement of the client's assets by directors/ senior management	2.0	9%	22%	50%	19%	
2.16	In the absence of a regulated industry duty, report to an appropriate authority (e.g. Police, SEC) illegal acts by client's directors/management that illegal acts have been committed by the company's management or directors	2.0	7%	26%	49%	18%	
2.11c	In the absence of a regulated industry duty, report to an appropriate authority (e.g. Police, SEC), embezzlement of the client's assets by directors/senior management	2.0	7%	25%	49%	19%	
2.12d	Disclose in the audit report deliberate distortion of the client's financial statements	2.1	7%	26%	49%	18%	
2.17d	Examine and report (in the audit report) on the reliability of information in client's annual report about its directors' remuneration	2.1	6%	32%	48%	14%	
2.8a	Detect theft of a material amount (e.g. > 5per cent of turnover or total assets) of the client's assets by non-managerial employees	2.1	12%	33%	45%	10%	
2.8b	Detect theft of a material amount (e.g. > 5per cent of turnover or total assets) of the client's assets by directors/senior management	2.1	9%	32%	47%	12%	
2.14a	Detect illegal acts by the client's directors/senior management which directly impact on the client's financial statements (e.g. political payoffs)	2.2	6%	33%	48%	13%	
2.11d	In absence of regulated industry duty, report to appropriate authority (e.g. Police or SEC), deliberate distortion of client's financial statements	2.2	5%	30%	52%	13%	
2.40	Report in the published an auditor's report on any deficiencies or failure on the manner proper accounting and other records (including registers) are kept by the company	2.2	0%	32%	54%	14%	
2.27a	Examine and report to the client's directors (or audit committee) on the adequacy of the client's procedures for identifying financial risks (e.g., credit, interest rate, foreign exchange and liquidity risks)	2.2	4%	25%	57%	14%	
2.39	Report in the published auditor's report on failures of auditors in obtaining all the information and explanation in forming their opinion on the company's accounts	2.3	0%	26%	59%	15%	

Resp No.	<i>Existing responsibilities of auditor²</i>	Means ³ of Responses	Poorly	OK	Well	Unable to judge	Contribute to deficient perf Gap ⁴
			% ³	% ³	% ³	% ³	%
2.10	Detect deliberate distortion of the client's financial statements	2.3	6%	26%	57%	11%	
2.25b	Examine and report (in the audit report) on information in the client's annual report which is inconsistent with the financial statements	2.4	4%	25%	61%	10%	
2.5b	Disclose in the audit report doubts about the client's continued existence	2.4	2%	20%	65%	13%	
2.38	Express an opinion on the company's accounts to shareholders in a general meeting	2.4	2%	22%	66%	10%	
2.30b	Report in audit report significant difficulties encountered during the audit (e.g. disagreements with senior managers about financial reporting matters)	2.4	3%	22%	66%	9%	
2.36	Maintain confidentiality and safe custody of the audit working papers	2.4	1%	15%	71%	13%	
2.12b	Disclose in the audit report theft of a material amount of the client's assets by non-managerial employees	2.5	8%	24%	54%	14%	
2.32	Verify the accounting estimates in the financial statement	2.5	2%	24%	66%	8%	
2.35	Comply with Code of Ethics for professional accountant	2.5	3%	18%	70%	9%	
2.30a	Report to directors (or audit committee) significant difficulties encountered during the audit (e.g. disagreements with senior managers re financial reporting matters)	2.5	2%	25%	66%	7%	
2.6	Ensure compliance with the disclosure requirements of the Companies Acts	2.5	2%	25%	66%	7%	
2.3	State whether or not the financial statements fairly reflect the company's financial affairs	2.6	2%	19%	74%	5%	

¹ The opinions are from all of interest groups with 178 respondents (auditees, financial and non-financial communities).

² The existing responsibilities of auditors presented here are shorten from those in the questionnaire.

³ The responsibility is defined as deficient performance gap if the mean of respondents' opinions is below 2.0 or the average of number of respondents who indicate the auditors' performance is poor is greater than 20%.

⁴ The percentage is computed from the proportion of respondents who viewed that the auditors perform the responsibility poorly.

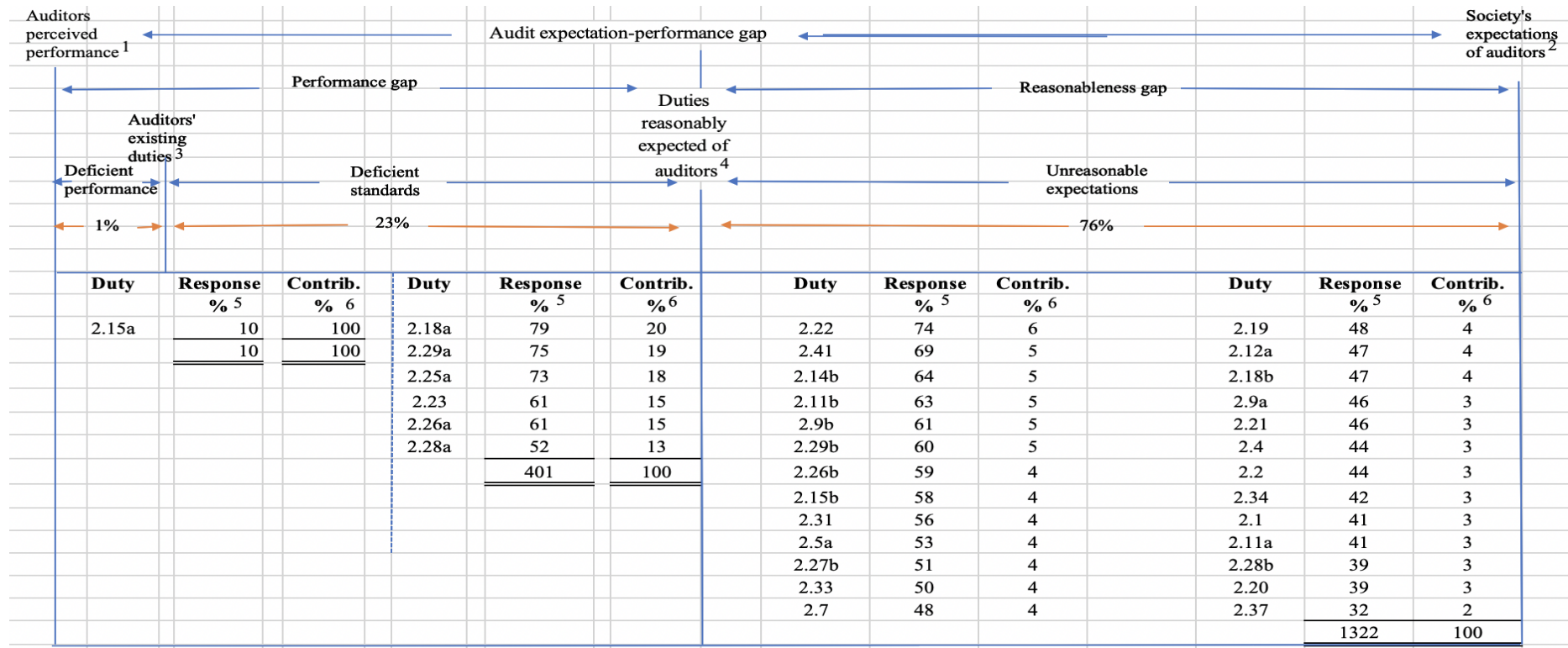


Figure 3 Relative contribution of responsibilities to components and components to the audit expectation-performance gap in Thailand in 2018

¹ Society perceived that auditors performed the responsibilities deficiently.

² 20% of respondents expected auditors to perform the responsibilities.

³ The existing responsibilities of auditors are adapted from Port et al. (2012) and Lee et al. (2010). The responsibilities 2.3, 2.5b, 2.6, 2.8a, 2.8b, 2.10, 2.12c, 2.12d, 2.14a, 2.15a, 2.17d, 2.25b, 2.27a, and 2.30a are from Port et al. (2012) while the responsibilities 2.32, 2.35, 2.36, 2.38, 2.39, and 2.40 are from Lee et al. (2010). The responsibilities 2.11c, 2.11d, 2.12b, 2.13, 2.16, 2.30b are from the implementations of the new auditing standards related to the new audit report with key audit matters.

⁴ The percentage of respondents from auditees, financial and non-financial community who agreed that (1) auditors should perform the responsibilities in cases of reasonableness gap and deficiency standards gap or (2) auditors perform the responsibilities poorly in case of deficiency performance gap.

⁴ It represents relative component of the responsibility to the component.

4.2.6 Structure and extent of the audit expectation-performance gap

From figure 3, it may be seen that in Thailand in 2018, the structure of the audit expectation-performance gap consisted of 76 per cent of reasonableness gap, 23 of deficient standards gap, and 1 per cent of auditor deficient performance gap. For the reasonableness gap, six responsibilities contributed the major component of the gap. The first and second greatest contributions were society's unreasonable expectations of auditors to audit half-year published financial statements (2.22) and published quarterly company's reports (2.41). 74 per cent and 69 percent of society expected the auditors to perform responsibilities 2.22 and 2.41, respectively. The third and fourth greatest contributions were society's unreasonable expectations of auditors to detect illegal acts by the client's directors/senior management which only indirectly impact on the client's financial statements (e.g., breaches of environmental laws and regulations) (2.14b) and in the absence of a regulated industry duty, to report to an appropriate authority (e.g. Police, SEC), theft of a material amount of the client's assets by non-managerial employees (2.11b). 64 per cent and 63 percent of society expected the auditors to perform responsibilities 2.14b and 2.11b, respectively. The fifth and sixth greatest contributions were society's unreasonable expectations of auditors to detect minor (but not petty) theft of the client's assets by directors/senior managements (2.9b) and to examine and report (in attached audit report) on reliability of information (other than in its audited financial statements) posted on Internet by client (2.29b). 61 per cent and 60 percent of society expected the auditors to perform responsibilities 2.9b and 2.29b, respectively. The smallest contribution was society's unreasonable expectation of auditors to report in the published auditor's report the future prospects of the company (2.37) and 32 per cent of society unreasonably expected to perform this responsibility.

Six suggested responsibilities of auditors were contributions to deficient standards gap. The first greatest contribution was society's reasonable expectation of auditors to examine and report (in the audit report) on the effectiveness of the client's internal financial controls (2.18a) and 79 per cent of society agreed that auditors should perform this responsibility. The second and third greatest contributions were society's reasonable expectations of auditors to examine and report (in attached audit report) on the reliability of information provided on the Internet by the client in its audited financial statements (2.29a) and information in the client's entire annual report (2.25a). 75 per cent and 73 per cent of society agreed that auditors should perform the responsibilities 2.29b and 2.25b, respectively. The fourth contributions were society's reasonable expectations of auditors to examine and report (in attached audit report) on the reasonableness of financial forecasts included in the client's annual report (2.23) and for listed company clients, to examine compliance with a specified set of the Stock Exchange's corporate governance requirements and report (in the audit report) instances of non-compliance (2.26a). 61 per cent of society agreed that auditors should perform the responsibilities 2.23 and 2.26a. The smallest contribution was society's reasonable expectation of auditors to examine and report (in audit report) on

adequacy of client's procedures for identifying financial risks (e.g. credit, interest rate, foreign exchange risks) (2.28) and 52 per cent of society unreasonably expected to perform this responsibility.

Auditor deficient performance gap consisted of only one existing responsibility of auditors to disclose in the audit report illegal acts by the client's directors/senior management which directly impact on the client's financial statements (2.15a). 11 per cent of society perceived that auditors' performance of this responsibility was unsatisfied.

4.2.7 Summary

In comparison to the findings of Lee, Ali, Gloeck, Yap, Ng, et al. (2010), our findings have been suggested that the deficiency standards and deficiency performance are narrower meanwhile the reasonableness gap is broader in 2018 after the implementation of the new audit report with key audit matters. The deficiency performance gap is narrower from 7 per cent in 2010 to 1 per cent in 2018. The auditors' existing responsibilities to detect deliberate distortion of the client's financial statements (2.10) and to disclose it in the audit report (2.12d) which contributed to the deficiency performance gap were disappeared in 2018. This may be because the close monitoring (e.g., audit firm inspection) of auditors' performance by the Security Exchange and Commission and the tremendous effort of the Thailand Federation of Accountants to promote audit quality. However, the new deficiency performance gap was found in 2018. The gap is the auditors' responsibility to disclose in the audit report illegal acts by the client's directors/senior management which directly impact on the client's financial statements (2.15a). This may be resulted from the series of illegal acts by the listed companies' directors/senior management reported by mass media in the past few years. Society has therefore perceived that the auditors' performance was unsatisfied. To close this gap, the standard setters should raise auditors' awareness of detecting and reporting illegal acts committed by companies' management and should also closely monitor the auditors' performance.

The deficiency standards gap is narrower from 63 per cent in 2010 to 23 per cent in 2018. This may be resulted from the big reforms of the auditor's report and related auditing standards in 2016, especially, the requirement of auditors' disclosing key audit matters which refer to the auditors' responsibilities 2.5a, 2.11c, 2.11d, 2.12b, 2.13, 2.16 and 2.30b. However, the remaining gap is associated with society's reasonable expectations of auditors to examine and report in the audit report) on the effectiveness of the client's internal financial controls (2.18a), the reliability of information provided on the Internet by the client in its audited financial statements (2.29a) and information in the client's entire annual report (2.25a), the reasonableness of financial forecasts included in the client's annual report (2.23), the compliance with a specified set of the Stock Exchange's corporate governance requirements (2.26a), and the adequacy of client's procedures for identifying financial risks. Performing

these responsibilities would make audits more valuable and increase benefits to society while costs of the audits would be insignificantly increased. This would be the big step of the audits.

Even though there have been many attempts (e.g., the revisions of auditing standards and the reform of audit report) to bridge the reasonableness gap, it is not narrower but broader from 30 per cent in 2010 to 78 per cent in 2018. This is evidence that dynamic changes in the business world have magnified the reasonableness gap. The changes have led to the more complex business transactions and the greater expectations of the auditing function than those in the past. The expectations gap has turned to be bigger when the accounting scandals were reported by mass media. Importantly, the reform might lead an audit report to be longer and lesser understandable even it is perceived to be informative. Therefore, the stakeholders of audits have ignored reading the audit report. To close the reasonableness gap in Thailand, the standard setters and regulators should look for efficient ways to promote the stakeholders of audits to the greater recognition of the importance of audit function, for example, on-going and proactive education on audit through mass media and seminar, educational media on audit provided on the website of FAP, and encouragement of public debate and discussion on audit issues. For Thai setting where the stakeholders of audits pay less importance to audit function, it should be better not to replace the standardized wording relating to the audit process with a cross-reference to the website.

4.3 Archrival data analyses

4.3.1 Audit quality

4.3.1.1 Descriptive statistic

Table 7 reported the descriptive statistics for all variable used in the model 1. The model 1 is used to tests the impacts of the implementation of disclosing KAMs on audit quality measured by abnormal accruals. To reduce the impacts of outliers, data of all continuous variables were winsorised at the 1th and 99th percentiles. The sample of abnormal accruals included 1,414 firm-year observations. Their absolute values of abnormal accruals were on average 0.120 (median =0.091). Approximately 51 percent of the firm-year observations are from the period after the implementation of disclosing KAMs. Approximately 19 percent of the firm-year observations reported losses. The sample had on average total assets approximately Baht 6 billion (Baht 5 billion) and reported good performances as the average ROA was approximately 0.052 (0.052).

Table 7 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Median	Max
ABDAC	1,414	0.120	0.099	0.001	0.091	0.534
KAMsDisclose	1,414	0.508	0.500	0.000	1.000	1.000
LOGASSETS	1,414	22.533	1.384	19.963	22.357	26.756
LEVERAGE	1,414	0.416	0.203	0.026	0.420	1.337
ROA	1,414	0.052	0.073	-0.249	0.052	0.338
LOSS	1,414	0.190	0.392	0.000	0.000	1.000
SALEGROWTH	1,414	0.017	0.156	-0.634	0.014	0.742
MB	1,414	2.104	1.817	0.311	1.502	13.608
CFO	1,414	0.075	0.097	-0.258	0.074	0.356

4.3.1.2 Univariate test

Table 8 provided evidence that there was no different characteristics between the firm-year observations for abnormal accruals model before the implementation of disclosing KAMs and those after the implementation of KAMs.

4.3.1.3 Correlation and VIF

Table 9 presented pair-wise Spearman's correlations and VIF. Apart from the correlations between *ABDAC* which is our observed variable and other variables, the three largest correlations were a significant negative correlation of 0.679 between *LOSS* and *ROA*, a significant positive correlation of 0.528 of *CFO* and *ROA*, and a significant positive correlation of 0.436 of *MB* and *ROA*. However, VIFs of *LOSS*, *ROA*, *CFO*, and *CFO* are small. We therefore assumed that model 1 may not suffer from multicollinearity problem. *ABDAC* is not correlated with *KAMsDisclose* but are positively correlated with *LOSS* and *CFO* and negatively correlated with *LOGASSETS*, *LEVERAGE*, and *SALEGROWTH*. We will examine their correlations further using a multivariate test.

Table 8 Differences characteristics of sample for discretionary accruals model before and after the implementation of KAMs

Variable	Before implementation of KAMs					After implementation of KAMs					Mann-Whitney	
	(n=696)					(n=718)					test	
	Mean	Std. Dev.	Min	Median	Max	Mean	Std. Dev.	Min	Median	Max	Diff	P-value
ABDAC	0.120	0.098	0.001	0.090	0.534	0.120	0.099	0.002	0.091	0.494	0.000	0.935
LOGASSETS	22.507	1.373	19.963	22.338	26.756	22.559	1.396	19.974	22.372	26.698	-0.052	0.486
LEVERAGE	0.420	0.202	0.029	0.427	1.337	0.412	0.204	0.026	0.413	1.041	0.008	0.445
ROA	0.054	0.070	-0.220	0.053	0.316	0.050	0.075	-0.249	0.052	0.338	0.004	0.535
LOSS	0.181	0.385	0.000	0.000	1.000	0.198	0.399	0.000	0.000	1.000	-0.017	0.422
SALEGROWTH	0.007	0.170	-0.634	0.011	0.742	0.027	0.141	-0.588	0.016	0.684	-0.020	0.051
MB	2.036	1.687	0.311	1.483	13.608	2.170	1.934	0.314	1.516	13.282	-0.134	0.353
CFO	0.071	0.103	-0.258	0.073	0.341	0.080	0.092	-0.233	0.074	0.356	-0.009	0.397

Table 9 Spearman's correlation and VIF

	VIF	(1)		(2)	(3)		(4)		(5)		(6)		(7)		(8)		(9)
(1) ABDAC		1.000															
(2) KAMsDisclose	1.01	-0.002		1.000													
(3) LOGASSETS	1.31	-0.136	***	0.019	1.000												
(4) LEVERAGE	1.45	-0.093	***	-0.020	0.417	***	1.000										
(5) ROA	2.70	-0.049		-0.017	0.098	***	-0.266	***	1.000								
(6) LOSS	1.99	0.104	***	0.021	-0.202	***	0.099	***	-0.679	***	1.000						
(7) SALEGROWTH	1.08	-0.087	***	0.052	0.078	***	0.082	***	0.217	***	-0.120	***	1.000				
(8) MB	1.31	-0.033		0.025	0.052		0.114	***	0.436	***	-0.163	***	0.205	***	1.000		
(9) CFO	1.35	0.183	***	0.023	0.028		-0.167	***	0.528	***	-0.332	***	0.092	***	0.335	***	1.000
Mean	1.53																

*, **, and *** indicate significance at the 0.10, 0.05, 0.01 levels, respectively (two-tailed).

4.3.1.4 Multivariate test

Table 10 reported the results of our regression analyses. We found significant negative coefficients of *KAMsDisclose* from the linear regression (coef.= -0.055 P=0.061), and Q10 (coef.= -0.024 P=0.023) and Q90 (coef.= -0.144 P=0.055) quantiles regressions. We therefore rejected our null hypothesis H1 that Disclosing KAMs does not impact audit quality after the implementation of the requirement for KAMs in Thailand. The implementation of disclosing KAMs helps improve audit quality by reducing discretionary accruals approximately 5.5 percent. Discretionary accruals of firms with discretionary accruals lower than 0.019 decreased by 2.4 whilst discretionary accruals of firms with discretionary accruals greater than 0.260 decreased by 14.4 percent.

Table 10 Regression analyses

ABDAC	Linear regression				Prais–Winsten and Cochrane–Orcutt regression		
	Pred. Sign	Coef.		P-value	Coef.		P-value
(1) KAMsDisclose	-	-0.055	*	0.061	-0.008		0.115
(2) LOGASSETS	-	-0.006	***	0.005	0.022		0.089
(3) LEVERAGE	+	0.002		0.905	0.033	**	0.235
(4) ROA	-	-0.164	***	0.007	-0.074	*	0.057
(5) LOSS	-	0.020	**	0.039	0.016	***	0.003
(6) SALEGROWTH	+	-0.059	***	0.001	-0.040	***	0.000
(7) MB	+	-0.002		0.210	-0.001		0.390
(8) CFO	+	0.221	***	0.000	-0.001		0.929
Intercept		0.256	***	0.000	No		
YFIXEFF		Yes			Yes		
INDFIXEFF		Yes			Yes		
BOOTSTRAP S.E.		No			No		
Robust variance estimates		Yes			Yes		
N. Obs.		1,414			972		
R-squared		N/A			0.10		
Adjusted R2		0.13					
Loglikelihood ratio		215.882	***				
AIC*N		-2716.714					
BIC		-92.561					
Durbin-Watson statistic (original)		N/A			0.201		
Durbin-Watson statistic (transformed)		N/A			1.495		
Rho		N/A			0.937		

Table 10 Regression analyses (con.)

	Simultaneous quantile regression											
	Q10		Q25		Q50		Q75		Q90			
	Coef.	P-value	Coef.	P-value	Coef.	P-value	Coef.	P-value	Coef.	P-value	Coef.	P-value
ABDAC												
(1) KAMsDisclose	-0.024 **	0.023	-0.0143	0.656	-0.041	0.156	-0.060	0.380	-0.144 *	0.055		
(2) LOGASSETS	0.000	0.878	0.0013	0.310	-0.001	0.847	-0.012 ***	0.001	-0.018 ***	0.000		
(3) LEVERAGE	-0.004	0.653	-0.0097	0.319	-0.003	0.876	0.016	0.447	0.016	0.758		
(4) ROA	-0.048	0.153	-0.1071 ***	0.000	-0.060	0.510	-0.121	0.317	-0.366 *	0.050		
(5) LOSS	0.000	0.991	0.0039	0.567	0.034 ***	0.003	0.044 **	0.011	0.008	0.718		
(6) SALEGROWTH	-0.004	0.569	-0.0202 *	0.033	-0.069 ***	0.002	-0.075 ***	0.001	-0.062	0.198		
(7) MB	-0.001	0.274	0.0011	0.529	0.002	0.147	-0.003	0.080	-0.006 **	0.014		
(8) CFO	0.051 ***	0.000	0.0862 ***	0.000	0.225 ***	0.000	0.298 ***	0.000	0.294 ***	0.000		
Intercept	0.035	0.193	0.035 ***	0.216	0.115	0.058	0.423 ***	0.000	0.648 ***	0.000		
YFIXEFF	Yes		Yes		Yes		Yes		Yes			
INDFIXEFF	Yes		Yes		Yes		Yes		Yes			
BOOTSTRAP S.E.	Yes		Yes		Yes		Yes		Yes			
Robust variance estimates	No		No		No		No		No			
N. Obs.	1414											
Adjusted R2	0.04		0.06		0.12		0.13		0.11			

*, **, and *** indicate significance at the 0.10, 0.05, 0.01 levels. P-values are one-tailed for predicted sign except when the estimated coefficient has a sign opposite to expectation. All other p-values are two-tailed. Values of ABDAC is 0.004 at 1 Percentile, 0.011 at 5 Percentile, 0.019 at 10 Percentile, 0.039 at 25 Percentile, 0.091 at 50% Percentile, 0.184 at 75 Percentile, 0.260 at 90 Percentile, 0.307 at 95 Percentile, and 0.407 at 99 Percentile.

4.3.2 Audit fee

4.3.2.1 Descriptive statistic

Table 11 reported the descriptive statistics for all variable used in the model 2. The model 2 is used to tests the impacts of the implementation of disclosing KAMs on audit fees. To reduce the impacts of outliers, data of all continuous variables were winsorised at the 1th and 99th percentiles. The sample of audit fees included 1,375 firm-year observations. They paid audit fees on average Baht 2.4 million (median=2.1 million). Approximately 65 percent of the firm-year observations were audited by Big 4 firms.

Table 11 Descriptive statistic

Variable	Obs	Mean	Std. Dev.	Min	Median	Max
LGFEF	1,375	14.676	0.748	13.236	14.595	17.746
KAMsDisclose	1,375	0.477	0.500	0.000	0.000	1.000
LOGASSETS	1,375	22.494	1.329	19.929	22.333	26.372
LEVERAGE	1,375	0.453	0.524	0.000	0.288	3.382
ROA	1,375	0.055	0.076	-0.249	0.054	0.343
LOSS	1,375	0.185	0.389	0.000	0.000	1.000
SALEGROWTH	1,375	0.017	0.159	-0.588	0.015	0.763
CURR	1,375	2.439	2.410	0.207	1.585	19.110
AR	1,375	0.862	0.548	0.055	0.778	3.515
INV	1,375	0.160	0.175	0.000	0.111	0.920
BIG	1,375	0.646	0.478	0.000	1.000	1.000

4.3.2.2 Univariate test

Table 12 reported the difference characteristics between the firm-year observations for audit fees model before the implementation of disclosing KAMs and those after the implementation of KAMs. We found that clients paid audit fees after the implementation of disclosing higher than before the implementation. They paid audit fees approximately Baht 2.2 million (median=2.1 million) before the implement of disclosing KAMs. However, they paid audit fees approximately Baht 2.5 million (2.3 million) after the implementation. This provided evidence that the implementation of disclosing KAMs increased audit fees.

4.3.2.3 Correlation and VIF

Table 12 presented pair-wise Spearman's correlations and VIF. Apart from the correlations between *LGFEF* which is our observed variable and other variables, the three largest correlations were a significant negative correlation of 0.673 of *LOSS* and

ROA, , a significant negative correlation of 0.563 of *CURR* and *LEVERAGE*, and a significant positive correlation of 0.413 between *INV* and *AR*. However, VIFs of *LOSS*, *ROA*, *CURR*, *LEVERAGE*, *INV* and *AR* are small. We therefore assumed that model 2 may not suffer from multicollinearity problem. *LGFE* is positively correlated with *KAMsDisclose*. This also provided evidence that the implementation of disclosing KAMs increased audit fees. We will examine their correlation further using a multivariate test. *LGFE* is positively correlated with *LOGASSETS*, *LEVERAGE*, *SALEGROWTH*, and *BIG* but is negatively correlated with *CURR*, *AR*, and *INV*. We will also examine their correlations further using a multivariate test.

Table 12 Differences characteristics of sample for audit fees model before and after the implementation of KAMs

Variable	Before implementation of KAMs					After implementation of KAMs					Mann-Whitney	
	(n=719)					(n=656)					test	
	Mean	Std. Dev.	Min	Median	Max	Mean	Std. Dev.	Min	Median	Max	Diff	P-value
LAFEE	14.614	0.746	13.236	14.541	17.746	14.744	0.744	13.236	14.661	17.117	-0.130	*** 0.001
LOGASSETS	22.489	1.348	19.929	22.301	26.368	22.500	1.310	19.935	22.337	26.372	-0.011	0.663
LEVERAGE	0.449	0.515	0.000	0.296	2.803	0.456	0.534	0.000	0.275	3.382	-0.007	0.802
ROA	0.057	0.076	-0.206	0.055	0.343	0.053	0.075	-0.249	0.053	0.338	0.004	0.470
LOSS	0.177	0.382	0.000	0.000	1.000	0.195	0.397	0.000	0.000	1.000	-0.018	0.379
SALEGROWTH	0.008	0.174	-0.567	0.012	0.763	0.027	0.142	-0.588	0.016	0.684	-0.019	0.087
CURR	2.347	2.311	0.207	1.534	19.110	2.541	2.512	0.230	1.615	18.529	-0.194	0.290
AR	0.901	0.552	0.055	0.826	3.495	0.820	0.542	0.056	0.731	3.515	0.081	*** 0.002
INV	0.163	0.179	0.000	0.115	0.920	0.155	0.171	0.000	0.103	0.886	0.008	0.323
BIG	0.633	0.482	0.000	1.000	1.000	0.660	0.474	0.000	1.000	1.000	-0.027	0.292

*, **, and *** indicate significance at the 0.10, 0.05, 0.01 levels, respectively (two-tailed).

Table 13 Spearman's correlation and VIF

	VIF	(1)		(2)	(3)		(4)		(5)		(6)		(7)		(8)		(9)		(10)		(11)
(1) LAFEE		1.000																			
(2) KAMsDisclose	1.02	0.090	***	1.000																	
(3) LOGASSETS	1.44	0.648	***	0.012	1.000																
(4) LEVERAGE	1.36	0.345	***	-0.007	0.365	***	1.000														
(5) ROA	2.04	-0.020		-0.020	0.092	***	-0.280	***	1.000												
(6) LOSS	1.81	-0.043		0.024	-0.184	***	0.106	***	-0.673	***	1.000										
(7) SALEGROWTH	1.07	0.060	*	0.046	0.072	**	0.032		0.214	***	-0.107	***	1.000								
(8) CURR	1.26	-0.213	***	0.029	-0.225	***	-0.563	***	0.220	***	-0.151	***	-0.066	**	1.000						
(9) AR	1.33	-0.097	***	-0.084	***	-0.205	***	-0.117	***	0.330	***	-0.199	***	0.144	***	-0.024		1.000			
(10) INV	1.12	-0.103	***	-0.027	-0.128	***	0.035		0.003		-0.047		0.003		0.187	***	0.413	***	1.000		
(11) BIG	1.17	0.348	***	0.028	0.329	***	0.067	**	0.113	***	-0.097	***	0.033		-0.025		0.100	***	-0.051	1.000	
Mean	1.36																				

*, **, and *** indicate significance at the 0.10, 0.05, 0.01 levels, respectively (two-tailed).

4.3.2.4 Multivariate test

Table 14 reported the results of our regression analysis. We found significant positive coefficients of *KAMsDisclose* (coef.= 0.135 P=0.050). We therefore rejected our null hypothesis H2 that disclosing KAMs does not impact audit fees after the implementation of the requirement for KAMs in Thailand. We found that clients paid audit fees after the implementation approximately 14.4 percent (exponential function of 0.135 less 1) higher than before the implementation.

Table 14 Regression analysis

LAFEE	Pred. Sign	Coef.		P-value
(1) KAMsDisclose	+	0.135	*	0.050
(2) LOGASSETS	+	0.336	***	0.000
(3) LEVERAGE	+	0.106	***	0.002
(4) ROA	-	-0.803	***	0.004
(5) LOSS	-	0.042		0.389
(6) SALEGROWTH	+	-0.016		0.872
(7) CURR	-	-0.006		0.316
(8) AR	+	0.051		0.109
(9) INV	-	-0.119		0.154
(10) BIG	+	0.216	***	0.000
Intercept		6.880	***	0.000
YFIXEFF		Yes		
INDFIXEFF		Yes		
Robust variance estimates		Yes		
N. Obs.		1,375		
Loglikelihood ratio		953.526	***	
Adjusted R2		0.49		

*, **, and *** indicate significance at the 0.10, 0.05, 0.01 levels. P-values are one-tailed for predicted sign except when the estimated coefficient has a sign opposite to expectation. All other p-values are two-tailed.

4.3.3 Audit delay

4.3.1.1 Descriptive statistic

Table 15 reported the descriptive statistics for all variable used in the model 3. The model 3 is used to tests the impacts of the implementation of disclosing KAMs on audit delays. To reduce the impacts of outliers, data of all continuous variables were winsorised at the 1th and 99th percentiles. The sample of audit delays included 1,355 firm-year observations. Audit delays were on average 53 days (median=54 days). Approximately 96 percent of the firm-year observations' year endings were December 31.

Table 15 Descriptive statistic

Variable	Obs	Mean	Std. Dev.	Min	Median	Max
LADELAY	1,355	3.977	0.105	3.466	4.007	4.111
KAMsDisclose	1,355	0.490	0.500	0.000	0.000	1.000
LOGASSETS	1,355	22.484	1.334	19.963	22.323	26.756
LEVERAGE	1,355	0.460	0.541	0.000	0.039	3.876
ROA	1,355	0.053	0.071	-0.206	0.053	0.338
LOSS	1,355	0.185	0.388	0.000	0.000	1.000
SALEGROWTH	1,355	0.018	0.160	-0.588	0.013	0.781
MB	1,355	2.054	1.715	0.323	1.497	11.994
CFO	1,355	0.075	0.098	-0.292	0.074	0.344
BUSY	1,355	0.957	0.202	0.000	1.000	1.000
BIG	1,355	0.649	0.477	0.000	1.000	1.000
LAFEE	1,355	14.650	0.731	13.236	14.562	16.965

4.3.1.2 Univariate test

Table 16 reported the difference characteristics between the firm-year observations for audit delays model before the implementation of disclosing KAMs and those after the implementation of KAMs. We found that audit delays before the implementation of disclosing KAMs and those after the implementation of KAMs were not different. This provided evidence that the implementation of disclosing KAMs does not impact audit delays.

4.3.1.3 Correlation and VIF

Table 17 presented pair-wise Spearman's correlations and VIF. Apart from the correlations between *LADELAY* which is our observed variable and other variables, the three largest correlations were a significant negative correlation of 0.672 of *LOSS* and *ROA* a significant positive correlation of 0.644 between *LGFE* and *LOGASSETS*, and a significant positive correlation of 0.538 of *CFO* and *ROA*.

However, VIFs of *LOSS*, *ROA*, *LGFEED*, *LOGASSETS*, *CFO* and *ROA* are small. We therefore assumed that model 2 may not suffer from multicollinearity problem. *LADELAY* is not correlated with *KAMsDisclose*. This also provided evidence that the implementation of disclosing KAMs increased audit fees. *LADELAY* is positively correlated with *LEVERAGE*, *LOSS*, , and *BUSY* but is negatively correlated with *LOGASSETS*, *ROA*, *MB*, *CFO*, and *BIG*. We will examine their correlations further using a multivariate test.

Table 16 Differences characteristics of sample for audit delays model before and after the implementation of KAMs

Variable	Before implementation of KAMs					After implementation of KAMs					Mann-Whitney	
	(n=691)					(n=664)					test	
	Mean	Std. Dev.	Min	Median	Max	Mean	Std. Dev.	Min	Median	Max	Diff	P-value
LADELAY	3.975	0.111	3.466	4.007	4.111	3.978	0.099	3.466	3.989	4.094	-0.003	0.309
LOGASSETS	22.442	1.331	19.963	22.243	26.756	22.527	1.336	19.974	22.362	26.698	-0.085	0.170
LEVERAGE	0.457	0.537	0.000	0.296	3.876	0.464	0.545	0.000	0.281	3.382	-0.007	0.852
ROA	0.054	0.070	-0.206	0.053	0.316	0.053	0.072	-0.205	0.052	0.338	0.001	0.830
LOSS	0.179	0.384	0.000	0.000	1.000	0.190	0.392	0.000	0.000	1.000	-0.010	0.625
SALEGROWTH	0.007	0.173	-0.566	0.011	0.763	0.029	0.145	-0.588	0.015	0.781	-0.022	* 0.044
MB	1.983	1.586	0.336	1.416	11.994	2.128	1.838	0.323	1.519	11.527	-0.145	0.288
CFO	0.072	0.102	-0.258	0.077	0.341	0.079	0.093	-0.292	0.074	0.344	-0.006	0.631
BUSY	0.941	0.236	0.000	1.000	1.000	0.974	0.158	0.000	1.000	1.000	-0.034	*** 0.002
BIG	0.637	0.481	0.000	1.000	1.000	0.663	0.473	0.000	1.000	1.000	-0.026	0.318
LAFFEE	14.575	0.716	13.236	14.499	16.959	14.729	0.740	13.236	14.643	16.965	-0.154	*** 0.000

*, **, and *** indicate significance at the 0.10, 0.05, 0.01 levels, respectively (two-tailed).

Table 17 Spearman's correlation and VIF

	VIF	(1)	(2)		(3)	(4)		(5)		(6)		(7)		(8)		(9)		(10)		(11)		(12)		
(1) LADELAY		1.000																						
(2) KAMsDisclose	1.03	-0.028	1.000																					
(3) LOGASSETS	1.97	-0.110	***	0.037	1.000																			
(4) LEVERAGE	1.31	0.092	***	-0.005	0.389	***	1.000																	
(5) ROA	2.62	-0.255	***	-0.006	0.107	***	-0.282	***	1.000															
(6) LOSS	1.94	0.186	***	0.013	-0.207	***	0.111	***	-0.672	***	1.000													
(7) SALEGROWTH	1.07	0.026		0.055	*	0.081	***	0.060	*	0.221	***	-0.111	***	1.000										
(8) MB	1.32	-0.194	***	0.029		0.040		0.016		0.444	***	-0.163	***	0.196	***	1.000								
(9) CFO	1.4	-0.239	***	0.013		0.031		-0.169	***	0.538	***	-0.329	***	0.092	***	0.347	***	1.000						
(10) BUSY	1.06	0.074	**	0.083	***	-0.027		0.146	***	-0.014		-0.003		0.033		0.070	**	-0.066	**	1.000				
(11) BIG	1.23	-0.286	***	0.027		0.346	***	0.061	**	0.103	*8*	-0.093	***	0.036		0.125	***	0.129	***	-0.155	***	1.000		
(12) LAFEE	1.86	0.001		0.103	***	0.644	***	0.335	***	-0.004		-0.057	*	0.072	**	0.110	***	0.026		0.017		0.363	***	1.000
Mean VIF	1.53																							

*, **, and *** indicate significance at the 0.10, 0.05, 0.01 levels, respectively (two-tailed).

4.3.1.4 Multivariate test

Table 18 reported the results of our regression analysis. We found significant positive coefficients of *KAMsDisclose* (coef.= 0.031 P=0.063). We therefore rejected our null hypothesis H3 that disclosing KAMs does not impact audit delays after the implementation of the requirement for KAMs in Thailand. We found that audit delays after the implementation approximately 3.2 percent (exponential function of 0.031 less 1) longer than before the implementation.

Table 18 Regression analysis

LADELAY	Pred. Sign	Coef.		P-value
(1) KAMsDisclose	+	0.031	*	0.063
(2) LOGASSETS	?	-0.013	***	0.000
(3) LEVERAGE	+	0.016	***	0.003
(4) ROA	+	-0.126		0.080
(5) LOSS	+	-0.011		0.279
(6) SALEGROWTH	+	0.037	**	0.029
(7) MB	-	-0.002		0.255
(8) CFO	-	-0.138	***	0.000
(9) BUSY	+	-0.012		0.401
(10) BIG	?	-0.049	***	0.000
(11) LAFEE	+	0.023	***	0.000
Intercept		4.013	***	0.000
YFIXEFF		Yes		
INDFIXEFF		Yes		
Robust variance estimates		Yes		
N. Obs.		1,355		
Loglikelihood ratio		197.746	***	
Adjusted R2		0.12		

*, **, and *** indicate significance at the 0.10, 0.05, 0.01 levels. P-values are one-tailed for predicted sign except when the estimated coefficient has a sign opposite to expectation. All other p-values are two-tailed.

4.3.4 Market reaction

4.3.1.1 Descriptive statistic

Table 19 and figure 4 showed abnormal returns in period [-30, +30] in 2014, 2015, 2016, and 2017. Day 0 of the period was the date that companies filled their financial information in the SEC's website. We found that negative abnormal returns in 2014 occurred after the filling date in the period [+1,+3]. In 2015, positive abnormal returns occurred before the filling date in the period [-3,-2]. In 2016 when requiring the disclosures of KAMs, abnormal returns occurred both before and after the filling. There were positive abnormal returns in day [-1] and in the period [+3,+4]. In 2017, abnormal returns occurred before the filling date in the period [-4,-3].

Table 20 reported the descriptive statistics for all variable used in the models 4 and 5. The models 4 and 5 is used to tests the impacts of the implementation of disclosing KAMs on market reaction measured by cumulative abnormal returns and abnormal trading volume. To reduce the impacts of outliers, data of all continuous variables were winsorised at the 1th and 99th percentiles. The sample of market reaction model included 1,270 firm-year observations. Cumulative abnormal returns in the period [0,+1] were on average -0.003 (median=0.000) and abnormal trading volumes were one average 1.528 (0.810).

Table 19 Abnormal returns in period [-30, +30]

day	2014		2015		2016		2017	
	mean	ttest AR=0	mean	ttest AR=0	mean	ttest AR=0	mean	ttest AR=0
-30	-0.001	0.739	0.004	0.121	-0.002	0.177	0.001	0.289
-29	-0.003	0.632	0.003 *	0.026	0.000	0.957	0.002	0.413
-28	0.001	0.940	0.003	0.139	0.001	0.252	0.000	0.963
-27	0.003	0.142	0.003	0.211	-0.001	0.602	0.001	0.270
-26	0.012	0.228	-0.002	0.491	-0.002	0.152	0.003 ***	0.004
-25	-0.002	0.224	0.005	0.051	-0.001	0.260	0.004 ***	0.001
-24	0.000	0.826	0.004 *	0.032	-0.002	0.141	0.002 *	0.037
-23	0.005 **	0.007	0.001	0.729	0.001	0.503	0.001	0.243
-22	0.001	0.690	-0.003	0.175	0.002	0.132	0.003 *	0.027
-21	-0.001	0.710	0.003	0.156	-0.001	0.293	0.002	0.231
-20	0.001	0.532	0.000	0.910	-0.001	0.738	0.001	0.135
-19	0.001	0.491	0.000	0.947	0.003 ***	0.002	0.000	0.604
-18	-0.001	0.727	0.000	0.816	0.001	0.490	0.003	0.051
-17	0.000	0.890	0.003	0.133	0.001	0.419	-0.008	0.232
-16	0.000	0.971	0.002	0.244	0.001	0.277	-0.002	0.066
-15	-0.001	0.746	0.003	0.122	-0.002	0.152	-0.004 *	0.037
-14	0.000	0.983	0.003	0.057	0.002	0.015	0.001	0.623

day	2014			2015			2016			2017		
	mean	ttest	AR=0	mean	ttest	AR=0	mean	ttest	AR=0	mean	ttest	AR=0
-13	0.005	***	0.004	0.005	**	0.009	0.000		0.921	0.001		0.132
-12	0.004	**	0.013	0.000		0.767	-0.001		0.193	0.002		0.104
-11	0.000		0.913	0.000		0.876	0.000		0.894	0.001		0.619
-10	0.003		0.060	-0.004	**	0.005	0.002	**	0.017	0.003		0.071
-9	-0.002		0.226	0.000		0.892	0.000		0.649	0.004	**	0.011
-8	0.000		0.998	-0.003	**	0.022	0.001		0.357	0.003	**	0.012
-7	0.000		0.975	-0.005	***	0.001	0.002		0.126	0.002		0.148
-6	0.003		0.175	0.000		0.831	0.002	*	0.049	0.000		0.931
-5	0.000		0.819	0.001		0.488	0.002		0.106	-0.001		0.387
-4	-0.001		0.608	0.001		0.676	0.004	***	0.002	-0.005	***	0.001
-3	-0.001		0.595	0.005	***	0.000	0.001		0.377	0.004	**	0.013
-2	-0.002		0.122	0.003	*	0.028	0.002		0.066	0.000		0.851
-1	-0.002		0.142	0.000		0.993	0.004	***	0.002	-0.001		0.232
0	-0.001		0.673	0.000		0.865	-0.002		0.400	-0.002		0.366
1	-0.007	***	0.001	0.000		0.836	0.000		0.841	-0.003		0.157
2	-0.018	**	0.010	-0.001		0.687	0.003		0.066	-0.002		0.424
3	-0.007	***	0.001	0.002		0.135	0.004	***	0.000	-0.003		0.112
4	-0.002		0.281	0.003		0.125	0.003	***	0.000	-0.002		0.362
5	-0.003		0.059	0.000		0.967	0.004		0.068	-0.001		0.709
6	-0.004	*	0.032	0.002		0.107	0.005	***	0.000	-0.002		0.198
7	0.000		0.907	0.001		0.575	0.003	*	0.038	-0.002		0.190
8	-0.001		0.406	0.003	*	0.043	0.001		0.221	0.001		0.482
9	-0.006	***	0.001	0.000		0.802	0.002		0.130	0.001		0.414
10	-0.011	***	0.000	0.002		0.149	0.001		0.316	0.002	*	0.041
11	-0.005	***	0.004	0.001		0.364	-0.001		0.365	0.001		0.675
12	-0.004	**	0.021	0.002		0.159	0.001		0.675	-0.001		0.778
13	-0.002		0.430	0.003	**	0.005	0.000		0.750	0.005	***	0.003
14	-0.006	**	0.006	0.004	**	0.008	-0.001		0.352	0.003	**	0.020
15	-0.008	***	0.000	0.001		0.286	0.000		0.752	-0.001		0.691
16	-0.006	***	0.002	0.003	**	0.006	0.001		0.252	0.000		0.783
17	-0.005	***	0.003	0.002		0.085	0.001		0.158	0.000		0.591
18	-0.010	***	0.000	0.002	*	0.031	-0.001		0.349	0.000		0.791
19	-0.001		0.783	0.003	**	0.009	0.002		0.112	-0.001		0.752
20	0.001		0.510	0.000		0.722	-0.001		0.543	-0.001		0.496
21	0.002		0.134	0.004	***	0.003	0.002		0.120	0.000		0.910
22	0.008	***	0.000	0.004	*	0.017	0.000		0.850	0.001		0.494
23	0.007	***	0.000	0.003	**	0.023	-0.001		0.567	-0.003	***	0.004
24	0.006	***	0.000	0.001		0.338	0.000		0.923	-0.004	**	0.005
25	0.005	***	0.003	0.003	**	0.008	-0.001		0.560	-0.003	**	0.005
26	-0.004		0.370	0.001		0.309	-0.003		0.090	-0.002		0.170

day	2014			2015			2016		2017	
	mean	ttest	AR=0	mean	ttest	AR=0	mean	ttest	mean	ttest
27	0.002		0.240	0.002	**	0.021	0.002	0.255	-0.002	0.183
28	0.004	***	0.000	0.001		0.219	0.002	0.193	0.003	0.083
29	0.006	***	0.000	0.005	***	0.001	0.001	0.474	0.002	0.268
30	0.003		0.050	0.004	*	0.043	0.000	0.905	0.001	0.446

*, **, and *** indicate significance at the 0.10, 0.05, 0.01 levels, respectively (two-tailed).

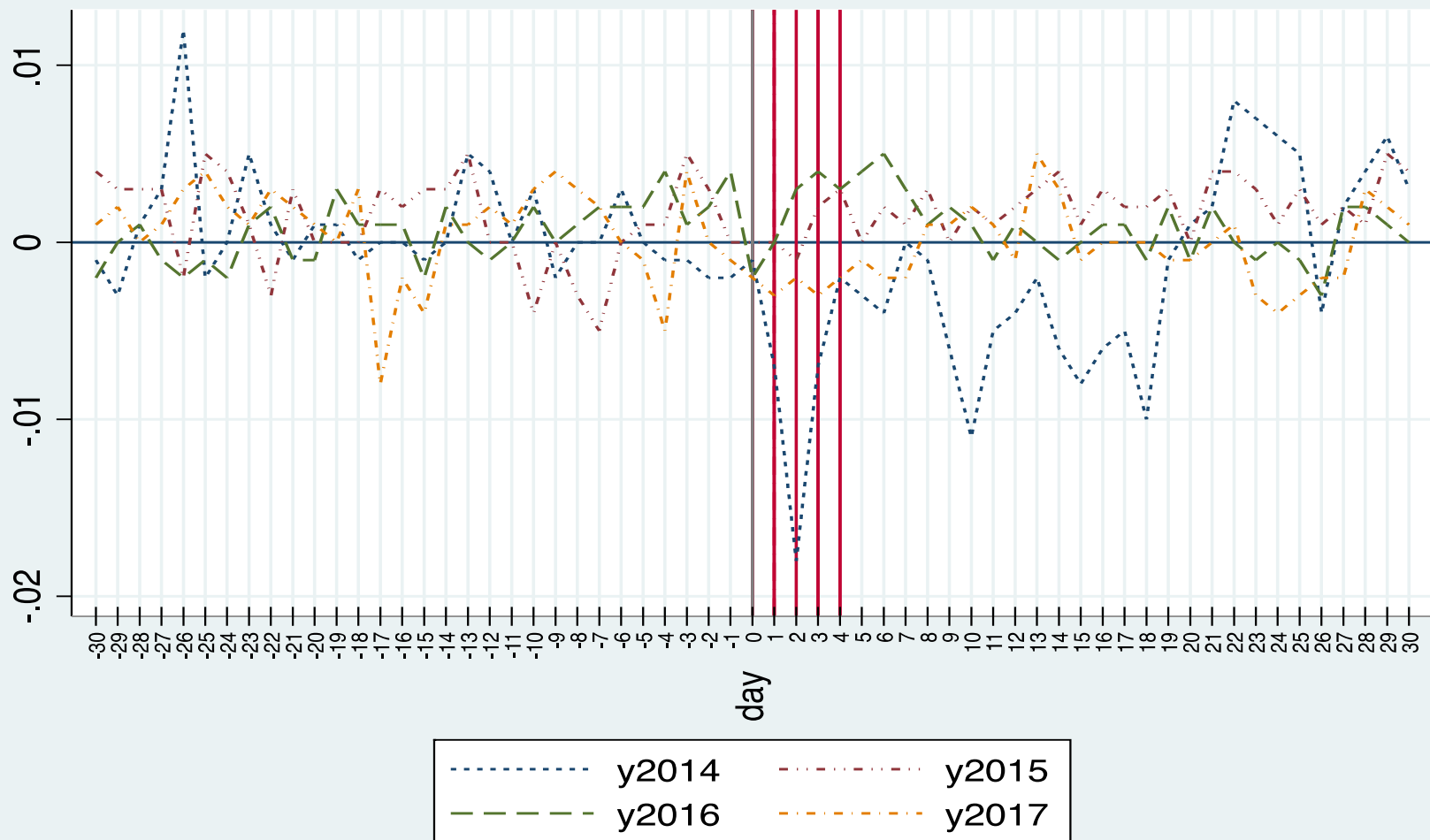


Figure 4 Abnormal returns in period $[-30, +30]$

Table 20 Descriptive statistic

Variable	Obs	Mean	Std. Dev.	Min	Median	Max
CAR	1,270	-0.003	0.037	-0.125	0.000	0.121
ABTV	1,270	1.528	2.208	0.000	0.810	16.884
KAMsDisclose	1,270	0.502	0.500	0.000	1.000	1.000
LMKC	1,270	22.477	1.497	19.414	22.271	26.764
MB	1,270	2.134	1.819	0.308	1.528	13.608
LEVERAGE	1,270	0.420	0.196	0.039	0.430	0.915
CHNI	1,270	-0.002	0.049	-0.273	0.001	0.237
CAR3	1,270	0.029	0.028	0.000	0.020	0.147
BIG	1,270	0.639	0.481	0.000	1.000	1.000
ROA	1,270	0.055	0.071	-0.160	0.053	0.323
LOSS	1,270	0.176	0.381	0.000	0.000	1.000

4.3.1.2 Univariate test

Table 21 reported the difference characteristics between the firm-year observations for market reaction model before the implementation of disclosing KAMs and those after the implementation of KAMs. We found that there was no any different characteristic between them. This provided evidence that the implementation of disclosing KAMs does not impact market reactions.

Table 21 Differences characteristics of sample for market reaction model model before and after the implementation of KAMs

Before implementation of KAMs						After implementation of KAMs					Mann-Whitney	
Variable	(n=632)					(n=638)					Diff	test
	Mean	Std. Dev.	Min	Median	Max	Mean	Std. Dev.	Min	Median	Max		P-value
CAR	-0.003	0.040	-0.125	-0.001	0.114	-0.002	0.035	-0.120	0.000	0.121	0.000	0.468
ABTV	1.537	2.375	0.000	0.754	16.884	1.519	2.030	0.000	0.867	15.653	0.019	0.483
LMKC	22.443	1.473	19.450	22.227	26.689	22.510	1.521	19.414	22.313	26.764	-0.067	0.420
MB	2.120	1.786	0.311	1.530	13.608	2.148	1.854	0.308	1.525	13.282	-0.028	0.495
LEVERAGE	0.427	0.196	0.041	0.444	0.914	0.413	0.196	0.039	0.419	0.915	0.014	0.248
CHNI	-0.003	0.052	-0.269	0.000	0.227	-0.001	0.046	-0.273	0.002	0.237	-0.003	0.212
CAR3	0.031	0.030	0.000	0.021	0.147	0.027	0.026	0.000	0.020	0.134	0.003	0.223
BIG	0.628	0.484	0.000	1.000	1.000	0.649	0.478	0.000	1.000	1.000	-0.021	0.442
ROA	0.055	0.071	-0.160	0.053	0.317	0.054	0.070	-0.157	0.053	0.323	0.001	0.837
LOSS	0.176	0.381	0.000	0.000	1.000	0.177	0.382	0.000	0.000	1.000	-0.001	0.945

4.3.1.3 Correlation

Table 22 presented pair-wise Spearman's correlations and VIF. Panel A presented the correlations of variables used in cumulative abnormal return model (model 4) whilst panel B presented the correlations of variables used in abnormal trading volume model (model 5). For model 4, apart from the correlations between *CAR* which is our observed variable and other variables, the three largest correlations were a significant positive correlation of 0.486 of *MB* and *LMKC*, a significant positive correlation of 0.357 between *BIG* and *LMKC*, and a significant positive correlation of 0.195 of *LEV* and *LMKC*. However, the coefficients of their correlations and the VIFs are small. We therefore assumed that model 4 may not suffer from multicollinearity problem. *CAR* is not correlated with *KAMsDisclose*. This also provided evidence that the implementation of disclosing KAMs does not impact market reaction measured by cumulative abnormal returns. *CAR* is positively correlated with *LMLC*, *MB*, *CHNI*, , and *BIG* but is negatively correlated with *CAR3*. We will examine their correlations further using a multivariate test.

For model 5, apart from the correlations between *ABTV* which is our observed variable and other variables, the three largest correlations were a significant negative correlation of 0.660 of *LOSS* and *ROA*, a significant positive correlation of 0.403 between *ROA* and *LMKC*, and a significant negative correlation of 0.310 of *LOSS* and *LMKC*. However, the coefficients of their correlations and the VIFs are small. We therefore assumed that model 5 may not suffer from multicollinearity problem. *ABTV* is not correlated with *KAMsDisclose*. This also provided evidence that the implementation of disclosing KAMs does not impact market reaction measured by abnormal trading. *ABTV* is positively correlated with *LMLC*, *ROA*, *CHNI*, , and *CAR3* but is negatively correlated with *LOSS*. We will examine their correlations further using a multivariate test.

Table 22 Spearman's correlation and VIF**A: Cumulative abnormal return model**

	VIF	(1)		(2)	(3)		(4)		(5)		(6)		(7)		(8)
(1) CAR		1.000													
(2) KAMsDisclose	1.01	0.020		1.000											
(3) LMKC	1.50	0.127	***	0.023	1.000										
(4) MB	1.30	0.063	*	0.009	0.486	***	1.000								
(5) LEV	1.05	-0.007		-0.032	0.159	***	0.077	**	1.000						
(6) CHNI	1.01	0.170	***	0.035	0.120	***	0.130	***	0.009		1.000				
(7) CAR3	1.02	-0.078	**	-0.034	0.033		0.046		0.119	***	0.018		1.000		
(8) BIG	1.17	0.102	***	0.022	0.357	***	0.135	***	0.142	***	0.020		-0.030		1.000
Mean VIF	1.15														

B: Abnormal trading volume

	VIF	(1)		(2)	(3)		(4)		(5)		(6)
(1) ABTV		1.000									
(2) KAMsDisclose	1.00	0.029		1.000							
(3) LMKC	1.16	0.240	***	0.023	1.000						
(4) ROA	1.88	0.273	***	-0.006	0.403	***	1.000				
(5) LOSS	1.79	-0.190	***	0.002	-0.310	***	-0.660	***	1.000		
(6) CAR3	1.01	0.386	***	-0.034	0.033		-0.021		0.034		1.000
Mean VIF	1.37										

*, **, and *** indicate significance at the 0.10, 0.05, 0.01 levels, respectively (two-tailed).

4.3.1.4 Multivariate test

Table 23 reported the results of our regression analyses. Panel A presented the result of cumulative abnormal return model (model 4) whilst panel B presented the result of abnormal trading volume model (model 5). For both models, we found insignificant coefficients of *KAMsDisclose*. We therefore accepted our null hypothesis H4 that disclosing KAMs does not impact market reaction at the earnings announcement date after the implementation of the requirement for KAMs in Thailand.

Table 23 Regression analysis

A: Cumulative abnormal return model

	CAR		
	Pred. Sign	Coef.	P-value
(1) KAMsDisclose	?	0.002	0.634
(2) LMKC	-	0.002 *	0.058
(3) MB	+	0.000	0.549
(4) LEV	+	-0.009	0.136
(5) CHNI	-	0.110 ***	0.000
(6) CAR3	+	-0.084	0.225
(7) BIG	+	0.005 **	0.037
Intercept		-0.046 ***	0.021
YFIXEFF		Yes	
INDFIXEFF		Yes	
Robust variance estimates		Yes	
N. Obs.		1,270	
Loglikelihood ratio		68.226 ***	
Adjusted R2		0.04	

B: Abnormal trading volume

	ABTV		
	Pred. Sign	Coef.	P-value
(1) KAMsDisclose	?	0.417	0.178
(2) LMKC	-	0.003 *	0.941
(3) ROA	+	2.716	0.012
(4) LOSS	+	-0.292	0.142
(5) CAR3	-	26.166 ***	0.000
Intercept		0.865 ***	0.419
YFIXEFF		Yes	
INDFIXEFF		Yes	
Robust variance estimates		Yes	
N. Obs.		1,270	
Loglikelihood ratio		190.646 ***	
Adjusted R2		0.13	

*, **, and *** indicate significance at the 0.10, 0.05, 0.01 levels. P-values are one-tailed for predicted sign except when the estimated coefficient has a sign opposite to expectation. All other p-values are two-tailed

4.3.5 Summary

Our archival data analyses provided weak evidence that the implementation of disclosing KAMs in Thailand in 2016 improves audit quality, increases audit fees and audit delays, but does not impact market. The implementation of disclosing KAMs in Thailand in 2016 reduces discretionary accruals approximately 5.5 percent after the implementation. It increases audit fees by approximately 14.4 percent and audit delays by approximately 3.2 percent after the implementation. However, disclosing KAMs does not impact market reaction.

CHAPTER 5 CONCLUSION

Our paper provides comprehensive evidence on stakeholders of audit's perceptions of KAMs, the audit expectation-performance gap and the impacts of the new audit report after the adoption in Thailand in 2016. Evidence is derived from the analyses of semi-structure interviews, public seminars on KAMs, questionnaires, and archival data. Our analyses are subject to the following limitations. First, owing to time and budget constrain, we reached a small number of the interviews and we were unable to conduct the interviews with all categories of stakeholders of audit. Thus, it is difficult for us to compare the views across categories of stakeholders of audit and even the same category. The incorrect direct comparisons may lead our findings from the interviews to have the lack of consistency or inconsistency. Second, the overall response rate of our survey is low which may undermine the credibility of our results from analyzing audit expectation-performance gap. Third, in order to observe the impacts of new audit report on audit expectation-performance gap after the implementation of the requirement for disclosing KAMs in Thailand in 2016, we used the results of the study of audit expectation gap in Thailand in 2010 by Lee, Ali, Gloeck, Yap, Ng, et al. (2010) as the comparable data. The difficulty in reconciling actual and potential responsibilities of auditors listed by Porter et al. (2012a) and Porter et al. (2012b) and those listed by Lee, Ali, Gloeck, Yap, Ng, et al. (2010) may reduce the correctness of our comparison. Fourth, there remains the lack of the consensus on the definition and the precise measurement of audit quality (Li et al., 2019). As similar to other studies (Almulla & Bradbury, 2018; Bédard et al., 2018a; e.g., ; Gutierrez et al., 2018b) we choose to measure audit quality by using discretionary accruals. However, Almulla and Bradbury (2018) indicated that discretionary accruals may be not a good measure of audit quality. Fifth, the 2-year post-period of the implementation of the requirement for disclosing KAMs may be too short to observe the impact the implementation of the requirement for disclosing KAMs on audit quality, audit fees, audit delays, and market reaction.

Notwithstanding the aforementioned limitations, our conclusion and suggestions are as follows.

(1) Users' paying little attentions to the audit report and having little understanding of the audit function with the result of the continuous presence of reasonableness gaps

Our interviews and observations provided evidence that users pay little attentions to the audit report and they also have a little understanding of the audit function with the result of the continuous presence of reasonableness gap. The reasonableness gaps are associated with an auditor's responsibility for assessing an audited company's ability to continue as a going concern and an auditor's independence. User requires auditors to assess audited companies' ability to continue as a going concern for longer

than next twelve months. Users still unsure whether auditors are really independent from audited companies even though the new audit report provides more explanation of auditor independence.

Our survey also provided evidence that the reasonableness gaps were widened from 30 percent in 2010 to 78 percent in 2018. This is evidence that dynamic changes in the business world have magnified the reasonableness gaps. The changes have led to the more complex business transactions and the greater expectations of the auditing function than those in the past. The reasonableness gaps have turned to be bigger when the accounting scandals were reported by mass media.

To narrow the reasonable gaps, we suggest that the reforms of audit report should be done in parallel with proactive approaches to educating the users about the audit function. The standard setter's reforms of audit report might lead an audit report to be longer and lesser understandable. The longer and lesser understandable audit report leads the users to perceive that the audit report is less informative. Thus, they ignore reading the audit report. To change this perception, the standard setter and regulators in Thailand should look for efficient ways to promote the users understanding of the audit function and the greater recognition of the importance of audit function. Such ways are, for example, on-going and proactive education on auditing through mass media and seminar, educational media on auditing provided on the website of Thailand Federation of Accounting Professions (www.tfac.or.th), encouragement of public debate and discussion on audit issues, and educational materials (e.g., workshops, seminars, or booklets) used to educate users with the correct understanding of an audit report, especially technical terms.

(2) Standard setter's and regulators' success in narrowing deficiency standard gaps with the further big steps to move forward

Only our survey provided evidence that the deficiency standards gaps were narrower from 63 percent in 2010 to 23 percent in 2018. This may be resulted from the big reforms of the auditor's report and related auditing standards in 2016, especially, the requirement of auditors' disclosing key audit matters. However, the remaining gap is associated with society's reasonable expectations of auditors to examine and report in the audit report) on the effectiveness of the client's internal financial controls, the reliability of information provided on the Internet by the client in its audited financial statements and information in the client's entire annual report, the reasonableness of financial forecasts included in the client's annual report, the compliance with a specified set of the Stock Exchange's corporate governance requirements, and the adequacy of client's procedures for identifying financial risks. Performing these responsibilities would make audits more valuable and increase benefits to society while costs of the audits would be insignificantly increased. This would be the big step of the audit function.

(3) Standard setter's and regulators' success in narrowing deficiency performance gaps but the presence of the new deficiency performance gap in the auditors' responsibility to disclose in the audit report illegal acts by the client's directors/senior management which directly impact on the client's financial statements and the continuous presence of deficiency performance gaps in auditor's assessing going concern matter and professional skepticism

Our survey provided evidence which is contradictory to our interviews and observations. We find that the deficiency performance gaps were narrower after the implementation of the new audit report. The deficiency performance gaps were narrower from 7 percent in 2010 to 1 percent in 2018. The auditors' existing responsibilities to detect deliberate distortion of the client's financial statements and to disclose it in the audit report which contributed to the deficiency performance gap in 2010 were disappeared in 2018. This may be because the close monitoring (e.g., audit firm inspection) of auditors' performance by the Security Exchange and Commission and the tremendous effort of the Thailand Federation of Accountants to promote audit quality. However, the new deficiency performance gap was found in 2018. The gap is the auditors' responsibility to disclose in the audit report illegal acts by the client's directors/senior management which directly impact on the client's financial statements. This may be resulted from the series of illegal acts by the listed companies' directors/senior management reported by mass media in the past few years. Society has therefore perceived that the auditors' performance was unsatisfied. To close this gap, the standard setters should raise auditors' awareness of detecting and reporting illegal acts committed by companies' management and should also closely monitor the auditors' performance.

(4) Continuous debate over auditors' responsibility to detect fraud

Only our interviews provided evidence that there remains the continuous debate over auditor's responsibility of detecting fraud. Supporters agreed that auditors are responsible for detecting their audited companies' fraud. However, detractors viewed that auditors are not expected to detect fraud. As concluded by the UK House of Commons (2019, 16), "fraudulent reporting by directors is almost always material, by nature if not by size. The detection of material fraud is, and must continue to be, a priority within an audit. Audits must state how they have investigated potential fraud, including by directors." We therefore suggest that standard setter and regulators in Thailand should encourage the public debates over and discussions auditors' responsibility to detect fraud and should educate auditors and other stakeholders of audit with the correct understanding of auditors' responsibility to detect fraud.

(5) Mixing evidence of perceptions of new audit report's informativeness but weak archival evidence of the new audit report's driving the improvement of audit quality with some economic and unintended consequences

Our interviews and observations provided mixing evidence of whether the new audit report is informative and valuable. Supporters perceived that the new audit report provides more useful information about an audit and an audited company for users. The new audit report provides more information about an audited company's going-concern matter and responsibilities of those charged with governance. Importantly, the section of KAMs in the new audit report helps auditors highlight the key information which would draw the user's attentions. However, detractors perceived that the new audit report is uninformative and invaluable and creates unintended consequences. The new audit report is perceived to provide too much broad information and does not signal any unusual matters. It is also difficult to understand because of technical terminologies and language used and lack of standard format and content. The additional description of going concern matter does not give an unclear conclusion of going concern matter which may in turn lead to the misunderstanding of audited company's going-concern matter. Disclosing KAMs may tarnish audited companies' image and may also lead to the more confusions and misunderstanding of KAMs and auditors' opinion.

Our archival data analyses provided weak evidence that the new audit report with KAMs improves audit quality by reducing discretionary accruals. This is because disclosing KAMs leads auditors to feel being more responsible (Bédard et al., 2018a; Li et al., 2019) and accountable (Li et al., 2019), thereby looking for more and better audit evidence and having more professional skepticism in their audits (Bédard et al., 2018a). Disclosing KAMs also improves the communication between auditors and those charged with governance (Li et al., 2019) and interaction between auditors and those charged with governance (Wei et al., 2017). Our evidence is consistent with that of Li et al. (2019) but inconsistent with that of Almulla and Bradbury (2018) and Wei et al. (2017). Li et al. (2019) and Almulla and Bradbury (2018) provided evidence of the impact of disclosing KAMs on audit quality in New Zealand. Wei et al. (2017) provided evidence of the impact of disclosing KAMs on audit quality in Australia.

Archival data analyses also provided weak evidence that the implementation of disclosing KAMs in Thailand in 2016 also has economic consequences by increasing audit fees and audit delays. After the implementation of the new audit report, audit fees and audit delays increased by approximately 14.4 percent and 3.2 percent, respectively. Audit firms have to spend resource and time on preparing their staff for the implementation and training of KAMs in the first year of the implementation of KAMs (Li et al., 2019; Reid et al., 2018). Costs of preparing and training may be added into audit fees and absorbed by their clients. Increase in audit fees may compensate for increase in audit risk and audit effort. Auditors may face the higher

litigation risk when misstatements are found (Wei et al., 2017) after their disclosing KAMs. Disclosing KAMs increases audit effort (Almulla & Bradbury, 2018; Bédard et al., 2018a). It increases in senior members' working hours on the disclosure of KAMs (Bédard et al., 2018a). As our interviews and observations found that disclosing KAMs may lead to the disagreements between auditors and managements, auditors may spend more time on discussing these matters with audited companies' managers and audit committees (Reid et al., 2018). Thus, audit fees and audit delays increase.

Our evidence of the impacts of disclosing KAMs on audit fees and audit delays are consistent and inconsistent with the previous studies. Our evidence of the impacts of disclosing KAMs on audit fees is consistent with that of Li et al. (2019) and Wei et al. (2017) but inconsistent with that of Bédard et al. (2018a), Almulla and Bradbury (2018), Reid et al. (2018) and Gutierrez et al. (2018b).

Li et al. (2019) reported that disclosing KAMs increases audit fees in New Zealand. Wei et al. (2017) reported that in Australia disclosing KAMs increases audit fees only for non-Big 4 firms.

Almulla and Bradbury (2018) found that disclosing KAMs does not increase in audit fees in New Zealand in the first year of the implementation. Bédard et al. (2018a) found that the disclosing JOAs in the first year did not affect audit fees. Reid et al. (2018) and Gutierrez et al. (2018b) found that disclosing RMMs does not affect audit fees. Our evidence of the impacts of disclosing KAMs on audit delays is inconsistent with that of Reid et al. (2018), Bradbury (2018), and Bédard et al. (2018a). Reid et al. (2018) concluded that disclosing RMMs does not affect audit delays. Almulla and Bradbury (2018) found that disclosing KAMs does not affect audit delays. Bédard et al. (2018a) reported that found that disclosing JOAs does not affect audit delays

The consistency and inconsistency of our evidence on the impact of disclosing KAMs on audit quality, audit fees, and audit delays may be resulted from country-level factors and the studies' methodologies. The effects of the implementation of the new audit reports with KAMs may vary across countries. Therefore, we suggest that the future research should examine the impacts of country-level factors, e.g., culture, legal systems, regulatory bodies, on the association between the disclosing KAMs on audit quality, audit fees, and audit delays. Using the match-pair sample methodology used by Reid et al. (2018) and Gutierrez et al. (2018b) should help future study capture well the impacts of impact of disclosing KAMs on audit quality, audit fees, and audit delays. For the further examination of the impacts of KAMs on audit fees, future research should use other measures of audit quality, e.g., financial restatements, real earnings management, and results of regulatory audit firm inspections.

(6) Users' being confused about KAMs and feeling that KAMs are little informative and redundant information and archival evidence of KAMs' being little informative to market

Our interviews and observations provided evidence that the users are confused about KAMs and feel that KAMs are little informative and redundant information. They do not know what KAMs are. They are unable to distinguish KAMs, matter of emphasis, other matters, and other information, thereby being confused about this information in an auditor report. The users do not read KAMs because they pay more their attentions to auditor opinion. They feel that KAMs are redundant information not new information and turn to be boilerplate when time goes by.

Findings of our archival data analyses supported evidence from our interviews and observations that KAMs are little informative and redundant information. We observed cumulative abnormal returns and abnormal trading volumes around the dates that audited companies filled their audited financial statements in the SEC's website. We found that disclosing KAMs does not impact market reaction. As pointed out by Almulla and Bradbury (2018), investors in New Zealand had already known matters disclosed as KAMs in the year before the implementation of the requirement for disclosing KAMs. Wei et al. (2017) found that in Australia one-third of matters disclosed as KAMs had already been reported in audited clients' previous year annual report before the implementation of the requirement for disclosing KAMs. Our finding is close to those of Bédard et al. (2018a) and Gutierrez et al. (2018b). Bédard et al. (2018a) found that disclosing JOAs does not impact on both abnormal returns and abnormal trading volume in France. Gutierrez et al. (2018b) found that disclosing RMMs does not impact both absolute abnormal returns and abnormal trading volume in the UK.

To clear up users' confusion about KAMs and to reduce their feeling that KAMs are little informative and redundant information, the standard setter and regulators in Thailand should look for efficient ways to proactively educate the users with KAMs by using similar ways to promote the users understanding of the audit function and the greater recognition of the importance of audit function.

(7) Suggestions for further improvement in the audit report

Our interviewees gave suggestions for further improvement in the audit report as follows.

- *Using the audit report as the fundamental tool to educate user about audit function; therefore, information provided in the audit report should not been removed out:* The description of auditor's responsibilities for the other information in the company's annual report is perceived to be unnecessary and should be removed out of an audit report as the reference. Second, the section of auditor's and management's responsibilities is too long and some of

information should be moved as the refer. However, we view that for Thai setting where the stakeholders of audits pay less importance to audit function, it should be better not to replace the standardized wording relating to the audit process with a cross-reference to the website. The audit report should be used to educate the users with the audit function.

- *Impracticality of disclosing audit material in the audit report:* The disclosure of audit materiality in the audit report as in the UK may be impractical in Thai context because its benefits may outweigh its intended consequences.
- *Format of presenting KAMs does not matter:* The presentation of KAMs as in neither table nor narrative do not affect the users.
- *The previous audit report is better:* There is the perception that the previous audit report is better than the new one.

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APPENDIX 1: QUESTIONNAIRE



แบบสอบถามเพื่อศึกษา “ความแตกต่างระหว่างความคาดหวังและผลการปฏิบัติงานของผู้สอบบัญชี (Audit Expectations Gap)”

แบบสอบถามนี้เป็นแบบสอบถามที่จัดทำขึ้นสำหรับโครงการวิจัยเรื่อง “ผู้มีส่วนได้เสียในกระบวนการการสอบบัญชีทุกภาคส่วนเห็นว่าการรายงานของผู้สอบบัญชีแบบใหม่มีความไม่ชัดเจนหรือไม่? การเรียนรู้จากการเริ่มถือปฏิบัติในประเทศไทยในปีแรก” (Whether all Stakeholders of Audits are Overwhelmed by the New Audit Report? Learning from Thailand's First Adoption) โดยผู้วิจัยประกอบด้วย ดร.วิระพงษ์ กิตติวงศ์ สาขาวิชาการบัญชี คณะวิทยาการจัดการและสารสนเทศศาสตร์ มหาวิทยาลัยพะเยา ผศ.ดร. นฤนาถ ศรีภักย์วานิช และ ดร.เอื้อบุญ เอกะสิงห์ ภาควิชาการบัญชี คณะบริหารธุรกิจ มหาวิทยาลัยเชียงใหม่ โครงการวิจัยนี้ได้รับทุนสนับสนุนการทำวิจัยจากโครงการ “ทุนพัฒนาศักยภาพในการทำวิจัยของอาจารย์รุ่นใหม่” ประจำปีงบประมาณ พ.ศ. 2560 ของสำนักงานคณะกรรมการการอุดมศึกษา (สกอ.) และสำนักงานกองทุนสนับสนุนการวิจัย (สกว.)

โครงการวิจัยนี้มีวัตถุประสงค์เพื่อศึกษาผลจากการประกาศใช้หน้ารายงานของผู้สอบบัญชีแบบใหม่ สำหรับการตรวจสอบงบการเงินที่สิ้นสุด ณ วันที่ 31 ธันวาคม พ.ศ. 2559 เป็นต้นไป ที่มีต่อความแตกต่างระหว่างความคาดหวัง และผลการปฏิบัติงานของผู้สอบบัญชี (Audit Expectations Gap) ทั้งนี้ผลการวิจัยจะเป็นประโยชน์อย่างมากต่อวิชาชีพสอบบัญชี สำหรับการปรับปรุงมาตรฐานการสอบบัญชี การปฏิบัติงานของผู้สอบบัญชี การกำกับและการดูแลผู้สอบบัญชี และการจัดทำรายงานของผู้สอบบัญชี

ทั้งนี้ท่านซึ่งเป็นผู้ใช้งบการเงินและผู้ใช้งานของผู้สอบบัญชี ผู้วิจัยจึงเห็นว่าความคิดเห็นของท่านในประเด็นดังกล่าวนี้นับว่ามีคุณประโยชน์ยิ่งในการพัฒนาวิชาชีพสอบบัญชีของประเทศไทย

ผู้วิจัยจึงขอความกรุณาจากท่านตอบคำถามทุกข้อในแบบสอบถามนี้ และขอขอบคุณที่ท่านได้สละเวลาในการตอบแบบสอบถามนี้ คำตอบของท่านและข้อมูลส่วนบุคคลของท่านที่ให้ไว้ในแบบสอบถามนี้จะถูกเก็บรักษาเป็นความลับ และจะถูกใช้เพียงเพื่อวัตถุประสงค์สำหรับการวิจัยเท่านั้น การตอบแบบสอบถามนี้จะใช้เวลาประมาณ 15-20 นาที ผู้วิจัยใคร่ขอกราบขอบพระคุณในความกรุณาของท่านอีกครั้งหนึ่ง

ส่วนที่ 1 ข้อมูลส่วนตัว

กรุณาใส่เครื่องหมาย ✓ ในช่องคำตอบที่ตรงกับข้อมูลของท่าน

1. เพศ ☐ ชาย ☐ หญิง
2. ระดับการศึกษา ☐ อนุปริญญา ☐ ปริญญาตรี ☐ ปริญญาโท ☐ ปริญญาเอก
3. สาขาที่จบการศึกษา.....
4. ตำแหน่ง ☐ พนักงานธนาคาร ☐ นายหน้าค้าซื้อขายหลักทรัพย์ ☐ นักวิเคราะห์ทางการเงิน
☐ นักลงทุน ☐ คณะกรรมการอิสระ ☐ คณะกรรมการตรวจสอบ
☐ ผู้บริหารของบริษัท ☐ พนักงานด้านบัญชี ☐ นักวิชาการ
☐ นักข่าวด้านการเงิน ☐ ทนายความ ☐ พนักงานตรวจสอบภายใน
☐ อื่น ๆ (โปรดระบุ).....
5. ประสบการณ์การทำงาน.....ปี
6. ท่านมีความประสงค์จะให้ส่งผลการศึกษาถึงท่านหรือไม่ ☐ ต้องการ ☐ ไม่ต้องการ
 หากต้องการกรุณาระบุที่อยู่:.....

ส่วนที่ 2 หน้าที่ของผู้สอบบัญชี

ตอนที่ 1ก: ให้ท่านตอบคำถามในคอลัมน์ 1ก ในตารางข้างล่างนี้ โดยวงกลมเลือกข้อที่ท่านคิดว่า ในปัจจุบันผู้สอบบัญชีถูกกำหนดให้หรือไม่มีความรับผิดชอบในแต่ละประเด็น หรือท่านไม่แน่ใจในประเด็นดังกล่าว					ตอนที่ 1ก: ท่านคิดว่า ในแต่ละประเด็นใช่หรือไม่ใช่ความรับผิดชอบของผู้สอบบัญชีในปัจจุบัน					ตอนที่ 1ข หากท่านเลือกคำตอบ “1 (ใช่)” ในตอนที่ 1ก ขอความกรุณาท่านตอบคำถามในคอลัมน์ นี้ โดยวงกลมเลือกข้อที่ท่านคิดว่า ในปัจจุบันผู้สอบบัญชีได้ปฏิบัติหน้าที่ตามความรับผิดชอบในประเด็นดังกล่าวได้มากน้อยเพียงใด					ตอนที่ 2 ท่านคิดว่า ผู้สอบบัญชีควรจะถูกกำหนดให้มีความรับผิดชอบต่อประเด็น ดังกล่าวหรือไม่				
					ใช่	ไม่ใช่	ไม่แน่ใจ	ไม่ดี	ปานกลาง	ดี	ไม่สามารถตัดสินได้	ควร	ไม่ควร	ไม่แน่ใจ					
หน้าที่ของผู้สอบบัญชี คือ																			
2.1	จัดทำงบการเงินของบริษัทที่ตรวจสอบ				1	2	3	1	2	3	4	1	2	3					
2.2	รับประกันว่างบการเงินของบริษัทที่ถูกตรวจสอบถูกต้องทั้งหมดร้อยเปอร์เซ็นต์				1	2	3	1	2	3	4	1	2	3					
2.3	แสดงความเห็นว่างบการเงินได้สะท้อนให้เห็นถึงสถานการณ์ทางการเงินของบริษัทที่แท้จริงหรือไม่				1	2	3	1	2	3	4	1	2	3					
2.4	รับประกันว่าบริษัทที่ผู้สอบบัญชีแสดงความเห็นแบบไม่มีเงื่อนไขต่องบการเงิน จะไม่มีปัญหาสถานะทางการเงิน อันอาจส่งผลกระทบต่อชำระหนี้สินและการผูกพัน				1	2	3	1	2	3	4	1	2	3					
2.5	หากผู้สอบบัญชีมีความสงสัยเกี่ยวกับการดำรงอยู่ของบริษัทที่ตรวจสอบ ผู้สอบบัญชีจะสื่อสารความสงสัยดังกล่าว:																		
	ก) ไปยังหน่วยงานที่เหมาะสม เช่น สำนักงานธุรกิจการค้า หรือ ธนาคารแห่งประเทศไทย				1	2	3	1	2	3	4	1	2	3					
	ข) ในรายงานของผู้สอบบัญชี (ที่จะถูกแนบไปพร้อมกับงบการเงินของบริษัทเพื่อการเผยแพร่ต่อไป)				1	2	3	1	2	3	4	1	2	3					
2.6	ให้ความมั่นใจว่าบริษัทเปิดเผยข้อมูลต่าง ๆ เป็นไปตามข้อกำหนดของบริษัทและกฎหมายที่เกี่ยวข้อง				1	2	3	1	2	3	4	1	2	3					
2.7	รายงานต่อกรมสรรพากร หากตรวจสอบแล้วพบว่าบริษัทไม่ปฏิบัติตามข้อบังคับของกฎหมายภาษีอากร				1	2	3	1	2	3	4	1	2	3					
2.8	ตรวจพบการทุจริตของบริษัทที่มีจำนวนเงินเป็นสาระสำคัญ (เช่น เท่ากับหรือมากกว่าร้อยละ 5 ของรายได้หรือสินทรัพย์รวมของบริษัท) ที่กระทำโดยบุคคลต่าง ๆ เหล่านี้ เว้นเสียแต่ว่าการทุจริตนั้นจะถูกปกปิดไว้อย่างแยบยล																		
	ก) พนักงานที่มีระดับผู้บริหาร				1	2	3	1	2	3	4	1	2	3					
	ข) ผู้บริหารระดับสูงหรือผู้บริหารระดับอาวุโส				1	2	3	1	2	3	4	1	2	3					
2.9	ตรวจพบการทุจริตของบริษัทที่มีจำนวนเงินเล็กน้อยไม่เป็นสาระสำคัญ (นอกเหนือไปจากการทุจริตจำนวนเล็กน้อยมาก ๆ) ที่กระทำโดยบุคคลต่าง ๆ เหล่านี้ เว้นเสียแต่ว่าการทุจริตนั้นจะถูกปกปิดไว้อย่างแยบยล																		

ตอนที่ 1ก: ให้ท่านตอบคำถามในคอลัมน์ 1ก ในตารางข้างล่างนี้ โดยวงกลมเลือกข้อที่ท่านคิดว่า ในปัจจุบันผู้สอบบัญชีถูกกำหนดให้หรือไม่มีความรับผิดชอบในแต่ละประเด็น หรือท่านไม่แน่ใจในประเด็นดังกล่าว		ตอนที่ 1ก: ท่านคิดว่าในแต่ละประเด็นใช่หรือไม่ใช่ความรับผิดชอบของผู้สอบบัญชีในปัจจุบัน				ตอนที่ 1ข หากท่านเลือกคำตอบ “1 (ใช่)” ในตอนที่ 1ก ขอความกรุณาท่านตอบคำถามในคอลัมน์ นี้โดยวงกลมเลือกข้อที่ท่านคิดว่า ในปัจจุบันผู้สอบบัญชีได้ปฏิบัติหน้าที่ตามความรับผิดชอบในประเด็นดังกล่าวได้ดีมากน้อยเพียงใด				ตอนที่ 2 ท่านคิดว่าผู้สอบบัญชีควรจะถูกกำหนดให้มีความรับผิดชอบในประเด็น ดังกล่าวหรือไม่			
		ใช่	ไม่ใช่	ไม่แน่ใจ	ไม่ดี	ปานกลาง	ดี	ไม่สามารถตัดสินได้	ควร	ไม่ควร	ไม่แน่ใจ		
	ก) พนักงานที่มีใช้ระดับผู้บริหาร	1	2	3	1	2	3	4	1	2	3		
	ข) ผู้บริหารระดับสูงหรือผู้บริหารระดับอาวุโส	1	2	3	1	2	3	4	1	2	3		
2.10	ตรวจพบการเจตนาบิดเบือนข้อมูลที่น่าเสนอไว้ในงบการเงินที่ได้รับการตรวจสอบ	1	2	3	1	2	3	4	1	2	3		
2.11	รายงานต่อหน่วยงานที่เกี่ยวข้อง เช่น ก.ล.ด. ตลาดหลักทรัพย์หรือ สำนักงานธุรกิจการค้า เมื่อผู้สอบบัญชีตรวจพบกรณีต่าง ๆ ดังนี้ แม้ว่าจะไม่มีข้อกำหนดตามกฎหมายระบุให้ผู้สอบบัญชีมีหน้าที่ต้องรายงานสถานการณ์ดังกล่าว												
	ก) การทุจริตของบริษัทที่มีจำนวนเงินเล็กน้อยไม่เป็นสาระสำคัญ(นอกเหนือไปจากการทุจริตจำนวนเล็กน้อยมาก ๆ) ที่กระทำโดยพนักงานที่มีใช้ระดับผู้บริหาร	1	2	3	1	2	3	4	1	2	3		
	ข) การทุจริตของบริษัทที่มีจำนวนเงินเป็นสาระสำคัญที่กระทำโดยพนักงานที่มีใช้ระดับผู้บริหาร	1	2	3	1	2	3	4	1	2	3		
	ค) ผู้บริหารระดับสูงหรือผู้บริหารระดับอาวุโสแยกออก(ขโมย)สินทรัพย์บริษัท	1	2	3	1	2	3	4	1	2	3		
	ง) ข้อมูลที่น่าเสนอในงบการเงินถูกใจบิดเบือน	1	2	3	1	2	3	4	1	2	3		
2.12	รายงานไว้ในรายงานผู้สอบบัญชี หากผู้สอบบัญชีตรวจพบเหตุการณ์ต่าง ๆ ต่อไปนี้:												
	ก) การทุจริตของบริษัทที่มีจำนวนเงินเล็กน้อยไม่เป็นสาระสำคัญ(นอกเหนือไปจากการทุจริตจำนวนเล็กน้อยมาก ๆ) ที่กระทำโดยพนักงานที่มีใช้ระดับผู้บริหาร	1	2	3	1	2	3	4	1	2	3		
	ข) การทุจริตของบริษัทที่มีจำนวนเงินเป็นสาระสำคัญที่กระทำโดยพนักงานที่มีใช้ระดับผู้บริหาร	1	2	3	1	2	3	4	1	2	3		
	ค) ผู้บริหารระดับสูงหรือผู้บริหารระดับอาวุโสแยกออก(ขโมย)สินทรัพย์บริษัท	1	2	3	1	2	3	4	1	2	3		
	ง) ข้อมูลที่น่าเสนอในงบการเงินถูกใจบิดเบือน	1	2	3	1	2	3	4	1	2	3		
2.13	รายงานต่อหน่วยงานที่เกี่ยวข้อง เช่น ก.ล.ด. ตลาดหลักทรัพย์หรือ สำนักงานธุรกิจการค้า เกี่ยวกับสถานการณ์ที่ทำให้เกิดข้อสงสัยว่าอาจมีการทุจริตหรือการจงใจบิดเบือนสารสนเทศ	1	2	3	1	2	3	4	1	2	3		

ตอนที่ 1ก: ให้น่านตอบคำถามในคอลัมน์ 1ก ในตารางข้างล่างนี้ โดยวงกลมเลือกข้อที่ท่านคิดว่า ในปัจจุบันผู้สอบบัญชีถูกกำหนดให้หรือไม่มีความรับผิดชอบในแต่ละประเด็น หรือท่านไม่แน่ใจในประเด็นดังกล่าว		ตอนที่ 1ก: ท่านคิดว่า ในแต่ละประเด็นใช่หรือไม่ใช่ ความรับผิดชอบของผู้สอบบัญชีในปัจจุบัน			ตอนที่ 1ข หากท่านเลือกคำตอบ “1 (ใช่)” ในตอนที่ 1ก ขอความกรุณาท่านตอบคำถามในคอลัมน์ 1ข โดยวงกลมเลือกข้อที่ท่านคิดว่า ในปัจจุบันผู้สอบบัญชีได้ปฏิบัติหน้าที่ตามความรับผิดชอบในประเด็นดังกล่าวได้มากน้อยเพียงใด				ตอนที่ 2 ท่านคิดว่าผู้สอบบัญชีควรจะถูกกำหนดให้มีความรับผิดชอบในประเด็น ดังกล่าวหรือไม่		
ตอนที่ 1ข: หากท่านเลือกคำตอบ “1 (ใช่)” ในตอนที่ 1ก ขอความกรุณาท่านตอบคำถามในคอลัมน์ 1ข (สี่ฟ้า) โดยวงกลมเลือกข้อที่ท่านคิดว่า ในปัจจุบันผู้สอบบัญชีได้ปฏิบัติหน้าที่ตามความรับผิดชอบในประเด็นดังกล่าวได้มากน้อยเพียงใด		ใช่	ไม่ใช่	ไม่แน่ใจ	ไม่ดี	ปานกลาง	ดี	ไม่สามารถตัดสินได้	ควร	ไม่ควร	ไม่แน่ใจ
ตอนที่ 2: ให้น่านตอบคำถามในคอลัมน์สุดท้าย โดยวงกลมเลือกข้อที่ท่านคิดว่า ในปัจจุบันผู้สอบบัญชีควรหรือไม่ควรจะถูกกำหนดให้มีความรับผิดชอบในแต่ละประเด็น หรือท่านไม่แน่ใจในประเด็นดังกล่าว											
	ทางการเงินเกิดขึ้น แม้ว่าจะไม่มีข้อกำหนดตามกฎหมายระบุให้ผู้สอบบัญชีมีหน้าที่ต้องรายงานสถานการณ์ดังกล่าว										
2.14	ตรวจสอบการไม่ปฏิบัติตามกฎหมายของผู้บริหารของบริษัทที่:										
	ก) ส่งผลกระทบโดยตรงต่อการเงินของบริษัท (เช่น สิ้นบนสินบนเพื่อหวังผลทางการเมือง)	1	2	3	1	2	3	4	1	2	3
	ข) ส่งผลกระทบทางอ้อมต่อการเงินของบริษัท (เช่น การไม่ปฏิบัติตามกฎหมายและข้อบังคับเกี่ยวกับความปลอดภัยในสถานที่ทำงาน กฎหมายและข้อบังคับเกี่ยวกับสิ่งแวดล้อม)	1	2	3	1	2	3	4	1	2	3
2.15	รายงานไว้ในรายงานผู้สอบบัญชี หากผู้สอบบัญชีตรวจพบการไม่ปฏิบัติตามกฎหมายของผู้บริหารของบริษัทที่:										
	ก) ส่งผลกระทบโดยตรงต่อการเงินของบริษัท (เช่น สิ้นบนสินบนเพื่อหวังผลทางการเมือง)	1	2	3	1	2	3	4	1	2	3
	ข) ส่งผลกระทบทางอ้อมต่อการเงินของบริษัท (เช่น การไม่ปฏิบัติตามกฎหมายและข้อบังคับเกี่ยวกับความปลอดภัยในสถานที่ทำงาน กฎหมายและข้อบังคับเกี่ยวกับสิ่งแวดล้อม)	1	2	3	1	2	3	4	1	2	3
2.16	รายงานต่อหน่วยงานที่เกี่ยวข้อง เช่น ก.ล.ต. ตลาดหลักทรัพย์ หรือ สำนักงานธุรกิจการค้า หากผู้สอบบัญชีตรวจพบการไม่ปฏิบัติตามกฎหมายของผู้บริหารบริษัทในระหว่างการตรวจสอบ แม้ว่าจะไม่มีข้อกำหนดตามกฎหมายระบุให้ผู้สอบบัญชีมีหน้าที่ต้องรายงานสถานการณ์ดังกล่าว	1	2	3	1	2	3	4	1	2	3
2.17	ตรวจสอบและรายงาน (ในรายงานผู้สอบบัญชี) เกี่ยวกับความถูกต้องตามที่ควร (ความน่าเชื่อถือ) ของข้อมูลในรายงานประจำปีของบริษัทในเรื่องต่าง ๆ ดังต่อไปนี้										
	ก) ระเบียบและนโยบายเกี่ยวกับโอกาสการจ้างงานที่เท่าเทียมกัน	1	2	3	1	2	3	4	1	2	3
	ข) ระเบียบและนโยบายเกี่ยวกับความปลอดภัยในสินค้า	1	2	3	1	2	3	4	1	2	3
	ค) ระเบียบและนโยบายเกี่ยวกับความปลอดภัยและสุขลักษณะในการทำงาน	1	2	3	1	2	3	4	1	2	3
	ง) ผลประโยชน์ค่าตอบแทนของผู้บริหารระดับสูง	1	2	3	1	2	3	4	1	2	3

ตอนที่ 1ก: ให้อ่านตอบคำถามในคอลัมน์ 1ก ในตารางข้างล่างนี้ โดยวงกลมเลือกข้อที่ท่านคิดว่า ในปัจจุบันผู้สอบบัญชีถูกกำหนดให้หรือไม่มีความรับผิดชอบในแต่ละประเด็น หรือท่านไม่แน่ใจในประเด็นดังกล่าว ตอนที่ 1ข: หากท่านเลือกคำตอบ “1 (ใช่)” ในตอนที่ 1ก ขอความกรุณาท่านตอบคำถามในคอลัมน์ 1ข (สี่ฟ้า) โดยวงกลมเลือกข้อที่ท่านคิดว่า ในปัจจุบันผู้สอบบัญชีได้ปฏิบัติหน้าที่ตามความรับผิดชอบในประเด็นดังกล่าวได้มากน้อยเพียงใด ตอนที่ 2: ให้อ่านตอบคำถามในคอลัมน์สุดท้าย โดยวงกลมเลือกข้อที่ท่านคิดว่า ในปัจจุบันผู้สอบบัญชีควรหรือไม่ควรจะถูกกำหนดให้มีความรับผิดชอบในแต่ละประเด็น หรือท่านไม่แน่ใจในประเด็นดังกล่าว		ตอนที่ 1ก: ท่านคิดว่า ในแต่ละประเด็นใช่หรือไม่ใช่ ความรับผิดชอบของผู้สอบบัญชีในปัจจุบัน			ตอนที่ 1ข: หากท่านเลือกคำตอบ “1 (ใช่)” ในตอนที่ 1ก ขอความกรุณาท่านตอบคำถามในคอลัมน์ 1ข โดยวงกลมเลือกข้อที่ท่านคิดว่า ในปัจจุบันผู้สอบบัญชีได้ปฏิบัติหน้าที่ตามความรับผิดชอบในประเด็นดังกล่าวได้มากน้อยเพียงใด				ตอนที่ 2 ท่านคิดว่า ผู้สอบบัญชีควรจะถูกกำหนดให้มีความรับผิดชอบในประเด็น ดังกล่าวหรือไม่		
		ใช่	ไม่ใช่	ไม่แน่ใจ	ไม่ดี	ปานกลาง	ดี	ไม่สามารถตัดสินได้	ควร	ไม่ควร	ไม่แน่ใจ
2.18	ตรวจสอบและรายงาน (ในรายงานผู้สอบบัญชี) เกี่ยวกับความมีประสิทธิภาพของ:										
	ก) ระบบการควบคุมภายในที่เกี่ยวข้องกับระบบการจัดทำรายงานทางการเงิน	1	2	3	1	2	3	4	1	2	3
	ข) ระบบการควบคุมภายในทั้งที่เกี่ยวข้องกับระบบการดำเนินงานและกระบวนการในการรายงานข้อมูลที่ไม่ใช่ข้อมูลทางการเงิน (Non-financial reporting system)	1	2	3	1	2	3	4	1	2	3
2.19	ตรวจสอบและรายงาน (ในรายงานผู้สอบบัญชี) เกี่ยวกับความมีประสิทธิภาพของระบบคอมพิวเตอร์ของบริษัท	1	2	3	1	2	3	4	1	2	3
2.20	ตรวจสอบและรายงาน (ในรายงานผู้สอบบัญชี) เกี่ยวกับผลการดำเนินงานที่ไม่ใช่ทางการเงิน (Non-financial performance) ของบริษัท	1	2	3	1	2	3	4	1	2	3
2.21	ตรวจสอบและรายงาน (ในรายงานผู้สอบบัญชี) เกี่ยวกับความมีประสิทธิภาพและประสิทธิผลของการบริหารจัดการของบริษัท	1	2	3	1	2	3	4	1	2	3
2.22	ตรวจสอบงบการเงินครั้งปีที่เผยแพร่	1	2	3	1	2	3	4	1	2	3
2.23	ตรวจสอบและรายงาน (ในรายงานผู้สอบบัญชี) เกี่ยวกับความถูกต้องตามที่ควร (ความสมเหตุสมผล) ของการพยากรณ์ข้อมูลทางการเงินที่อยู่ในรายงานประจำปีของบริษัท	1	2	3	1	2	3	4	1	2	3
2.24	คำนึงถึงและรายงาน (ในรายงานผู้สอบบัญชี) เกี่ยวกับผลกระทบ (ในทางที่ดีและในทางที่ไม่ดี) ของบริษัทที่มีต่อ:										
	ก) ชุมชนท้องถิ่น	1	2	3	1	2	3	4	1	2	3
	ข) สิ่งแวดล้อม (นอกเหนือจากปริมาณก๊าซเรือนกระจกที่ปล่อยสู่ชั้นบรรยากาศ)	1	2	3	1	2	3	4	1	2	3
	ค) ปริมาณก๊าซเรือนกระจกที่ปล่อยสู่ชั้นบรรยากาศ	1	2	3	1	2	3	4	1	2	3
2.25	ตรวจสอบข้อมูลในรายงานประจำปีทั้งหมด (ซึ่งงบการเงินเป็นส่วนหนึ่งของรายงานประจำปี) และรายงาน (ในรายงานผู้สอบบัญชี) เกี่ยวกับ:										
	ก) ความถูกต้องตามที่ควร (ความน่าเชื่อถือ) ของข้อมูลทั้งหมดในรายงานประจำปีของบริษัท	1	2	3	1	2	3	4	1	2	3

ตอนที่ 1ก: ให้ท่านตอบคำถามในคอลัมน์ 1ก ในตารางข้างล่างนี้ โดยวงกลมเลือกข้อที่ท่านคิดว่า ในปัจจุบันผู้สอบบัญชีถูกกำหนดให้หรือไม่มีความรับผิดชอบในแต่ละประเด็น หรือท่านไม่แน่ใจในประเด็นดังกล่าว ตอนที่ 1ข: หากท่านเลือกคำตอบ “1 (ใช่)” ในตอนที่ 1ก ขอความกรุณาท่านตอบคำถามในคอลัมน์ 1ข (สีฟ้า) โดยวงกลมเลือกข้อที่ท่านคิดว่า ในปัจจุบันผู้สอบบัญชีได้ปฏิบัติหน้าที่ตามความรับผิดชอบในประเด็นดังกล่าวได้มากน้อยเพียงใด ตอนที่ 2: ให้ท่านตอบคำถามในคอลัมน์สุดท้าย โดยวงกลมเลือกข้อที่ท่านคิดว่า ในปัจจุบันผู้สอบบัญชีควรหรือไม่ควรจะถูกกำหนดให้มีความรับผิดชอบในแต่ละประเด็น หรือท่านไม่แน่ใจในประเด็นดังกล่าว		ตอนที่ 1ก: ท่านคิดว่าในแต่ละประเด็นใช่หรือไม่ใช่ ความรับผิดชอบของผู้สอบบัญชีในปัจจุบัน			ตอนที่ 1ข หากท่านเลือกคำตอบ “1 (ใช่)” ในตอนที่ 1ก ขอความกรุณาท่านตอบคำถามในคอลัมน์ 1ข โดยวงกลมเลือกข้อที่ท่านคิดว่า ในปัจจุบันผู้สอบบัญชีได้ปฏิบัติหน้าที่ตามความรับผิดชอบในประเด็นดังกล่าวได้มากน้อยเพียงใด				ตอนที่ 2 ท่านคิดว่าผู้สอบบัญชีควรจะถูกกำหนดให้มีความรับผิดชอบในประเด็น ดังกล่าวหรือไม่		
		ใช่	ไม่ใช่	ไม่แน่ใจ	ไม่ดี	ปานกลาง	ดี	ไม่สามารถตัดสินได้	ควร	ไม่ควร	ไม่แน่ใจ
	ข) ความไม่ถูกต้องตรงกันระหว่างข้อมูลในรายงานประจำปีและข้อมูลในการเงิน	1	2	3	1	2	3	4	1	2	3
2.26	ในกรณีของบริษัทจดทะเบียนในตลาดหลักทรัพย์ ตรวจสอบการปฏิบัติตามข้อกำหนดเกี่ยวกับการกำกับดูแลกิจการของตลาดหลักทรัพย์ และรายงาน (ในรายงานผู้สอบบัญชี) ว่า:										
	ก) บริษัทปฏิบัติตามข้อกำหนดต่าง ๆ เหล่านี้หรือไม่	1	2	3	1	2	3	4	1	2	3
	ข) รายงานเฉพาะกรณีที่บริษัทไม่ได้ปฏิบัติตามข้อกำหนดต่าง ๆ	1	2	3	1	2	3	4	1	2	3
2.27	ตรวจสอบและรายงานไปยังผู้บริหารของกิจการ (หรือคณะกรรมการตรวจสอบ) เกี่ยวกับความเสี่ยงพหุของกระบวนการระบุและจัดการด้าน:										
	ก) ความเสี่ยงทางการเงิน เช่น การให้สินเชื่อ อัตราดอกเบี้ย อัตราแลกเปลี่ยน สภาพคล่อง	1	2	3	1	2	3	4	1	2	3
	ข) ความเสี่ยงในการดำเนินงาน เช่น ความเสี่ยงที่เครื่องจักรจะชำรุดเสียหาย การขาดแคลนวัตถุดิบและ/หรือแรงงาน การเข้าสู่ตลาดใหม่	1	2	3	1	2	3	4	1	2	3
2.28	ตรวจสอบและรายงานในรายงานผู้สอบบัญชี เกี่ยวกับความเสี่ยงพหุของกระบวนการระบุและการจัดการด้าน:										
	ก) ความเสี่ยงทางการเงิน เช่น การให้สินเชื่อ อัตราดอกเบี้ย อัตราแลกเปลี่ยน สภาพคล่อง	1	2	3	1	2	3	4	1	2	3
	ข) ความเสี่ยงในการดำเนินงาน เช่น ความเสี่ยงที่เครื่องจักรจะชำรุดเสียหาย การขาดแคลนวัตถุดิบและ/หรือแรงงาน การเข้าสู่ตลาดใหม่	1	2	3	1	2	3	4	1	2	3
2.29	ตรวจสอบและรายงาน (ในรายงานผู้สอบบัญชี) เกี่ยวกับความถูกต้องตามที่ควร (ความน่าเชื่อถือ) ของข้อมูลทางการเงินของบริษัทที่เผยแพร่บนอินเทอร์เน็ต ได้แก่:										
	ก) งบการเงินประจำปีที่ได้รับการตรวจสอบแล้ว	1	2	3	1	2	3	4	1	2	3
	ข) ข้อมูลอื่น ๆ นอกเหนือจากงบการเงินประจำปีที่ได้รับการตรวจสอบแล้ว	1	2	3	1	2	3	4	1	2	3

ตอนที่ 1ก: ให้ท่านตอบคำถามในคอลัมน์ 1ก ในตารางข้างล่างนี้ โดยวงกลมเลือกข้อที่ท่านคิดว่า ในปัจจุบันผู้สอบบัญชีถูกกำหนดให้หรือไม่มีความรับผิดชอบในแต่ละประเด็น หรือท่านไม่แน่ใจในประเด็นดังกล่าว		ตอนที่ 1ก: ท่านคิดว่าในแต่ละประเด็นใช่หรือไม่ใช่ความรับผิดชอบของผู้สอบบัญชีในปัจจุบัน			ตอนที่ 1ข: หากท่านเลือกคำตอบ “1 (ใช่)” ในตอนที่ 1ก ขอความกรุณาท่านตอบคำถามในคอลัมน์ นี้ โดยวงกลมเลือกข้อที่ท่านคิดว่า ในปัจจุบันผู้สอบบัญชีได้ปฏิบัติหน้าที่ตามความรับผิดชอบในประเด็นดังกล่าวได้มากน้อยเพียงใด				ตอนที่ 2 ท่านคิดว่าผู้สอบบัญชีควรจะถูกกำหนดให้มีความรับผิดชอบในประเด็น ดังกล่าวหรือไม่		
ตอนที่ 2: ให้ท่านตอบคำถามในคอลัมน์สุดท้าย โดยวงกลมเลือกข้อที่ท่านคิดว่า ในปัจจุบันผู้สอบบัญชีควรหรือไม่ควรจะถูกกำหนดให้มีความรับผิดชอบในแต่ละประเด็น หรือท่านไม่แน่ใจในประเด็นดังกล่าว		ใช่	ไม่ใช่	ไม่แน่ใจ	ไม่ดี	ปานกลาง	ดี	ไม่สามารถตัดสินได้	ควร	ไม่ควร	ไม่แน่ใจ
2.30	รายงานข้อค้นพบที่สำคัญจากการตรวจสอบ เช่น ข้อขัดแย้งระหว่างผู้สอบบัญชีและผู้บริหารระดับอาวุโสของกิจการเกี่ยวกับการเงินของบริษัท และปัญหาต่าง ๆ ที่พบในระหว่างการตรวจสอบ:										
	ก) ไปยังกรรมการบริหารหรือคณะกรรมการตรวจสอบของบริษัท	1	2	3	1	2	3	4	1	2	3
	ข) ในรายงานผู้สอบบัญชีที่แนบไปพร้อมกับงบการเงิน	1	2	3	1	2	3	4	1	2	3
2.31	ยืนยันความถูกต้องของรายการบัญชีทุกรายการ	1	2	3	1	2	3	4	1	2	3
2.32	ยืนยันความถูกต้องของประมาณการทางบัญชีที่อยู่ในงบการเงิน	1	2	3	1	2	3	4	1	2	3
2.33	ป้องกันการทุจริตหรือข้อผิดพลาดในบริษัท	1	2	3	1	2	3	4	1	2	3
2.34	วางแผนระบบบัญชีและระบบควบคุมภายใน	1	2	3	1	2	3	4	1	2	3
2.35	ปฏิบัติตามจรรยาบรรณของผู้ประกอบวิชาชีพบัญชี	1	2	3	1	2	3	4	1	2	3
2.36	รักษาความลับของลูกค้าและจัดเก็บกระดาษทำใบปลอกภัย	1	2	3	1	2	3	4	1	2	3
2.37	รายงานไว้ในรายงานผู้สอบบัญชีเกี่ยวกับโอกาสในอนาคตของบริษัท	1	2	3	1	2	3	4	1	2	3
2.38	แสดงความเห็นเกี่ยวกับบัญชีต่าง ๆ ของบริษัทต่อผู้ถือหุ้นของบริษัทในวันประชุมสามัญผู้ถือหุ้น	1	2	3	1	2	3	4	1	2	3
2.39	รายงานไว้ในรายงานผู้สอบบัญชีเกี่ยวกับการที่ผู้สอบบัญชีไม่สามารถรวบรวมข้อมูลทั้งหมดเพื่อนำมาสู่การแสดงความเห็นต่อรายการบัญชีของบริษัท	1	2	3	1	2	3	4	1	2	3
2.40	รายงานไว้ในรายงานผู้สอบบัญชีเกี่ยวกับข้อบกพร่องเกี่ยวกับการจัดเก็บรายการบัญชีและการอื่น ๆ ในบริษัท	1	2	3	1	2	3	4	1	2	3
2.41	ตรวจสอบรายงานรายไตรมาสที่ได้รับการเผยแพร่แล้ว	1	2	3	1	2	3	4	1	2	3

2.42 ท่านคิดว่าในปัจจุบันผู้สอบบัญชี ถูกกำหนดให้ปฏิบัติงานอะไรบ้างและผลการปฏิบัติงานที่เกิดขึ้นจริงของผู้สอบบัญชีเป็นอย่างไรบ้าง (เมื่อเทียบกับข้อกำหนดที่มีอยู่)

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APPENDIX 2: THE INTERVIEWEES' PERSPECTIVES ON THE NEW AUDIT REPORT

	A1: Audit partner from big 4 XXY	A2: Audit partner from second-tier audit firm XYX	A3: Audit partner from local audit firm XZX	A4: Audit partner from local audit firm XZY	U1: Accounting Manager from company AAA which employed Big 4 XXZ and he is alumni of Big 4 XXY
User's expectations of auditors	- Auditor's report - Identify the current and future problems of auditees	- Help shareholders detect fraud - Give suggestions to the management	- Detect and report misstatement - Give the suggestions of business operation to the management - Give the economic analyses	Protect the investors from fraud and loss of their investment	- Certify the financial statements as it enforces by law - Provide the confidence in the financial statements for users - Audit the internal control and give the suggestions of it
Auditors' performance	Not sure. Auditors believe that they meet the users' expectation however, shareholders always have questions to the auditors when misstatements subsequently revealed.	Achieve	Over users' expectation	Not sure	Achieve
Opinion paragraph is moved into the first paragraph	- Two sides of the same coin - Opinion paragraph is the most important part of the auditor's report, thereby moving it into the first	The same view as A1. It is the main focus of the auditor's report; therefore, it should come first. However, this would make the users ignore other	No opinion. Moving the opinion paragraph to the first paragraph was the demand of financial analysts.	The users may not care where the opinion paragraph is in the auditor's report. They care only whether or not the opinion is unqualified.	Agree because in general auditor's report is very long

	A1: Audit partner from big 4 XXY	A2: Audit partner from second-tier audit firm XYX	A3: Audit partner from local audit firm XZX	A4: Audit partner from local audit firm XZY	U1: Accounting Manager from company AAA which employed Big 4 XXZ and he is alumni of Big 4 XXY
	paragraph makes the users more comfortable because the users may focus only the opinion paragraph. - Since the users focus only the opinion paragraph, they read only this paragraph and ignore the remainders.	information which the auditors communicate to the users.			
Understandability of the statement “present fairly, in all material”	The users still misunderstand it.	Even auditors themselves still have different judgement on audit materiality.	It remains subtle and disagreed concept.	The concept of materiality remains debatable even among auditors in the same firm.	Because of his audit experience, he understood the concept of materiality.
Auditor independence	- The users have more comfort in auditor independence. The auditor’s report is reliable because it is made by the profession and is also submitted to the stock market. They would search for more information about the professional code of conduct. - It also reminds the	The explanation of auditor independence in auditor’s report is just for protecting the auditors. Increasing explanation of auditor independence in auditor’s report neither strengthen nor lessen our independence. Auditor independence depends on individual auditors. It is in our mind.	It makes the users clearer that we are really independent. This will be beneficial for us in the case of litigation exposure.	Even there is no any wording of auditor independence, the users believe auditors are independent. It is deeply entrenched belief of auditor profession which everyone has known about it.	Still not sure about auditor independence

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Users' understandability of paragraphs (i) emphasis of matter, (ii) key audit matters, (iii) other matters, and (iv) other information	auditors whether they are really independent before signing on the report. - It is likely that the users are unable to distinguish these four paragraphs. However, if they read these paragraphs thoroughly, they would understand them. - It is responsibilities of both the users and the auditors. The users have to educated themselves about all these paragraphs. Meanwhile, the auditors have to find the ways to write the report which leads the users to have clearer understanding of the auditor's report. <i>Communicative value:</i>	They are unable to distinguish them. It depends on the auditors for giving them explanations which helps them understand these four paragraphs.	There are many questions about these paragraphs at shareholders' meeting. Even CEO and CFO do not distinguish them.	No opinion but point out that some information is not useful to the users, for example the paragraph of other information,	Because of his audit experience, he understood, the emphasis of matter is the matter. But other users may not understand these four paragraphs.
Communicative and informative value of KAMs paragraph	-Reported KAMs help the auditors give the explanation of how they respond to risks in that	The users still have the puzzle of what the auditors wrote about KAMs. They have to reread many times.	- The disagreement on reported KAMs between auditors and the management.	No opinion. (He believes that the users pay less attention to the auditor's report and they may	-There is the disagreement on reported KAMs between management and auditors.

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	areas and they assess the internal control. - The users do not understand how the auditors select areas to be disclosed as KAMs. - Since the auditors do not give the results of each audit of KAMs separately, the users are curious about the results.		Sometimes the auditors see the area are key audit matters but the management does not. - The management does not understand the results of auditors' dealing with KAMs.	ignore it)	-The management understand how the auditors select areas to be disclosed as KAMs.
	<i>Informative value:</i> KAMs help raise the users' awareness of significant areas highlighted by auditors. In the past, the auditors did not disclose them in the auditor's report.	- Highlight the area to which the users have to pay attention while they are analyzing financial information. They may need to discount the amounts of accounts related to this area. - The users will seek for information about this area	The management focuses more on KAMs and asks the auditors why the auditors are concerned and worried about KAMs	- KAMs help the users ensure that the audited companies have already managed significant risk areas. - Writing KAMs will be boilerplate in the future.	Even though KAMs is expected to provide more specific information about audited companies, the users do not pay attention to KAMs.
Auditor's responsibilities for the other information in the company's annual	- It makes the users have the puzzle of what is other information. In general, the	This section should be move out because it is not informative.		It is unnecessary.	

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report	auditor's report and financial statements are published before annual report. Therefore, shareholders are always curious about how the auditors will do if the auditors subsequently found the discrepancy in information between annual report and the audited financial statements. -If the users do not read the annual report thoroughly, they will misunderstand that the auditors also audit all information in the annual report. - However, if the users read every wording, they would understand.				
Auditor's and management's responsibilities	It helps us better clarify responsibilities for financial statements between auditors and	It is too long. It is like we put all information in an engagement letter into the auditor's report. Wording	The same view as A1	They are just wordings. Everyone has already known about auditor's and management's	Wordings are just for protecting auditors and too long.

	A1: Audit partner from big 4 XXY	A2: Audit partner from second-tier audit firm XYX	A3: Audit partner from local audit firm XZX	A4: Audit partner from local audit firm XZY	U1: Accounting Manager from company AAA which employed Big 4 XXZ and he is alumni of Big 4 XXY
	management.	should be concise.		responsibilities	
	<i>Remove some contexts as reference:</i> Disagree. It is appropriate in Thai context.	<i>Remove some contexts as reference:</i> Agree. It will shorten auditor's report.	<i>Remove some contexts as reference:</i> Disagree. It makes the users clearer about auditor's and management's responsibilities. If we remove and make it as the reference, the users may not search for reference and read it.	<i>Remove some contexts as reference:</i> No opinion	<i>Remove some contexts as reference:</i> The same view as A2
Reasonable assurance		The users do not understand it.	It is the term from the auditing standard. Similar to the concept of materiality, it remains subtle and disagreed concept.	Similar to the concept of materiality, it remains debatable.	- It is difficult to measure the level of confidence in financial statements provided by the auditors. -The users believe that reasonable assurance provides the confidence at least 50%, sometimes 80% or 90%.
Technical terms	Technical terms increase not decrease. This makes the investors comment that	We expect that the users have a basic knowledge of audit and they should the	Many people commented that the new audit report is	We are unable to avoid using technical terms.	

	A1: Audit partner from big 4 XXY	A2: Audit partner from second-tier audit firm XYX	A3: Audit partner from local audit firm XZX	A4: Audit partner from local audit firm XZY	U1: Accounting Manager from company AAA which employed Big 4 XXZ and he is alumni of Big 4 XXY
Going-concern	the new audit report is difficult to understand and too long. -It makes the shareholders have the puzzle of whether their companies have a going-concern issue. - In the past, the users did not understand the auditor's report, especially what the auditors wrote about a going concern of audited companies.	meanings of technical terms. The wordings of a going concern are strange to the users.	difficult to understand. Some of them tried very hard to get it. It makes the users clearer about how the auditors deal with the audited companies' ability to be a going concern.	-In the past, we document it in our working paper. However, we now disclose it in the auditor's report. -It makes the users clearer about the responsibilities of a going-concern issues between auditors and management.	-If the company does not have going-concern issue, the users ignore this point. - At least, the auditors make the users have more confidence in the audited company's ability to be a going concern.
Auditor responsibility for fraud	According to the audit report, we have.	We do not have responsibility for detecting every fraud. We are responsible for fraud which affects financial statements.	Auditors are responsible for fraud which affects financial statements.	The previous form of auditor's report mentioned that auditors were not responsible for fraud. But the auditors are now responsible for it.	It is outside scope of audit.
Communication between auditors and TCWG	It helps the users have a better understanding of audit process, especially how the auditors communicate with TCWG.		It helps us to raise the TCWG's awareness of responsibilities.	The same view as A3.	It has been already documented in audit file.
Suggestion on the new audit report	<i>Disclose materiality in auditor's report:</i>				

A1: Audit partner from big 4 XXY	A2: Audit partner from second-tier audit firm XYX	A3: Audit partner from local audit firm XZX	A4: Audit partner from local audit firm XZY	U1: Accounting Manager from company AAA which employed Big 4 XXZ and he is alumni of Big 4 XXY
- It is beneficial for the users. They may have more confidence in the audited financial statements since they perceive that high value transactions were audited. - Its side effect is that since the clients know materiality level, the auditors' task of detect material misstatements may be difficult. <i>Presenting KAM:</i> Prefer presenting KAMs as a table	Materiality should be confidential.	It has both pros and cons. But it is better not to disclose materiality.	It is better not to disclose audit materiality. Materiality should be confidential. CFO may play the game when they know the materiality.	
<i>Other:</i> - Educate the users about the new audit report, especially technical terms, by using workshops, seminars, or booklets		It depends on each audit firm.	Not sure The previous form of auditor's report is better than the new one.	Neither presenting KAMs as a table nor presenting KAMs as a long narrative does not impacts the users' understanding of KAMs. The previous form of auditor's report is better than the new one. The new one is too long.

APPENDIX 3: CONFERENCE PAPER1

Kitiwong, K., Sarapaivanich, N., and Ekasingh, E. (2018). Do Key Audit Matters Really Improve Audit Quality? Evidence from Thailand. The 7th Business, Economics and Communications International Conference 2018, 29-30 November, Phissanulok, Thailand, 233-240.

DO KEY AUDIT MATTERS REALLY IMPROVE AUDIT QUALITY? EVIDENCE FROM THAILAND

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ABSTRACT

Our paper provides the first evidence of the impact of disclosing KAMs on audit quality in Thailand, where KAMs has been implemented in 2016. We observe two years before and after its implementation by analyzing the data of 399 listed companies with 1,316 firm-year observations. Instead of using discretionary accruals as a proxy of audit quality to capture this impact as similar to previous studies, we use type of audit firm, which is representative of input dimension of audit quality, in doing so. We provide evidence that in Thailand the disclosure of KAMs improves audit quality when using a number of KAMs as a test variable.

Keywords: 1) Key Audit Matters 2) Audit Quality 3) Audit Firm Type

1. Introduction

When an auditor's report was just the standardized pattern with "pass or fail" statement, it was therefore perceived to be less informative (Gutierrez, Minutti-Meza, Tatum, and Vulcheva, 2018). To improve the informative value of the auditor's report, the new audit report has been reformed. These reforms are France's disclosure of justifications of assessments (JOAs) in 2003, the United Kingdom's requirement to disclose the risks of material misstatements (RMMs) in 2013, the international Auditing and Assurance Standards Board's requirement of disclosing key audit matters (KAMs) in 2016, and the Public Company Accounting Oversight Board (PCAOB)'s upcoming requirement of disclosing critical audit matters (CAMs) in the United States of America in 2019.

The new audit report is expected to improve audit quality. It increases auditor's leverage over management and auditor's accountability (Reid, Carcello, Li and Neal, 2017). The more accountability the more audit quality. The auditors are more careful and skeptical in performing their audits because of their concern about their accountability, therefore, they would look for better audit evidence (Bedard, Gonthier-Besacier, and Schatt, 2018). However, after the expanded audit report with JOAs, RMMs, or KAMs has been introduced, previous studies on archival data, e.g., Bedard et al. (2018), Reid, et al. (2017), Gutierrez et al. (2018), Wei, Fargher, and Carson (2017), and Almulla and Bradbury (2018) provide inconclusive evidence of whether the new audit report improves audit quality.

We provide the first insight of the effect of KAMs on audit quality in Thailand where KAMs has also been implemented in 2016. Importantly, unlike the previous studies on the impact of expanded audit report on audit quality (e.g., Almulla and Bradbury, 2018; Bedard,

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et al., 2018; Gutierrez, et al., 2018; Reid, et al., 2017; Wei, et al., 2017) which use discretionary accruals as a proxy for audit quality, we use type of audit firm as the alternative measurement of audit quality. We believe that using this alternative measurement of audit quality would contribute to both theory and practice in understanding how KAMs influence audit quality. As suggested by DeFond and Zhang (2014), using across categories of the measures of audit quality would help researchers have a clear view of how their interested factors influence audit quality. In addition, Almulla and Bradbury (2018) highlight that discretionary accruals are not a good proxy of audit quality.

We observe two years before and two years after its implementation in Thailand by analyzing the data of 399 listed companies with 1,316 firm-year observations. Our analysis provides evidence that in Thailand the disclosure of KAMs improves audit quality when using a number of KAMs as a test variable. This contributes the new evidence to literature on the impact of KAMs on audit quality.

2. Literature Review

2.1 Audit quality

DeFond and Zhang (2014) define that “higher audit quality is a greater assurance of high financial reporting quality”. From their review extant archival studies pertaining to audit quality, financial reporting quality composes of audit quality, the company’s financial reporting system, the company’s characteristics. They summarize measures of audit quality used by these previous studies and categorize them into output and input measures. Output measures comprise material misstatements (e.g., restatements, AAERs), auditor communication (e.g., GC opinions), financial reporting quality (e.g., DAC, meet/beat, accrual quality, conservatism), perception-base indicator (e.g., marketing reaction, cost of capital, change in market share, PCAOB inspections). On the other hand, input measures refer to auditor characteristics, e.g., Big N, industry specialization. They point to pros and cons of each measure and suggest that using different categories of measures should be useful since there is no completely perfect measure of audit quality. In our study, we select Big N which is representative of input dimension of audit quality as our measure of audit quality.

2.2 Big 4 and audit quality

Big 4 is of higher audit quality than non-big 4 (DeFond and Zhang, 2014) because of its brand name reputation (Choi, Kim, Kim, and Zang, 2010) and wealth (Boone, Khurana, and Raman, 2010). There is also current empirical evidence supporting this. Eshleman and Guo (2014) found that financial statements audited by Big 4 are less likely to be subsequently restated. Lennox, Wu, and Zhang (2014) found that in China financial statements audited by Big 4 are also less likely to be subsequently restated because they have good quality of pre-audit financial statements. Lobo, Paugam, Zhang, and Casta (2017) observe the joint audit among the French sample and found that the joint audit by two Big 4s is less likely to misstate goodwill impairment. However, there is only a small number of evidences which provide the contradictory result. For example, Ke, Lennox, and Xin (2015) found that owing to weak institutional factors in China, Big 4 provides lower audit quality.

2.3 Expanded audit report and audit quality

It is debatable whether the new audit report really improves audit quality. Reid et al. (2017) underscore that the new audit report is expected to improve audit quality by increasing auditor’s leverage over management and auditor’s accountability. “Threat of disclosure” increases auditor’s leverage because the management may prefer the auditor not to highlight any specific area, especially a high-risk one, in the audit report. This would in turn lead the management to less engage in aggressive accounting. In addition, adding more information especially about a high-risk area into the audit report also increases

auditor's accountability. The more accountability the more audit quality. As indicated by Bedard et al. (2018), the auditors are more careful and skeptical in performing their audits because of their concern about their accountability. Therefore, they would look for better audit evidence.

Previous studies provide inconsistent results of how expanded audit report affects audit quality. Bedard, et al. (2018) test how JOAs affect audit quality by observing discretionary accruals during the period 2002-2011. JOAs are matters that are important for making users understand financial statements. They found that reporting JOAs and discretionary accruals do not have relation in the first year of the requirement; however, the positive relation between new JOAs and discretionary accruals in the years later indicates that JOAs are a sign of low quality of financial statements and a precursor of bias and error.

Reid, et al. (2017) investigate the impact of disclosing RMMs on audit quality. They found that disclose of RMMs improves audit quality by reducing discretionary accruals and the incidence of meet/beat analyst forecasts. Gutierrez et al. (2018) also investigate the impact of disclosing RMMs on audit quality during 2011-2015 and also use discretionary accruals as a proxy for audit quality. Unlike Reid et al. (2017), they found that disclosure of RMMs does not affect audit quality. Wei, et al. (2017) broaden the evidence to Australia and found that by regressing both absolute value and income-increasing discretionary accruals the disclosure of KAMs does not improve audit quality but increases audit costs. Almulla and Bradbury (2018) broaden evidence to New Zealand and found that KAMs do not impact audit quality.

Even though these previous studies provide inconclusive results of whether disclosing KAMs improves audit quality, we believe that, consistent with the standards setters' expectation, KAMs improve audit quality by providing more contextual information about the audit to improve the transparency and clarity of the audit. Therefore, our hypothesis is

“H1: Key audit matters improves audit quality.”

3. Research Methodology

3.1 Test procedure

To test our hypothesis, we employ two logistic regressions. Model 1 is used to test the full sample, and Model 2 to test the sample from 2016 and 2017. Model 1 is specified as follows:

$$\begin{aligned} Big4_t = & \alpha + \beta_1 KAMsDisclose_t + \beta_2 NumAuditCom_t + \beta_3 ProAuditComActEdu_t \\ & + \beta_4 AuditComMeeting_t + \beta_5 PerBlockShare_t \\ & + \beta_6 PerInstituteShare_t + \beta_7 NumYearTrade_t + \beta_8 LogTotalAssets_t \\ & + \beta_9 ROA_t + \beta_{10} Leverage_t + \beta_{11} Loss_t + \beta_{12} CurrentRatio_t \\ & + \beta_{13} AssetsTurnover_t + \beta_{14} SalesGrowth_t + \beta_{15} AbDCA_t \\ & + \beta_{16} LogAuditFee_t + \beta_{17} ChangeAudfirm_t + \beta_{18} ChangeAuditor_t \\ & + \beta_{19} ChangAudfirm_t * ChangAuditor_t + \beta_{20} TypeOpinion_t \\ & + \beta_{21} DiscloseEmphasisOthermatter_t + \beta_{22} TypeOpinion_t \\ & * DiscloseEmphasisOthermatter_t + \beta_{23} IndustryFixedeffect + \varepsilon_t \quad (1) \end{aligned}$$

where,

$Big4_t$ = 1 if the company was audited by big 4 in year t , 0 else
 $KAMsDisclose_t$ = 1 if the company's audit report disclosed KAMs in year t , else 0;
 $NumAuditCom_t$ = the company's number of audit committee members in year t ;

Control variables:

<i>ProAuditComActEdu_t</i>	= the proportion of audit committee members with an accounting degree to total number of members in year <i>t</i> ;
<i>AuditComMeeting_t</i>	= the number of audit committee meeting in year <i>t</i> ;
<i>PerBlockShare_t</i>	= percentage of shares held by block holders in year <i>t</i> ;
<i>PerInstituteShare_t</i>	= percentage of shares held by institutional holders in year <i>t</i> ;
<i>NumYearTrade_t</i>	= the number of years at year <i>t</i> the company has been traded on the stock market;
<i>LogTotalAssets_t</i>	= the natural logarithm of total assets in year <i>t</i> ;
<i>ROA_t</i>	= net income divided by lagged total assets in year <i>t</i> ;
<i>Leverage_t</i>	= total debt divided by lagged total assets in year <i>t</i> ;
<i>Loss_t</i>	= 1 if the company reported loss in year <i>t</i> , 0 else;
<i>CurrentRatio_t</i>	= current ratio in year <i>t</i> computed as current assets divided by current liabilities;
<i>AssetsTurnover_t</i>	= assets turn over in year <i>t</i> computed as net income divided by lagged total assets; and
<i>SalesGrowth_t</i>	= year <i>t</i> 's change in sales divided by lagged total assets;
<i>AbDCA_t</i>	= the absolute value of discretionary accruals in year <i>t</i> ¹
;	
<i>LogAudit Fee_t</i>	= the natural logarithm of audit fee in year <i>t</i> ;
<i>ChangeAudFirm_{t+1}</i>	= 1 if the company subsequently switched an audit firm in year <i>t</i> +1, 0 else;
<i>ChangeAudor_{t+1}</i>	= 1 if the company subsequently switched an auditor in year <i>t</i> +1, 0 else;
<i>TypeOpinion_t</i>	= 1 if the auditor's opinion in year <i>t</i> is qualified; 0 else;
<i>DiscloseEmphasisOthermatter_t</i>	= 1 if the auditor disclosed matter of emphasis and/or other matter in year <i>t</i> ; 0 else; and
<i>IndustryFixedeffect</i> = dummy variables of industry's fixed effects.	

We predict that *KAMsDisclose* should have a positive impact on *Big 4*. We further explore how the number of disclosed KAMs impacts audit quality using a logistic regression on the sample from 2016 and 2017. Thus, Model 2 is specified as follows:

$$Big4_t = \alpha + \beta_1 NumberKAMs_t + \beta_{2-22} ControlVariables_t + \beta_{23} IndustryFixedeffect + \varepsilon_t \quad (2)$$

where,

NumberKAMs_t = the number of KAMs which were disclosed in year *t*.

¹ Similar to Aobdia, Lin, and Petacchi (2015), we use the cross-sectional modified Jones model adding by return on assets to estimated discretionary accruals. The estimation model is as follows:

$$\frac{TA_t}{TotalAssets_{t-1}} = \beta_1 \left(\frac{1}{TotalAssets_{t-1}} \right) + \beta_2 \left(\frac{\Delta Sales_t - \Delta Ar_t}{TotalAssets_{t-1}} \right) + \beta_3 \left(\frac{PPE_t}{TotalAssets_{t-1}} \right) + \beta_4 ROA_{t-1} + \varepsilon_t$$

where *TA*= net income less cash flow from operations, *Sales*=net sales, and *PPE*=gross property, plant, and equipment.

3.2 Control variables

To provide a more robust test of our hypothesis, we include (1) client's corporate governance; the number of audit committee members, the number of audit committee members with accounting degree, the frequency of audit committee meetings, the proportion of shares held by block shareholders (Cao, Myers, and Omer, 2012), and the proportion of shares held by institutional shareholders (Raghunandan, Read, and Whisenant, 2003), (2) client characteristics; the length of trading period (Eshleman and Guo, 2014), total assets, return on assets, leverage, loss, current ratio, assets turnover, sale growth (DeFond and Zhang, 2014), and absolute value of discretionary accruals (Aobdia et al., 2015), (3) auditor's characteristics; audit fee, change in audit firm, change in individual audit firm (Demirkan and Zhou, 2016), and (4) type of opinion; type of audit report (Myers, Schmidt, and Wilkins, 2014), emphasis of matters, and qualified audit report with emphasis of matters (Czerney, Schmidt, and Thompson, 2017) as control variables for audit quality.

3.3 Sample and data collection

Table 1 presents our sample selection. Our final sample is 399 companies with 1,316 firm-year observations. Our sample period is from 2014 to 2017 which is two years before and after the adoption of disclosing KAMs. Data are collected from the companies' financial statements, annual reports, 56-1 form which have been published on the website of Thailand Securities and Exchange Commission (www.sec.or.th) or the companies' websites.

Table 1: Sample selection

	Companies	Observations
Total number of listed companies on the main board (SET)	580	
Less: Financials	(58)	
Non-performing companies	(7)	
Companies with incomplete data for computing necessary variables	(87)	
	428	1,584
Extreme audit delays		(12)
No data on KAMs		(13)
No data on audit committee		(23)
Outliers		(220)
Final sample	399	1,316

4. Results

4.1 Descriptive statistics

65 percent of our sample were audited by Big 4. Untabulated results of the test differences in medians of variables between Big 4 and non-Big 4 show that clients audited by big 4 have higher a number of KAMs, greater number of audit committee meeting, higher percentage of institutional shareholders, larger size, better performance, and higher audit fee. On the other hand, those audited by non-Big 4 have a greater number of audit committee, higher percentage of block shareholders, and higher possibility for being selected as a new auditor. They are more likely to report losses and to receive unqualified opinions and explanatory paragraphs in their auditor reports.

4.2 Pearson correlations

Untabulated results of the correlations matrix between each pair of variables indicate that there is no high correlation between each pair, offering no evidence of multicollinearity problems.

4.3 Logistic regression

Table 2 presents the results of logistic regression of KAMs and control variables on Big 4. Model 1 regresses pool sample in order to test whether the disclosure of KAMs improves audit quality by comparing between two years before and two years after the implementation of KAMs. The coefficient of KAMs disclosure is not significant. This indicates that the requirement of auditor's disclosing KAMs does not affect the selection of Big 4 as perceived to be a high-quality audit firm. Model 2 regresses sample from the first two years of the implementation in order to test how the number of disclosed KAMs improve audit quality. The coefficient on a number of KAMs is positively significant (0.573, $p=0.000$). This is evidence that Big 4 is more likely to disclose a greater number of KAMs. This implies that the disclosure of KAMs improves audit quality and the greater number of disclosed KAM the higher audit quality.

Table 2: Logistic regressions of the selection of big 4 on KAMs and control variables

	Predicted Sign	Model 1 Full sample 2014-2014		Model 2 Two years after the adoption of KAMs 2016-2017	
		Coefficient	p-value	Coefficient	p-value
Test Variables					
<i>KamsDisclosure</i>	+	-0.175	0.242		
<i>NumberKams</i>	+			0.573***	0.000
Clients' corporate governance					
<i>NumAuditCom</i>	+	-1.005***	0.000	-1.556***	0.000
<i>ProAuditComActEd</i>	+	0.326	0.295	0.114	0.803
<i>AuditComMeeting</i>	+	0.044	0.144	0.043	0.304
<i>PerBlockShare</i>	-	1.525***	0.000	2.023***	0.002
<i>PerInstituteShare</i>	+	3.934***	0.000	4.570***	0.000
Clients' characteristics					
<i>NumYearTrade</i>	+	-0.017	0.054	-0.026**	0.037
<i>LogTotalAssets</i>	+	0.439***	0.000	0.566***	0.000
<i>ROA</i>	+	-0.014	0.990	2.234	0.231
<i>Leverage</i>	-	-0.075	0.663	-0.053	0.835
<i>Loss</i>	-	0.277	0.239	0.520	0.152
<i>CurrentRatio</i>	+	0.061*	0.084	0.077	0.139
<i>AssetsTurnover</i>	+	0.760***	0.000	0.974***	0.000
<i>SalesGrowth</i>	+	-0.236	0.534	-0.382	0.536
<i>AbDCA</i>	-	0.182	0.820	1.237	0.303
Auditor's characteristics					
<i>LogAuditFee</i>	+	1.234***	0.000	0.982***	0.000
<i>AuditFirmChange</i>	+	-1.509	0.229	-13.495	0.984
<i>AuditorChange</i>	+	0.219	0.207	0.218	0.389
<i>AuditFirmChangeandAuditorChange</i>	+	1.687	0.190	13.272	0.984
Type of opinion					
<i>TypeOpinion</i>	-	-2.414***	0.000	-1.716*	0.086
<i>DiscloseEmphasisOtherMatter</i>	-	-0.990***	0.000	-1.273***	0.000
<i>TypeOpinionandDiscloseEmphasisOtherMatter</i>	-	2.255***	0.008	1.800	0.156

	Predicted Sign	Model 1 Full sample 2014-2014		Model 2 Two years after the adoption of KAMs 2016-2017	
		Coefficient	p-value	Coefficient	p-value
Industry Fixed Effects		Include		Include	
Constant		-24.998***	0.000	-24.154***	0.000
Log likelihood		-581.139		-272.812	
Prob > chi2		0.000		0.000	
Pseudo R2		0.3201		0.3613	
Observations		1,316		664	

Note: *** p<0.01, ** p<0.05, * p<0.1 one-tailed when predicted signs are made and two-tailed when they are not.

5. Conclusions and suggestions

Our descriptive statistics test reports that a number of disclosed KAMs are on average 2. In comparison to non-Big 4's clients, Big 4's clients have a greater number of disclosed KAMs and are larger companies who pay higher audit fees. Even though the disclosure of KAMs are perceived to pose the greater risk to an auditor (Almulla and Bradbury, 2018; Gutierrez et al., 2018) and increase auditors' accountability (Wei et al., 2017), Big 4, as perceived to be a high-quality auditor, discloses a greater number of KAMs. Moreover, the logistic regression test on the impact of the number of KAMs on audit quality provides evidence that the number of KAMs improves audit quality. Therefore, the greater number of KAMs the higher audit quality. Our interpretation on these results is that Big 4's high risk and accountability would be commensurate with high audit fees. The disclosure of a greater number of KAMs may also help Big 4 show the clients their tremendous effort put into the audits.

Even though the standard setters and regulators worried that the auditors and the stakeholders of audits were too overwhelmed with KAMs, our findings suggest that to improve audit quality the disclosure of KAMs should not be restricted to how many of them are appropriate. KAMs causes the auditors to be prepared to consider complex matters requiring careful judgment and to explain their audit approach to these matters publicly in their audit reports. Therefore, auditors will put their professional skepticism more in order; this in turn contributes to higher audit quality. The restriction of number of KAMs would make the new audit report be less informative and KAMs would not provide adequate specific information of the clients as the standard setters' expectation. However, the auditor has to consider that this information is the most significance in the audit of the financial statements of the current period and presented in a useful way.

The limitation of our study is that we use only one proxy as the proxy for audit quality. Therefore, interpretations of our findings here should be considered with care. Future study should use other alternative measures of audit quality, for example, financial restatement, audit fee, market reaction, and going concern audit report. This will help us have better understanding of the effect of KAMs on audit quality.

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APPENDIX 4: CONFERENCE PAPER2

Ekasingh, E., Kitiwong, W., and Sarapaivanich, N. (2018). Auditor Size and Auditor Conservatism in the Context of Key Audit Matters: The Moderating Role of Auditor Gender. The 7th Business, Economics and Communications International Conference 2018, 29-30 November, Phissanulok, Thailand, 225-232 (**Best paper award**)



AUDITOR SIZE AND AUDITOR CONSERVATISM IN THE CONTEXT OF KEY AUDIT MATTERS: THE MODERATING ROLE OF AUDITOR GENDER

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ABSTRACT

We investigate whether the relationship between auditor size and auditor conservatism is conditional on auditor gender. Although prior studies have examined the relationship between auditor size, auditor gender and auditor conservatism, none has tested auditor conservatism in the context of Key Audit Matters (KAMs). We analyze the data of 341 listed companies in Thailand, where KAMs has been first implemented since 2016. We observe 593 firm-year observations from 2016 to 2017, when KAMs was first introduced and the subsequent year. The requirement to disclose the name of the engagement partner and the audit firm in Thailand also allows us to collect the proportion of female/male engagement partners in each firm. Our analyses, using the number and types of KAMs disclosed as measures of auditor conservatism, show that Big 4 (vs. non-Big 4) auditors disclose relatively higher number of KAMs and higher proportion of industry-common KAMs in their auditor's reports. This relationship is positively moderated by the within-audit firm gender composition, particularly when the engagement partners are female-dominated.

Keywords: 1) Auditor Conservatism 2) Key Audit Matters 3) Auditor Size 4) Auditor Gender

1. Introduction

The investors' concerns of the limited value of standard audit reports, which contains a "pass or fail" audit opinion, give rise to demand for more transparent and informative report (EY, 2016). With the traditional "boilerplate" auditor's report, it could be difficult for any users to fully understand what the most important risks are in the auditor's opinion. In response to these concerns, the International Auditing and Assurance Standards Board (IAASB) has issue new enhanced auditor reporting standards. The most significant transformation arising from this recent reform is the requirement for auditors of listed companies to disclose "key audit matters (KAMs)" in the audit report. KAMs are those matters that the auditor considered to be of most significance in the audit of financial statements (IAASB, 2015). As such, KAMs are expected to provide greater transparency and improve communications between auditor and investors, and other financial statements users, particularly audit committees and board of directors (KPMG, 2017).

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In this study, we investigate the conservative auditor behavior in the context of KAMs by considering the number and types of KAMs disclosed, specifically, the relationship between auditor size and auditor conservatism as well as the moderating role of auditor gender. Previous studies found that Big 4 auditors are more conservative than non-Big 4 auditors, using accruals (Francis and Krishnan, 1999; Francis and Wang, 2008), a modified/going concern opinion (Francis and Krishnan, 1999; Goh, et al., 2013; Berglund, Eshlemen and Guo, 2018), IPO earnings forecasts (Lee, Taylor and Taylor, 2006), and the level of voluntary disclosure (Clarkson, Ferguson and Hall, 2003) as measure of auditor conservatism. Big 4 auditors are expected to report more conservatively than non-Big 4 auditors because the risk of litigation and reputation loss for failing to signal investors increases with the size of audit firm (DeAngelo, 1981; Becker, DeFond, Jambalvo and Subramanyam, 1998). Although the relation between audit characteristics (e.g., size, reputation, industry expertise) and auditor conservatism have been extensively examined, there is little research examining the potential effects of auditor gender. Previous studies on auditor gender found that female auditors are associated with smaller abnormal accruals (Ittonen, Vähämaa, and Vähämaa, 2013), interpret uncertainty expressions more conservatively (Han, Hellmann, and Lu, 2016), and are more likely to issue a going-concern opinion (Hardies, Breesch, and Branson, 2016), than male auditors. We therefore expect that Big 4 auditors will be more conservative than non-Big 4 auditors, and this relation will be strengthened when the engagement partners in the firm are female-dominated.

We use a sample of 341 listed companies in Thailand, where KAMs has been first implemented since 2016, with 593 firm-year observations from 2016 to 2017. Our results show that Big 4 auditors disclose a higher number of KAMs and a higher proportion of industry-common KAMs in their audit reports, than non-Big 4 auditors. Further, the increase in auditor conservatism with Big 4 auditors is greater when these audit firms have more female than male engagement partners.

Our findings contributes to the literature on auditor conservatism by introducing new measures; number and types of KAMs disclosed. We also provide the first evidence on how auditor size affects auditor conservatism in the context of KAMs, and how this relationship is moderated by the gender of engagement partners in the audit firm.

2. Literature Review

Auditor Conservatism and Auditor Size

In auditing literature, the Big N model is basically used to categorize audit firms according to their size. Comparing to non-Big 4 auditors, Big 4 auditors are perceived to have higher audit quality (Becker, et al., 1998) and be more conservative (Francis and Krishnan, 1999; Lee, et al., 2006). Big 4 auditors have to be more conservative in performing their audits because they have a greater motivation for maintaining their reputational asset (DeAngelo, 1981) and avoiding dire consequences from litigation exposure (Clarkson, et al., 2003). DeAngelo (1981) indicated that disclosures of Big 6 audit firms' clients are more comprehensive since reputation is the great concern of Big N audit firms, while Clarkson, et al. (2013) found that Big N audit firms disclose more voluntary information in their client's report to avoid litigation risk.

Based on these findings, we expect that an auditor who is more conservative would also disclose the greater number of KAMs. As mentioned earlier, KAMs are matters that, in the auditor's professional judgment, required the most significant attention in performing the audit. Since KAMs is used as a means of improving the communication between auditors and stakeholders of audits, the informative value of the audit report, and the transparency of financial reporting, insufficiently disclosing KAMs in the audit report may

affect audit firms' reputation, especially Big 4 firms. Thus, we expect that an auditor who is more conservative would also disclose the greater number of KAMs. Therefore, the following hypothesis is proposed:

Hypothesis 1: Big 4 auditors will disclose a higher number of Key Audit Matters, compared to non-Big 4 auditors.

KAMs are usually industry-specific, that is, the type of KAMs would be largely the same for entities in similar industries (EY, 2016). However, the key challenge of disclosing KAMs lies in how to communicate the new content, i.e., how much to disclose, how to provide informative discussion without providing forecasts, and how to frame the tone when discussing KAMs (KPMG, 2017). Thus, there is a concern that KAMs may include information or wording that could be misinterpreted by users with different backgrounds and levels of expertise in financial matters (EY, 2016). Consequently, conservative auditors may be less likely to discuss KAMs that are too specific to the company. Given the high risk of losing reputation and of litigation, we expect that Big 4 auditors will act more conservatively than non-Big 4 auditors, by disclosing KAMs that are more common to the industries than those that are unique or specific to an entity. Therefore, the following hypothesis is proposed:

Hypothesis 2: Big 4 auditors will disclose a higher proportion of industry-common Key Audit Matters, compared to non-Big 4 auditors.

Gender

An auditor is a risk estimator with risk-aversion (Lennox and Kausar, 2017), thereby performing an audit with varying degree of conservatism which depends heavily on an individual's characteristics. There have been the on-going debates on the influence of the individual's characteristics, especially gender difference, on auditor conservatism. Female auditors are more conservative than male auditors because they are more risk averse (Hardies et al., 2016), lesser overconfident (Ittonen and Peni, 2011), and lesser tolerant to either income-increasing and income-decreasing earnings management than male auditors (Ittonen, et al., 2013). In addition, they are more likely to issue going-concern audit reports (Hardies, et al., 2016) and interpret the term "uncertainty" more conservatively (Han et al., 2016).

At firm level, gender composition of audit engagement partners may affect auditor conservatism. "The partners provide leadership at many levels: technical leadership, leadership in the production and commercial aspects of the firm's operation, and shaping the culture and atmosphere within the office" (IFAC, 2011, p. 26). Thus, they are responsible for their firms' quality control system and may have collective responsibility for being more conservative. As female auditors are more conservative than male auditors, the proportion of female to total auditors should lead to the varying degree of the impact of auditor size on auditor conservatism. Based on these arguments, the following hypotheses are proposed:

Hypothesis 3: The positive relationship between Big 4 auditors and the number of Key Audit matters Disclosed will be strengthen when the proportion of female engagement partners in their firms is higher than male; and

Hypothesis 4: The positive relationship between Big 4 auditors and the proportion of industry-common Key Audit Matters Disclosed will be strengthen when the proportion of female engagement partners in their firms is higher than male.

3. Research Methodology

3.1 Data and Sample and data collection

The sample firms were selected from companies listed on the Stock Exchange of Thailand (SET) from 2016 to 2017, which are the first two years after the implementation of KAMs disclosure in Thailand. We collected data from the companies' financial statements, annual reports, and from 56-1 form, published on the website of Thailand Securities and Exchange Commission (www.sec.or.th) and the companies' websites. Our final sample is determined by data availability, and totals 593 firm years for 341 unique firms. Observations total 296 for year 2016, 297 for year 2017.

3.2 Measurement of Variables and Model Specification

To test our hypotheses, we use four ordinary least squares regression models, including variables normally used in the audit quality studies.

Dependent and Independent Variables

While most studies use going-concern audit report or discretionary accruals to measure audit conservatism, we introduce new measurements for determining audit conservatism in the context of KAMs. The first measurement is the number of KAMs disclosed (*NumKAMs*), which is collected by counting the number of KAMs disclosed in the auditor's reports. The second measurement is the proportion of industry-common KAMs disclosed in the auditor's reports (*IndComKAMs*). The industry-common KAMs is the types of KAMs that are usually disclosed within the same industry. Following Almulla and Bradbury (2018), we determine the number of industry-common KAMs by counting the type of KAMs that are disclosed by more than 20 percent of the firms within the same industry⁴. Thus, the proportion of KAMs is calculated by dividing the number of industry-common KAMs disclosed by the number of total KAMs disclosed.

The test variables are a dummy indicating auditor Size (*Big4*), and the proportion of female engagement partners in the firm (*Gender*). The proportion of female engagement partners in the firms are calculated by dividing the number of female engagement partners in each audit firm by the total number of engagement partners in each audit firm.

Control Variables

The principal determinants of audit conservatism are factors relating to the audit committee and client characteristics. The firm's audit committee takes an important role of client financial reporting conservatism, therefore, size, audit committee qualifications and education backgrounds, and the number of meetings during the year are found to influence audit conservatism (e.g., Cao, Myers and Omer, 2012). The client characteristics and financial health such as size, complexity, liquidity and risks of the audit client are also found to affect audit conservatism (e.g., Berglund, et al., 2018). We also control for auditor's opinion, audit fees, whether there are emphasis of matters disclosed, and the joint

⁴ We use 20 percent for the cut of point of industry-common KAMs. Industry-common KAMs of each industry are as follows: Those of agro and food industry are revenue recognition (50%) and inventory (30%). Those of resource industry are revenue recognition (56%), inventory (44%), accounts receivable (31%), investment (20%), and good will and intangible assets (20%). Those of technology industry are investment (27%), revenue recognition (25%), and good will and intangible assets (25%). Those of services industry are revenue recognition (54%), investment (23%), and good will and intangible assets (23%). Those of industrials industry are inventory (59%) and revenue recognition (39%). Those of consumer products industry are revenue recognition (61%), inventory (60%), and investment (31%). Those of property and construction industry are revenue recognition (61%), investment property (25%), and inventory (21%).

association between type of auditor's opinion and emphasis of matters (e.g., Myers, Schmidt, and Wilkkins, 2014; Czerney, Schmidt, and Thompson, 2017). To control for possible industry and year effects, we include industry and year indicator variables in all models.

Models

We employ four models to test our hypotheses. Model 1 and Model 2 address H1 and H2, respectively, by examining the relationships between auditor size and auditor conservatism. Model 3 and 4 are used to test H3 and H4, respectively, by examining the moderating role of auditor gender on the relationship between auditor size and auditor conservatism. The models are specified as follows:

$$\begin{aligned} \text{NumKAMs} = & b_0 + b_1\text{Big4} + b_2\text{ACNum} + b_3\text{ACAcct} + b_4\text{ACMeet} + b_5\text{LogAssets} + \\ & b_6\text{ROA} + b_7\text{Loss} + b_8\text{LEV} + b_9\text{DCA} + b_{10}\text{BlockShare} + b_{11}\text{INSTShare} + \\ & b_{12}\text{LogFee} + b_{13}\text{Opinion} + b_{14}\text{EOM} + b_{15}\text{Opinion}*\text{EOM} + e \quad \dots(1) \end{aligned}$$

$$\begin{aligned} \text{IndComKAMs} = & b_0 + b_1\text{Big4} + b_2\text{ACNum} + b_3\text{ACAcct} + b_4\text{ACMeet} + b_5\text{LogAssets} + \\ & b_6\text{ROA} + b_7\text{Loss} + b_8\text{LEV} + b_9\text{DCA} + b_{10}\text{BlockShare} + b_{11}\text{INSTShare} + \\ & b_{12}\text{LogFee} + b_{13}\text{Opinion} + b_{14}\text{EOM} + b_{15}\text{Opinion}*\text{EOM} + e \quad \dots(2) \end{aligned}$$

$$\begin{aligned} \text{NumKAMs} = & b_0 + b_1\text{Big4} + b_2\text{Gender} + b_3\text{Big4}*\text{Gender} + b_4\text{ACNum} + b_5\text{ACAcct} + \\ & b_6\text{ACMeet} + b_7\text{LogAssets} + b_8\text{ROA} + b_9\text{Loss} + b_{10}\text{LEV} + b_{11}\text{DCA} + \\ & b_{12}\text{BlockShare} + b_{13}\text{INSTShare} + b_{14}\text{LogFee} + b_{15}\text{Opinion} + b_{16}\text{EOM} + \\ & b_{17}\text{Opinion}*\text{EOM} + e \quad \dots(3) \end{aligned}$$

$$\begin{aligned} \text{IndComKAMs} = & b_0 + b_1\text{Big4} + b_2\text{Gender} + b_3\text{Big4}*\text{Gender} + b_4\text{ACNum} + b_5\text{ACAcct} + \\ & b_6\text{ACMeet} + b_7\text{LogAssets} + b_8\text{ROA} + b_9\text{Loss} + b_{10}\text{LEV} + b_{11}\text{DCA} + \\ & b_{12}\text{BlockShare} + b_{13}\text{INSTShare} + b_{14}\text{LogFee} + b_{15}\text{Opinion} + b_{16}\text{EOM} + \\ & b_{17}\text{Opinion}*\text{EOM} + e \quad \dots(4) \end{aligned}$$

where;

NumKAMs = the number of Key Audit Matters disclosed;

IndComKAMs = the proportion of industry-common KAMs disclosed;

Big4 = a dummy variable given the value 1 if the company was audited by a Big 4 audit firm, 0 else;

Gender = the proportion of female engagement partners in the audit firm;

ACNum = the number of audit committee members in the company;

ACAcct = the proportion of audit committee members with an accounting degree;

ACMeet = the number of audit committee meeting;

LogAssets = the natural logarithm of total assets;

ROA = net income divided by lagged total assets;

Loss = a dummy variable given the value 1 if the company reported loss, 0 else;

LEV = total debt divided by lagged total assets;

DCA = the absolute value of discretionary accruals as computed by cross-sectional modified Jones model adding by return on assets;

BlockShare = percentage of shares held by block holders;

INSTShare = percentage of shares held by institutional holders;

LogFee = the natural logarithm of audit fee;

Opinion = a dummy variable given the value 1 if the auditor's opinion is qualified, 0 else; and

EOM = a dummy variable given the value 1 if the auditor issues a report with an emphasis of matters and/or other matters, 0 else.

4. Results

4.1 Descriptive Statistics and Correlations

Untabulated results of descriptive statistics report that a number of disclosing KAMs are 2, on average, 60.4 percent of them are industry-common KAMs, and 66 percent of the firm years were audited by a Big 4 audit firm. Further, the average proportion of female auditors in each audit firm is 58.6 percent. From the results of Pearson correlation matrix (untabulated), each pair of variables are not high correlated.

4.2 Tests of Hypotheses

Table 2 reports the regression results for Model 1 to 4.

The results reported in Model 1, support H1, with *Big4* significantly and positively associated with *NumKAMs* ($\beta = 0.244$, $t=2.85$, $p=0.002$, one-tailed). This results indicate that auditors from Big 4 firms tend to be more conservative by disclosing more KAMs in their auditor's reports.

Model 2 shows that *Big4* is significantly and positively associated with *IndComKAMs* ($\beta = 0.105$, $t=2.73$, $p=0.004$, one-tailed), which supports H2. This results, again, indicate that Big 4 auditors tend to be more conservative by disclosing more KAMs that are common to the industry (rather than being aggressive by disclosing types of KAMs that are more specific to the firm).

The results in Model 3 show that the interaction between *Big4* and *Gender* is positively significant ($\beta = 1.227$, $t=3.63$, $p=0.000$, one-tailed). The results suggest a moderation effect of auditor gender on the relationship between Big 4 auditors and the number of KAMs disclosed. More specifically, while Big 4 auditors tend to be more conservative by disclosing more KAMs than non-Big 4 auditors, the number of KAMs disclosed will be even higher when they are from firms that have more female than male engagement partners. Thus, provides support for H3.

Consistent with Model 3, the interaction between *Big4* and *Gender* reported in Model 4 is also positively significant ($\beta = 0.326$, $t=2.10$, $p=0.018$, one-tailed). H4 is thus supported, as the higher proportion of industry-common KAMs disclosed by Big 4 auditors (compared to non-Big 4 auditors) will be even higher when they are from firms that have more female than male engagement partners. In other words, Big 4 auditors tend to be more conservative in the type of KAMs disclosed when their firms are female-dominated.

Regarding the control, only five variables in Model 1 and 3 are significant. *NumKAMs* is positively associated with *Loss*, *LogFee*, and *EOM*. A negative association exists between *BlockShare* and *INSTShare*. The results suggest that auditors tend to be more conservative, in terms of the number of KAMs disclosed, when the companies report loss, have higher audit fees, the auditor issues a report with and emphasis of matters. However, they tend to be less conservative, when the percentage of shares held by block holders and institutional holders becomes higher. Most of the control variables in Model 2 and 4 are not significant, except for *LogFee* in Model 2 and *INSTShare* in Model 2 and 4. These results indicate that auditors tend to be more conservative, in terms of the type of KAMs disclosed, when audit fees becomes lower and the percentage of shares held by institutional holders becomes higher.

Table 2: Regression Results for Effect of Auditor Size and Auditor Gender on the Number and the Proportion of Industry-Common KAMs Disclosed

	Model 1 Auditor size on the number of KAMs disclosed		Model 2 Auditor size on the proportion of industry-common KAMs disclosed		Model 3 The effect of auditor gender on auditor size and the number of KAMs disclosed		Model 4 The effect of auditor gender on auditor size and the proportion of industry- common KAMs disclosed	
	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic
Intercept	-3.429	-3.67***	1.545	3.68***	-4.571	-4.84***	1.521	3.51***
Big4	0.244	2.85***	0.105	2.73***	-0.537	-2.44**	-0.092	-0.91
Gender					0.203	0.91	-0.137	-1.33
Big4*Gender					1.227	3.63***	0.326	2.10**
<i>ACNum</i>	1.113	3.15***	0.082	0.52	1.119	3.25***	0.077	0.48
<i>ACAcct</i>	-0.058	-0.40	0.042	0.65	0.020	0.14	0.057	0.87
<i>ACMeet</i>	-0.016	-0.16	0.051	1.17	0.018	0.19	0.052	1.20
<i>LogAssets</i>	-0.005	-0.14	-0.028	-1.64	-1.500	0.00	-0.027	-1.59
<i>ROA</i>	-0.249	-0.50	0.098	0.44	-0.134	-0.28	0.098	0.44
<i>LOSS</i>	0.324	2.87***	-0.062	-1.24	0.351	3.19***	-0.059	-1.16
<i>LEV</i>	0.099	1.33	-0.020	-0.61	0.087	1.20	-0.017	-0.52
<i>DCA</i>	0.401	1.28	0.205	1.47	0.307	1.00	0.212	1.51
<i>BlockShare</i>	-0.475	-2.33**	0.068	0.75	-0.405	-2.03**	0.068	0.74
<i>INSTShare</i>	-0.393	2.10**	0.154	1.82*	-0.332	-1.81*	0.160	1.91*
<i>LogFee</i>	0.286	4.74***	-0.053	-1.97**	0.340	5.71***	-0.048	-1.75
<i>Opinion</i>	0.066	0.21	0.096	0.68	0.123	0.40	0.102	0.72
<i>EOM</i>	0.294	3.42***	-0.012	-0.31	0.278	3.32***	-0.016	-0.43
<i>TypeEx</i>	-0.125	-0.30	-0.128	-0.68	-0.244	-0.60	-0.145	-0.77
<i>Industry</i> ^a	YES		YES		YES		YES	
<i>Year</i> ^a	YES		YES		YES		YES	
Number of observations		593		593		593		593
Adjusted R ² (%)		19.58		10.06		23.65		10.45

Notes: *, **, *** Significant at $p < 0.1$, $p < 0.05$, and $p < 0.01$, respectively, one-tailed for variables of interest (directional hypothesis, highlighted in bold) and two-tailed for others.

^a The industry and year fixed effects variables are included in all models.

5. Conclusions

Our findings suggest that Big 4 auditors are likely to be more conservative than non-Big 4 auditors by disclosing more KAMs in total, and more industry-common KAMs. We also found that Big 4 auditors are likely to be more conservative when engagement partners in their firms are female-dominated. Therefore, consistent with prior studies on auditor conservatism, our findings suggest that auditor size differences may affect the audit conservatism. Moreover, the results are consistent with prior studies on gender differences in auditor conservatism. In general, our results imply that gender diversity among engagement partners in the audit firms may improve the quality of audit reporting.

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APPENDIX 5: MANUSCRIPT1

This manuscript was submitted to the Managerial Auditing Journal.

Consequences of the Implementation of Expanded Audit Reports with Key Audit Matters (KAMs) on Audit Quality

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ABSTRACT:

In this paper, we asked whether the adoption of the expanded auditor's report, which included a requirement to disclose key audit matters (KAMs), in Thailand in 2016 has improved audit quality. To answer this question, we examined audit quality two years before and two years after the adoption by analysing 1,519 firm-year observations obtained from 312 companies. Unlike the previous studies of the impact of disclosing KAMs on audit quality, which used discretionary accruals as a proxy for audit quality, we used the occurrence of financial restatements. After applying logistic regressions to the firm-year observations, we found that the requirement for disclosing KAMs improved audit quality. More specifically, such disclosures led to audit reports being more informative, especially regarding KAMs related to acquisitions. The presence of this type of KAM signals the greater likelihood of financial restatements being made in a later year.

Keywords: Key audit matters, audit quality, financial restatements

ACKNOWLEDGEMENTS

We are grateful for research funding from the Higher Education Commission and the Thailand Research Fund. However, the views expressed in this paper and its research content are those of the authors alone

1. INTRODUCTION

Auditor reports were once just standardized “pass or fail” statements (Reid et al., 2018). As such, they were perceived to be little informative (Gutierrez, Minutti-Meza, Tatum, & Vulcheva, 2018a). To resolve this issue, audit reports have been continuously reformed *over the past two centuries* (PricewaterhouseCoopers LLP, 2015b). Some more recent examples of these reforms include France’s disclosure of requirement to disclose justifications of assessments (JOAs) in 2003, the United Kingdom’s (U.K.) requirement to disclose the risks of material misstatements (RMMs) in 2013, the International Auditing and Assurance Standards Board’s (IAASB) requirement to disclose KAMs in 2016, and the Public Company Accounting Oversight Board’s (PCAOB) upcoming requirement to disclose critical audit matters (CAMs) in the United States (U.S.) in 2019.

The expanded audit report with KAMs was expected to improve the informative value of auditor reports along with audit quality by increasing the auditor’s leverage over management and the auditor’s accountability (Reid, Carcello, Li, & Neal, 2017). The requirement to disclose KAMs increases an auditor’s leverage in instances where management prefers that an auditor not highlight a specific area, especially a high-risk one, in an audit report. The requirement to disclose KAMs also increases the auditor’s accountability, commitment to transparency, and responsibility to present an accurate assessment. As Pinto and Morais (2019) indicated, an auditor may face a dilemma over whether to disclose a KAM. In cases where the auditor feels less susceptible to the consequences of not disclosing a KAM, he or she may choose not to do so or to postpone doing it. In case where the auditor feels more susceptible to the consequences of not disclosing a KAM because they feel that disclosing KAMs leads to the more accountability, commitment, and responsibility, they will perform a high-quality audit, being more careful and sceptical of audit evidence and looking for better audit evidence (Bédard, Gonthier-Besacier, & Schatt, 2018b). However, since the expanded audit reports with JOAs, RMMs or KAMs were introduced, the studies on archival data previous to this one, e.g., Bédard et al. (2018b), Reid et al. (2017), Gutierrez et al. (2018a), Wei et al. (2017), and Almulla and Bradbury (2018), have provided only inconclusive evidence on whether the expanded audit reports improve audit quality.

Our study contributes to the literature in this area by broadening the research on the impact of the expanded audit report to Thailand, a nation characterized as an “insider country” with weak investor protection, high shareholder concentration, a small stock market, a low level of financial disclosure, weak regulatory enforcement, and pervasive earnings management (Leuz, Nanda, & Wysocki, 2003), as well as a low democracy (Porta, López-de-Silanes, Pop-Eleches, & Shleifer, 2004). Thailand’s institutional environments, which differ from those of other countries, provided interesting evidence of the impact of disclosing KAMs on audit quality. Importantly,

unlike previous studies that used discretionary accruals as a proxy for audit quality, we used the presence of financial restatements as a measure of audit quality. We believe that this approach would help us has led to findings that contribute to the theory and practice of understanding how KAMs influence audit quality. As suggested by DeFond and Zhang (2014), using the audit quality measures across the categories would give researchers a clear view of how their interested factors (e.g., auditor size, auditor tenure, mandatory audit firm rotation) affect audit quality. In addition, Almulla and Bradbury (2018) have highlighted that discretionary accruals may be not a good proxy for audit quality.

In this paper, we provide evidence that the numbers of reported KAMs are around 2 and there is no deviation between types of reported KAMs in 2016 and 2017. There is also a pervasive disclosing of KAMs related to revenue recognition, impairment, inventory valuation, and investment valuation in the first two years of the KAMs adoption. This created scepticism regarding whether the information in KAMs is too generic and whether KAMs would be treated as boilerplate by audit firms and used many times over.

By applying logistic regressions to 1,519 firm-year observations obtained from 312 companies, we found that the KAMs requirement improved audit quality by making audit reports more informative, especially regarding KAMs related to acquisitions. The presence of this type of KAMs signals the greater likelihood of subsequently financial restatements being done in a later year.

Our paper is organized as follows. In Section 2, we provide a short summary of previous study results related to audit quality and state our hypotheses. In Section 3, we describe our methodology, sample selection and data collection. Section 4 presents our empirical results, and Section 5 gives our conclusions.

2. PREVIOUS STUDIES AND HYPOTHESIS DEVELOPMENT

2.1 Audit quality and its measurements

A quality audit is defined as an audit that helps detect material misstatements (Yu, 2011) and does not cause an audit failure (Francis, 2004). Francis (2004) indicated that low audit quality leads to audit failure. Such failures occur when an auditor accepts financial statements that do not comply with generally accepted accounting principles and/or when an auditor issues an incorrect audit opinion. DeFond and Zhang (2014) summarized measures of audit quality used by previous studies and categorized them as output and input measures. Output measures comprise material misstatements (e.g., restatements and ‘Accounting and Auditing Enforcement Releases’ issued by the U.S. Security and Exchange Commission (SEC)), auditor communications (e.g., going-concern opinions), financial reporting quality (e.g., discretionary accruals, meet/beat, accrual quality, conservatism), and perception-based indicators (e.g., market reaction, cost of capital, change in market share,

PCAOB inspections). Input measures refer to auditor characteristics such as being a Big N or having an industry specialization. The authors pointed out the pros and cons of each measure and suggested that using different measure categories should be useful since there is no perfect measure of audit quality.

Audited financial statements and audit reports are observable outputs from the audit process. Previous studies therefore generally have used them to gauge audit quality. Subsequent restatements of the audited financial statements are a direct indicator of audit quality because they indicate auditor errors, that is, a clean audit report is issued when a firm's financial statements have material misstatements (DeFond & Zhang, 2014). The occurrence of subsequent financial restatements also indicate auditors' improper client acceptance and continuance process by accepting high-risk clients (Raghunandan, Read, & Whisenant, 2003) and auditors' lack of specific knowledge of client businesses, especially in cases of new clients (Stanley & DeZoort, 2007). Therefore, in our study, we chose to examine restatements as they are representative of the output dimension of audit quality.

2.2 Expanded audit report with KAMs

Audit reports have been continuously reformed *over the past two centuries* (PricewaterhouseCoopers LLP, 2015b). In 2003, for example, the auditors of listed companies traded in France's stock market have been required by French auditing standards to disclose JOAs, which involve matters that are important for helping users understand financial statements (Bédard et al., 2018b). As another example, in the U.K., for audits of financial statements for years ending on or after September 2013, auditors of companies listed in the London Stock Exchange's Main Market must disclose RMMs (Gutierrez et al., 2018a).

Also, the IAASB has launched the new International Standard on Auditing (ISA) 701, which relates to communicating KAMs in independent auditor reports. (KAMs are comparable to JOAs and RMMs.) The new standard requires auditors to disclose matters that, in their professional judgment, are of most significance in the audits of financial statements for years ending on or after December 15, 2016 (International Auditing and Assurance Standards Board, 2015b). Thailand has adopted the ISA 701 standard along with other countries for the audits of financial statements for years ending on or after December 15, 2016, but the standard has been applied only to companies listed on the country's stock exchange.

In the U.S, the PCAOB has implemented the standard 'AS 3101: The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion'. This standard requires the disclosure of CAMs for the audits of large company financial statements for years ending on or after June 30, 2019 and for all company financial statements for years ending on or after December,15 2020. A CAM is defined as any matter communicated by or required to be communicated by

an auditor to an audit committee because it relates to material accounts or disclosures and involves especially challenging, subjective or complex auditor judgment (Public Company Accounting Oversight Board, 2017). CAMs are close in nature to KAMs.

2.3 Current evidence of the impact of expanded audit report with KAMs on audit quality

To determine whether expanded audit reports that require additional disclosures have impacted audit quality, researchers have compared the audit quality before and after the adoption of disclosure requirements. For example, Bédard et al. (2018b) tested how disclosing JOAs affected audit quality by observing discretionary accruals from 2002 through 2011. Discretionary accruals are estimated using the performance-adjusted cross-sectional version of the Jones model¹ of S.P. Kothari, Andrew J. Leone, and Charles E. Wasley (2005). Bédard et al. (2018b) found that reporting JOAs and discretionary accruals did not exhibit a relationship in the first year of the JOA requirement. However, the authors also found that the positive relationship between the new JOAs and discretionary accruals in the years after 2002 indicated that the presence of JOAs is a sign of low-quality financial statements and a precursor of bias and errors. Bédard et al. (2018b)'s findings can be inferred from the fact that disclosing JOAs did not improve audit quality in the first year of the requirement and that such disclosures were a sign of lower audit quality in the years after.

Reid et al. (2017) investigated the impact of disclosing RMMs on audit quality. They used two proxies of audit quality: modified Jones' performance-adjusted absolute abnormal accruals and the incidence of meet/beat analyst forecasts. Match-pair-samples between U.K. companies and U.S./European companies by year, industry, size, and return on assets were used to control the impact of other institutional factors (e.g., regulatory systems and culture). Their data covered the period 2011 through 2014. They found that disclosing RMMs improved audit quality by reducing the discretionary accruals and the incidence of meet/beat analyst forecasts.

Gutierrez et al. (2018a) also investigated the impact of disclosing RMMs on audit quality for the period 2011 through 2015, using used discretionary accruals estimated by the Jones model² as a proxy for audit quality. A difference-in-difference test of a treatment group and a control group was used to, and the test also compared pre-and-post implementation of RMMs. The treatment group comprised companies in the Main Market that had been required to disclose RMMs. The control group comprised companies in the Alternative Investment Market that had not been required to disclose RMMs. Unlike Reid et al. (2017), Gutierrez et al. (2018) found that disclosing RMMs did not affect audit quality.

Wei et al. (2017) broadened the evidence of the impacts of disclosing KAMs on audit quality to Australia, where the requirement to disclose KAMs began in 2016. Their samples cover the period 2014 through 2017, and, similar to Bédard et al. (2018b),

they used discretionary accruals as computed by a performance-matched modified Jones model as a proxy for audit quality. Their regression of absolute-value and income-increasing discretionary accruals provided evidence that disclosing KAMs did not improve audit quality and increased audit costs. Almulla and Bradbury (2018) broadened the evidence of the impacts of disclosing KAMs on audit quality to New Zealand, where the requirement to disclose KAMs also began in 2016. Like other researchers, they used discretionary accruals as a proxy for audit quality and a modified Jones model. While their study was limited by its small sample size, within that sample they found that KAMs do not impact audit quality. As a result of their finding that they were ultimately unable to capture the impact of KAMs on audit quality, they cast doubt on the use of discretionary accruals as a proxy of audit quality.

2.4 Number and types of KAMs

The number of KAMs varies according to the audited company's size, complexity, nature of business and business environments, and specific facts and circumstances (International Auditing and Assurance Standards Board, 2015a), as well as the industry sector in which the company operates (Ernst & Young Global Limited, 2016). Auditors are encouraged to use their professional judgment and be flexible regarding the disclosure of KAMs (International Auditing and Assurance Standards Board, 2015a). At the same time, audit committees must challenge the auditor regarding the appropriateness of each KAM disclosure and evaluate the auditor's responses to these challenges (Ernst & Young Global Limited, 2016).

KAMs can be common KAMs (Ernst & Young Global Limited, 2016) or entity-specific and audit-specific KAMs (International Auditing and Assurance Standards Board, 2015a). They may not, however, be standardized or boilerplate KAMs (International Auditing and Assurance Standards Board, 2015a). According to Ernst & Young Global Limited (2016), common KAMs are those shared by companies in the same industries, whereas the specific ones are those unique to a firm. In addition, KAMs may or may not be consistent with a company's risk profile as disclosed in its annual report by management. The risk profile is broader than KAMs because it includes both business and operational risks. The company's risk profile in the company's annual report and its disclosures in financial statements should be complementary information that helps financial statement users gain a better understanding of each KAM.

2.5 Hypothesis development

Previous studies have been inconclusive as to whether expanded audit reports improve audit quality. Using discretionary accruals as a proxy for audit quality, Bédard et al. (2018b), Gutierrez et al. (2018a), Wei et al. (2017), and Almulla and Bradbury (2018) found evidence that the expanded audit report does not improve audit quality. Only Reid et al. (2017) provided evidence to the contrary. As we were sceptical as to

whether discretionary accruals are a good proxy for audit quality, we proposed the use of the presence of financial restatements as an alternative measurement of audit quality. As mentioned earlier, this measurement represents the output dimension of audit quality. Importantly, in examining Thailand's different institutional environments, we provided broader evidence as to whether disclosing KAMs improves audit quality.

Disclosing KAMs may improve audit quality. Auditors are required to disclose additional information in audit reports which in turn increase auditor's accountability (Bédard et al., 2018b; Li et al., 2019) and responsibility (Li et al., 2019). The greater accountability drives auditors to obtain more and better audit evidence and exert more professional skepticism into their audits (Bédard et al., 2018b). Disclosing KAMs increases the transparency (Li et al., 2019) and improves the interaction between auditors and those charged with governance (Wei et al., 2017).

Financial restatements signal a low audit quality (Christensen, Glover, Omer, & Shelley, 2016; Kinney Jr, Palmrose, & Scholz, 2004). Quality of audit in terms of the validity of auditor's opinion and audit process has come into question and even has been being under regulators' intense scrutiny when audited financial statements are subsequently restated (Stanley & DeZoort, 2007). Financial restatements are evidence of auditors' failures to detect misstatements (Eilifsen & Messier Jr, 2000), errors (Schmidt & Wilkins, 2012), and impairment of auditor independence (Kinney Jr et al., 2004).

If such disclosures of KAMs do improve audit quality, the financial statements after the disclosures' adoption would be less likely to need restatement because the auditors are more accountable and careful. One would be more sceptical on audit quality if the accounts or areas discussed as KAMs are subsequently restated. We state Hypothesis H1 as follows:

H1: *Audited financial statements are less likely to be subsequently restated after the adoption of the KAMs disclosure requirement.*

Next, we further explored the impact of the number of KAMs on audit quality. KAMs are matters that auditors select from among those they have discussed with those charged with governance and that the auditors believe are of most significance in the current year audit. KAMs are, for example, areas with complexity that require the auditor's and/or management's judgment, transactions or events that had significant impacts on financial statements, areas with critical accounting estimates, matters that pose a challenge to auditors, and matters for which experts were consulted.

Disclosing these matters as KAMs may increase or decrease litigation risk. Users are less likely to blame auditors if misstatements that auditors disclosed matters related to these misstatements as KAMs are subsequently revealed (Kelsey Brasel, Marcus M Doxey, Jonathan H Grenier, & Andrew Reffett, 2016; S. Kachelmeier, Schmidt, &

Valentine, 2018). Unless giving the users the explanation about reasonableness concept, the users may also perceive that auditors are more negligent (Ann G Backof, Bowlin, & Goodson, 2018). However, disclosing KAMs may affect auditors' liabilities only in a precise accounting standard (Gimbar et al., 2016).

According to relation between disclosing KAMs and auditor liabilities, we hypothesized that a greater number of KAMs indicates the greater presence of risky areas with material misstatements that result in a greater likelihood of financial restatements being made. We state hypothesis H2 as follows:

H2: *Financial statements with a greater number of KAMs are more likely to be subsequently restated.*

We also explored the impact of the types of KAMs on audit quality. KAMs are informative to investors by affecting investment decision (Christensen et al., 2014). User pay more direct attention to KAMs (Sirois et al., 2014). In addition, KAMs signal subsequent financial restatements. KAMs are similar to explanatory language that is added to audit reports. Czerney, Schmidt, and Thompson (2014) found that explanatory language, especially language that discusses transactions with related parties, mergers, and accounting estimates by management, is a sign pointing to subsequent financial restatements. We also adopted the text-parsing technique used by Czerney et al. (2014) to categorize explanatory language in their study of the association between unqualified audit reports and the risk of financial misstatements. We reviewed a sample of audit reports of listed companies in the first two years of the first implementation of KAMs in Thailand in 2016 to identify KAM types. Following the categorizations used by the International Federation of Accountants (2019) and in two studies of KAMs in Thailand—Chanchai Tangruenrat (2017) and Boonlert-U-Thai et al. (2019)—we categorized key audit matters into 11 types. Our third hypothesis, H3, is as follows:

H3: *The type of KAM is related to the likelihood of a subsequent restatement.*

3.

3. METHODOLOGY, SAMPLE SELECTION, AND DATA COLLECTION

3.1 Methodology

3.1.1 Multivariate model

We developed a logistic regression model of financial restatements based on the studies of Stanley and DeZoort (2007) and Abbott, Parker, and Peters (2004). For testing hypothesis H1, we used the full data sample, which covered the two years before and after the adoption of KAMs, and regressed these data using the following logistic model:

$$Restate_{t+1} = \alpha + \beta_1 KAMsDisclose_t + \beta_2 LogAuditComMeeting_t + \beta_3 PerInstituteShare_t + \beta_4 LogTotalAssets_t + \beta_5 Leverage_t + \beta_6 Big4_t +$$

$$+\beta_7\text{ChangeAudFirm}_{t+1} + \beta_8\text{DiscloseEmphasisOthermatter}_t + \text{IndustryFixedeffect} + \text{YearFixedeffect} + \varepsilon_t, \quad (1)$$

Where

Restate_{t+1} = 1 if the financial statements were subsequently restated in year $t + 1$, else 0

KAMsDisclose_t = 1 if the company's audit report disclosed KAMs in year t , else 0

Control variables:

(1) $\text{LogAuditComMeeting}_t$ = the natural logarithm of the number of audit committee meetings in year t

(2) $\text{PerInstituteShare}_t$ = the percentage of shares held by institutional holders in year t

(3) LogTotalAssets_t = the natural logarithm of total assets in year t

(4) Leverage_t = the total debt divided by lagged total assets in year t

(5) Big4_t = 1 if the company was audited by Big 4 in year t , 0 else

(6) $\text{ChangeAudFirm}_{t+1}$ = 1 if the company subsequently switched an audit firm in year $t+1$, 0 else

(7) $\text{DiscloseEmphasisOthermatter}_t$ = 1 if the auditor disclosed matters of emphasis and/or other matters in year t , 0 else

$\text{IndustryFixedeffect}$ = Dummy variables of industry's fixed effects

YearFixedeffect = Dummy variables of year's fixed effects

To test hypotheses H2 and H3, we developed a logistic model based on the model in Equation 1 but used only a sample covering the two years after the adoption of KAMs. We classified KAMs into 11 types: (1) Propter investment (PVI), (2) Impairment (IMPA), (3) Acquisition (ACQ), (4) Investment valuation (INVES), (5) Inventory valuation (INVEN), (6) Accounts receivable (AR), (7) Provision (PRO), (8) Litigation and regulation (LITI), (9) Revenue recognition (REV), (10) Taxation (TAX), and (11) Other (OTHER). These were presented as $\beta_{2-12}\text{TypeKAM}_t$ in Equation 2. All seven control variables are from the model in Equation 1 and were presented as $\beta_{13-19}\text{Control Variables}_t$ in Equation 2. The logistic model used to test H2 and H3 is as follows:

$$\text{Restate}_{t+1} = \alpha + \beta_1\text{NumberKAMs}_t + \beta_{2-12}\text{TypeKAM}_t + \beta_{13-19}\text{Control Variables}_t + \text{IndustryFixedeffect} + \text{YearFixedeffect} + \varepsilon_t, \quad (2)$$

where

NumberKAMs_t = the number of disclosed KAMs in year t

TypeKAM_t = 1 if the auditor disclosed each type of key audit matter in year t , 0 else

3.1.2 Control variables

Abbott et al. (2004) observed the relation between audit committee characteristics and financial restatements. They found that the number of audit committee meetings is associated with the lower likelihood of a subsequent restatement. We also controlled for the percentage of shares held by institutional shareholders as Menon and Williams (2010) found that institutional shareholders react negatively to going-concern audit reports. We also suspected that institutional shareholders might react negatively to financial restatements because of their suspicion that the previous year's financial statements contained misstatements or errors. The natural logarithm of total assets was used to control for company size as in Ettredge, Fuerherm, and Li (2014). Ettredge et al. (2014) provided evidence of negative coefficients of firm size on financial misstatements.

We controlled for the type of audit firms as Bills, Swanquist, and Whited (2016) indicated that the type is used to describe audit firm characteristics, and Czerney, Schmidt, and Thompson (2017) found that Big 4 audits have a negative impact on financial restatements. We further controlled explanatory language added into an auditor's report, and auditor change. Czerney et al. (2017) found that disclosing other matters (e.g., change accounting period, adjustment, reclassification) and matters of emphasis (e.g., mergers and acquisitions, accounting estimations, transactions with related parties) signal subsequent financial restatements. Haislip, Myers, Scholz, and Seidel (2017) provided evidence that auditor change and dismissal are positively associated with earnings restatements.

3.2 Sample and data collection

Table 1 shows the sample description. Our sample comprised 1,519 firm-year observations from 312 companies. The data covered the period 2014 to 2018, that is, the two years before and two years after the implementation of KAMs in Thailand in 2016. The data were collected from the companies' financial statements, annual reports, and Forms 56-1, which were published on the Thailand Securities and Exchange Commission website or the companies' websites.

Our sample came mainly from the services, property, and construction sectors. There were 197 financial statements that were restated in a later year from 2015 to 2018, of which 46, 52, 53, and 46 were from 2014, 2015, 2016, and 2017, respectively. For 2016, five of the companies began disclosing KAMs in 2017 because their accounting period year-ends were before December 15, 2016.

TABLE 1
Sample description

	Companie s	Observation s
Total number of listed companies on the Main Board (SET) as of March 2019	613	
Less: Financials and fund	(127)	
Non-performing companies	(6)	
Companies with changing accounting periods	(8)	
Companies that started trading after 2016	(21)	
Unavailable sources of data, e.g., annual reports, financial statements, stock prices	(10)	
Plus: Companies that existed in the stock market in 2017 and 2018 but their data remain available	5	
	446	1,784
Less: Insufficient data, e.g., no disclosure of audit fees/number of audit committee meetings in annual reports	(67)	(198)
Restatement because of early adoptions of accounting policies and adoptions of new/revised accounting policies	(67)	(67)
	312	1,519

4. EMPIRICAL RESULTS

4.1 Disclosures of KAMs and subsequent restatements

4.1.1 Descriptive statistics

We explored the characteristics of the restated firms and non-restated firms. Table 2 reports the different characteristics of the full sample. Financial statements that were restated in a later year, excluding the restatements arising from early adoptions of accounting policies and adoptions of new/revised accounting policies, represent 13 percent of all observations. According to the results of the two-sample Wilcoxon rank-sum (Mann-Whitney), in comparison to non-restated firms, restated firms are larger. They also are more likely to be audited by a non-Big 4 firm, have a greater percentage of institutional shareholders, have less frequent audit committee meetings, and are less likely to exhibit lower leverage. Compared to non-restated firms, restated firms are more likely to change their auditors and to receive audit reports with matters of emphasis/other matters.

TABLE 2
Descriptive Statistics of Full Sample (n=1,519)

	Non-restated firms				Restated firms				Wilcoxon
	(n=1,322 or 87%)				(n=197 or 13%)				rank-sum test
Variable	Mean	Std. Dev.	Min	Max	Mean	Std. Dev.	Min	Max	
KAMsDisclose	0.52	0.50	0.00	1.00	0.48	0.50	0.00	1.00	0.301
AuditComMeeting	5.90	2.92	3.00	24.00	6.64	3.58	2.00	24.00	0.001 ***
PerInstituteShare	33.55	29.40	0.00	99.66	24.25	23.35	0.00	97.41	0.015 **
TotalAssets (billion Thai Baht)	26.30	122.00	0.09	2230.00	23.90	63.20	0.08	470.00	0.010 **
Leverage	0.46	0.33	0.00	6.49	0.66	0.65	0.00	5.32	0.000 ***
ChangeAudFirm	0.06	0.24	0.00	1.00	0.18	0.38	0.00	1.00	0.000 ***
Big4	0.64	0.48	0.00	1.00	0.45	0.50	0.00	1.00	0.000 ***
DiscloseEmphasisOthermatter	0.28	0.45	0.00	1.00	0.50	0.50	0.00	1.00	0.000 ***

***, **, and * represent $p < 0.01$, $p < 0.05$ and $p < 0.1$, respectively, two -tailed.

4.1.2 Correlations matrix

Table 3 reports the Spearman's rank correlation between each pair of variables. Subsequent restatements (Restate) were not correlated with the disclosure of KAMs. Most of correlations between each pair of variables were small. The three largest correlations were between Leverage and LogTotalAssets (coefficient=0.39, $P<0.000$), Big4 and PerInstituteShare (coefficient=0.36, $P<0.000$), and Big4 and LogTotalAssets (coefficient=0.33, $P<0.000$). In addition, the test on VIFs for Model 1 showed that the largest VIF is 1.44, which is below the 10.00 threshold established by Stanley and DeZoort (2007). Therefore, controlling these variables for regressing Model 1 did not lead to the multicollinearity problem.

TABLE 3
Spearman's Rank Correlation (n=1,519)

	VIF	(1)		(2)	(3)		(4)		(5)		(6)		(7)		(8)		(9)
(1) Restate		1.00															
(2) KAMsDisclose	1.04	-0.03		1.00													
(3) AuditComMeeting	1.14	0.09	***	0.01	1.00												
(4) PerInstituteShare	1.24	-0.06	**	0.00	0.17	***	1.00										
(5) LogTotalAssets	1.42	0.07	**	0.03	0.30	***	0.31	***	1.00								
(6) Leverage	1.13	0.13	***	0.00	0.18	***	-0.07	**	0.39	***	1.00						
(7) Big4	1.24	-0.13	***	0.04	0.12	***	0.36	***	0.33	***	0.10	***	1.00				
(8) ChangeAudFirm	1.03	0.15	***	-0.04	0.04		-0.06	**	-0.03		0.07	***	-0.09	***	1.00		
(9) DiscloseEmphasisOthermatter	1.06	0.16	***	-0.05	*	0.06	**	-0.04	0.05		0.14	***	-0.16	***	0.07	**	1.00

***, **, and * represent $p < 0.01$, $p < 0.05$ and $p < 0.1$, respectively, two-tailed.

4.1.3 Logistic regression

Table 4 provides the results of the regressions that tested hypothesis H1. The coefficient of KAMsDisclose was negatively significant only when using cross-sectional data. We therefore accepted hypothesis H1, which states that audited financial statements are less likely to be subsequently restated after the adoption of the KAMs disclosure requirement.

TABLE 4
Logistic Regression of Subsequent Financial Restatements on the Disclosure of KAMs and Control Variables

Variable	Hypothesis	Cross-sectional data		
	(Sign)	Coef.	Restate	P-Value
(1) KAMsDisclose	H1: -	-1.166 *		0.061
(2) LogAuditComMeeting	-	0.486 **		0.020
(3) PerInstituteShare	-	-0.662 *		0.055
(4) LogTotalAssets	-	0.150 **		0.020
(5) Leverage	+	0.685 ***		0.000
(6) Big4	-	-0.869 ***		0.000
(7) ChangeAuditFirm	+	0.934 ***		0.000
(8) DiscloseEmphasisOthermatter	+	0.644 ***		0.000
Constant		-5.739 ***		0.000
IndustryFixedeffect		Include		
YearFixedeffect		Include		
N		1,519		
Restatement N		197		
Likelihood ratio		132.71 ***		
Log likelihood		- 519.67		
Pearson chi2		1484.80		
ROC		0.74		
Pseudo R-sqr.		0.11		

P-values are one-tailed for predicted sign except when the estimated coefficient has a sign opposite to expectation. All other p-values are two-tailed.

4.2 Numbers and types of KAMs and subsequent restatements

4.2.1 Descriptive statistics

4.2.1.1 Numbers and types of KAMs

Table 5 presents the average and median numbers of reported KAMs by industry. The overall average number of KAMs was 2.19 (median=2) in 2016 and 2.03 (median=2) in 2017. The difference in mean and median between these two years was insignificant. This is evidence that overall there was no deviation between the numbers of reported KAMs in 2016 and those in 2017. However, the numbers of reported KAMs were likely to vary according to industry. The number of reported KAMs of companies in the resource and construction industries was greater than

those in other sectors, while that of companies in the agro and food and service industries was less than those in other sectors.

Table 6 reports the descriptive statistics of our ‘types of KAM’ variable by industry. KAMs related to revenue recognition (REV) were the most common in every industry. KAMs related to valuation of inventory (INVEN) were the most common in every industry, except for services and construction. Meanwhile, KAMs related to valuation of investments (INVES) were the most common in every industry except resources and construction. KAMs related to impairment (IMPA) were the most common in every industry except consumer products. KAMs related to property investment and valuation (PVI) were common only in construction.

In sum, it is likely that the numbers and types of reported KAMs were likely to be influenced by the industry sector in which the companies operate.

TABLE 5
Mean and Median Numbers of Reported KAMs

	2016		2017	
	Mean^a	Median^b	Mean^a	Median^b
Overall	2.19	2.00	2.03	2.00
Agro and Food	1.97**	2.00	2.02	2.00
Resource	2.41*	2.00**	2.47***	3.00**
Technology	1.94	2.00	1.91	2.00
Services	2.08	2.00	2.11	2.00
Industrials	1.69***	2.00**	1.73***	2.00**
Consumer products	2.00	2.00	1.92	2.00
Construction	2.11	2.00	2.19*	2.00

^a One-sample t-test of the difference between the mean number of reported KAMs of each industry and the overall median and ***, **, and * represent $p < 0.01$, $p < 0.05$ and $p < 0.1$, respectively, one-tailed.

^b Wilcoxon signed-rank test of the difference between the median number of reported KAMs of each industry and ne-sample t-test of the difference between the mean number of reported KAMs of each industry and the overall median and ***, **, and * represent $p < 0.01$, $p < 0.05$ and $p < 0.1$, respectively, two-tailed.

TABLE 6
Types of Reported KAMs by Industry

	Agro and Food (n=87)		Resource (n=64)		Technology (n=70)		Services (n=179)		Industrials (n=142)		Consumer Products (n=66)		Construction (n=168)		Total (n=776)	
(1) PVI	2	1%	3	2%	2	1%	16	4%	4	2%	1	1%	68	18%	96	6%
(2) IMPA	43	23%	29	18%	43	30%	93	23%	34	13%	9	7%	65	16%	325	18%
(3) ACQ	12	6%	4	2%	12	8%	21	5%	9	3%	1	1%	14	4%	73	4%
(4) INVES	19	10%	10	6%	23	16%	40	10%	26	10%	19	14%	32	8%	169	10%
(5) INVEN	36	19%	29	18%	15	10%	26	6%	84	32%	40	30%	35	9%	265	16%
(6) AR	14	7%	18	11%	3	2%	34	8%	16	6%	11	8%	16	4%	112	7%
(7) PRO	4	2%	1	1%	7	5%	10	2%	4	2%	3	2%	0	0%	29	2%
(8) LITI	1	1%	9	6%	4	3%	3	1%	2	1%	0	0%	12	3%	31	2%
(9) REV	40	21%	50	31%	19	13%	120	29%	58	22%	31	23%	102	26%	420	25%
(10) TAX	14	7%	5	3%	8	5%	18	4%	12	5%	3	2%	11	3%	71	4%
(11) OTHER	6	3%	3	2%	11	7%	28	7%	14	5%	14	11%	33	9%	109	6%
Total number of KAMs	191	100%	161	100%	147	100%	409	100%	263	100%	132	100%	388	100%	1691	100%

PVI = Propter investment, IMPA= Impairment, ACQ=Acquisition, INVES = Investment valuation, INVEN = Inventory valuation, AR = Accounts receivable, PRO = Provision, LITI = Litigation and regulation, REV = Revenue recognition, TAX = Taxation, and OTHER = Other.

4.2.1.2 Characteristics of restated and non-restated firms

Table 7 reports the different characteristics of the 2016 and 2017 sample, the two years after the implementation of the KAMs disclosure requirement. Financial statements that were subsequently restated in a later year represented 13 percent of all observations. The two-sample Wilcoxon rank-sum (Mann-Whitney) test provided evidence that, compared to non-restated firms, restated firms had greater leverage and were more likely to have a greater number of disclosed KAMs, their auditors were more likely to disclose KAMs related to acquisition and valuation of investment, and they were more likely to change their audit firms and receive audit reports with emphasis of matters/other matters. Table 7 provides initial evidence that a greater number of KAMs, KAMs related to acquisition, and KAMs related to valuation of investment might also signal the greater likelihood of financial restatements being made in a later year.

TABLE 7
Descriptive Statistics of the Sample after the Implementation of KAMs (2016 and 2017)
(n=776)

Variable	Non-restated firms (n=682 or 87%)				Restated firms (n=94 or 13%)				Wilcoxon rank-sum test
	Mean	Std. Dev.	Min	Max	Mean	Std. Dev.	Min	Max	
NumberKAMs	1.99	0.91	0.00	6.00	2.28	0.98	0.00	5.00	0.006 **
Type of KAM:									
PVI	0.12	0.33	0.00	1.00	0.10	0.30	0.00	1.00	0.489
IMPA	0.34	0.47	0.00	1.00	0.38	0.49	0.00	1.00	0.397
ACQ	0.07	0.26	0.00	1.00	0.23	0.43	0.00	1.00	0.000 ***
INVES	0.20	0.40	0.00	1.00	0.29	0.45	0.00	1.00	0.050 *
INVEN	0.34	0.47	0.00	1.00	0.34	0.48	0.00	1.00	0.951
AR	0.13	0.34	0.00	1.00	0.17	0.38	0.00	1.00	0.332
PRO	0.03	0.18	0.00	1.00	0.06	0.25	0.00	1.00	0.124
LITI	0.04	0.18	0.00	1.00	0.07	0.26	0.00	1.00	0.068
REV	0.52	0.50	0.00	1.00	0.47	0.50	0.00	1.00	0.354
TAX	0.10	0.30	0.00	1.00	0.05	0.23	0.00	1.00	0.169
OTHER	0.13	0.34	0.00	1.00	0.13	0.34	0.00	1.00	0.847
Control Variable:									
AuditComMeeting	5.93	2.91	4.00	24.00	6.50	3.48	4.00	21.00	0.115
PerInstituteShare	32.90	29.12	0.00	99.66	31.50	27.02	0.00	85.29	0.574
TotalAssets (billion Thai Baht)	30.00	137.00	0.09	2,200.00	35.70	77.30	0.09	470.00	0.050
Leverage	0.46	0.27	0.00	2.60	0.58	0.50	0.00	4.25	0.011 *
Big4	0.66	0.47	0.00	1.00	0.47	0.50	0.00	1.00	0.301
ChangeAudFirm	0.05	0.23	0.00	1.00	0.12	0.32	0.00	1.00	0.018 **
DiscloseEmphasisOthermatter	0.25	0.43	0.00	1.00	0.57	0.50	0.00	1.00	0.000 ***

Wilcoxon rank-sum test is nonparametric alternative to the two-sample t-test ***, **, and * represent p<0.01, p<0.05 and p<0.1, respectively, two -tailed.

4.2.2 Logistic regression

Table 8 provides the results of the regressions that tested hypotheses H2 and H3. The coefficient of the number of KAMs (NumberKAMs) was insignificant. Hypothesis H2, which states that financial statements with a greater number of KAMs are more likely to be subsequently restated, was then rejected. Hypothesis H3 was accepted only in the case of ACQ. The coefficient of KAMs related to acquisition (ACQ) was positively significant (1.030, $P=0.013$). This indicated that KAMs related to acquisition were the only type of KAMs that signalled the greater likelihood of financial restatements being made in a later year.

TABLE 8
Logistic Regression of Subsequent Financial Restatements on Number and Type
of KAMs and Control Variables

Variable	Hypothesis (Sign)	Restate	
		Coef.	P-Value
(1) NumberKAMs	H2:+	0.105	0.681
(2) PVI	H3:+	-0.400	0.396
(3) IMPA	H3:+	-0.369	0.283
(4) ACQ	H3:+	1.030 **	0.013
(5) INVES	H3:+	0.496	0.151
(6) INVEN	H3:+	0.143	0.682
(7) AR	H3:+	0.108	0.800
(8) PRO	H3:+	0.155	0.804
(9) LITI	H3:+	0.310	0.562
(10) REV	H3:+	0.049	0.898
(11) TAX	H3:+	-0.877	0.121
(12) OTHER	H3:+	-0.074	0.860
(13) LogAuditComMeeting	-	0.167	0.623
(14) PerInstituteShare	-	0.093	0.857
(15) LogTotalAssets	-	0.117	0.219
(16) Leverage	+	0.459	0.222
(17) Big4	-	-1.062 ***	0.001
(18) ChangeAuditFirm	+	0.877 **	0.035
(19) DiscloseEmphasisOthermatter	+	1.062 ***	0.000
Constant		-5.134 **	0.010
IndustryFixedeffect		Include	
YearFixedeffect		Include	
N		776	
Restatement N		94	
Likelihood ratio		88.27 ***	
Pearson chi2		729.10	
ROC		0.78	
Pseudo R-sqr.		0.15	

P-values are one-tailed for predicted sign except when estimated coefficient has a sign opposite to expectation. All other p-values are two-tailed.

5. CONCLUSIONS AND SUGGESTIONS

Our results provide evidence that the numbers and types of reported KAMs are likely to be influenced by the industry sector in which the companies operate. The numbers of reported KAMs are around 2 and there is no deviation between types of reported KAMs in 2016 and 2017. For the first two years of the KAMs adoption, there was a pervasive disclosing of KAMs related to revenue recognition, impairment, inventory valuation, and investment valuation. This created scepticism regarding whether the information in KAMs is too generic and whether KAMs would be treated as boilerplate by audit firms and used many times over. This practice would make KAMs less informative over time, which was not the standard setters' expectation. The standard setters should therefore provide a clear guideline that helps prevent KAMs from becoming boilerplate text. Auditors should also keep in mind that adding KAMs to audit reports is done to highlight 'engagement-specific information to intended users' (International Auditing and Assurance Standards Board, 2015b, para A31). The auditors writing KAMs should therefore vary them according to each audit engagement even if done for the same industry. This would make the KAMs 'specific to the audit' (International Auditing and Assurance Standards Board, 2015b, para. A28) and make the presence of KAMs valuable to users (International Auditing and Assurance Standards Board, 2015b, para A31).

By employing logistic regressions, we found that the requirement for disclosing KAMs improved audit quality. It led an audit report to be being more informative, especially regarding KAMs related to acquisition, a type of KAMs that signals the greater likelihood of financial restatements being made in a later year. Our finding contradicts those of Wei et al. (2017), Almulla and Bradbury (2018), Bédard et al. (2018b), and Gutierrez et al. (2018a) because of the different measure of audit quality used. Our finding is consistent, however, with that of Reid et al. (2017).

Acquisitions are complex because of related regulations and agreements. In addition, the company managements are required to exercise their judgment and make estimates in appraising the fair value of the identifiable assets and the liabilities acquired and in determining the acquisition price and the useful lives of intangible assets. These determinations will affect the valuation of goodwill and intangible assets in subsequent years. We therefore suggest that the users of financial statements should pay close attention to the KAMs in the auditor's report, reading them thoroughly. When using financial statements for decision-making, they should be more careful in instances where the auditors have disclosed KAMs related to acquisition.

The limitation of our study was that we observed a two-year window of financial restatements after the KAMs' implementation. Therefore, the impact of disclosing KAMs on financial restatements may not be clear. Our findings here should be considered and interpreted with care. Future studies should explore how markets react to different types of KAMs by using archival data and doing experimental research. Future studies should also explore which factors impact auditors' disclosure of KAMs.

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APPENDIX 6: MANUSCRIPT2

This manuscript was submitted to the SEC Capital Market Symposium 2019.



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A Comprehensive Study of the New Audit Report with Key Audit Matters: What have We Learnt from Our First Implementation?

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Abstract:

This paper provides comprehensive evidence on the impacts of the first implementation of the new audit report with key audit matters (KAMs) in Thailand in 2016. Evidence was derived from the analyses of survey questionnaires and archival data. It was found that users pay little attention to the audit reports and have little understanding of audit functions, which has resulted in a continuous presence of a reasonableness gap. Although standard setters and regulators in Thailand have succeeded in narrowing the deficiency standard gap and the deficiency performance gap, further large steps remain to close the deficient standards gap. Weak evidence was also found that the new audit report improves audit quality with an increase in audit fees and audit delays; however, no impact of KAMs on the market reaction was found.

Keywords: Key audit matters, Audit quality, Audit fees, Audit delays, Market reaction, Expectation gap

ACKNOWLEDGEMENTS

We are grateful for research funding from the Higher Education Commission and the Thailand Research Fund; however, the views expressed in this paper and its research content are those of the authors alone.

1. Introduction

An audit report is the most important output of an audit. It is used to communicate the results of the audit to users of financial statements. To make it more effective in communication, the audit report is standardized by containing an explanation of what is audited, an explanation of management's and an auditor's responsibilities and an auditor's opinion of whether the audited financial statements provide a true and fair view of a company's financial position and performance.

Providing readers with the explanation of an audit in an audit report provides a clearer understanding of the audit; however, it also creates an expectation gap. The expectation gap occurs when the readers' expectations of the audit deviate from the auditors' perceptions of their responsibilities and performance. The deviations can include the difference between readers' and auditors' views on the level of assurance provided by the audit (Bédard et al., 2012) and the difference between readers' and auditors' perceptions of auditors' responsibilities (McEnroe & Martens, 2001).

This expectation gap has been magnified due to mass media reports on accounting scandals and irregularities. The exemplar of this magnification is indicated by public's question: 'Why doesn't an audit report give out any signal of fraud'? This is a consequence of detected and reported high profile fraud. This question is posed even when the audit report is worded that the auditor's primary responsibility is not to detect fraud but to consider assessing the risks of a material misstatement of the financial statements due to fraud. This places the communicative and informative value of the audit report into question (Church et al., 2008; Hermanson, 2000).

In addition, standardized language and form is perceived to make the audit report less communicative and informative. An audit report is valuable in itself but less communicative (Church et al., 2008). Its standardized language leads the users of the financial statements to pay less attention to the audit reports because they know what the audit reports mean without reading the reports thoroughly (Turner et al., 2010); however, the audit report is perceived to be meaningful but insufficient for auditors' and users' demands as the auditors demand to provide more information, whilst the users also demand to receive more information (EY, 2014). As a consequence of previous accounting scandals and irregularities around the world, sceptics argue that the standardized audit report is less informative and even unreliable because all audit reports are similar unless signed by an auditor (Peterson, 2015).

In response to sceptics regarding the communicative and informative value of the standardized audit report and the increasing demand of the auditors and the users, there have been many attempts to improve the standardized audit report, particularly attempts made by the International Auditing and Assurance Standards Board (IAASB). In January 2015, IAASB announced six revised-International Standards Auditing (ISA) with the aim of improving audit reports (Deloitte Touche Tohmatsu Limited, 2015b). ISA701 'Communicating Key Audit Matters in the Independent Auditor's Report', one of the six revised standards, led the previous pass/fail audit report, which had been used since 15 December 2009, to be replaced by the new report beginning on 15 December 2016. ISA702 requires an auditor to disclose matters deemed to be the most significant in the current audit in the new audit report. This new audit report is expected to improve its communicative and informative value. Arnold Schilder, Chairman of IAASB, gave his opinion that 'this innovation in auditor reporting is radical, a step-change as some have called it. It makes the

auditor's work more transparent and relevant to users. It stimulates public debate and analysis on what auditor's reports are most helpful' (PwC, 2015). In line with other countries, Thailand has adopted ISA701 for an audit of financial statements with the year-ending on or after 15 December 2016, but this only applied to listed companies.

This paper provides comprehensive evidence on stakeholders of audit's perceptions of key audit matters (KAM), the audit expectation-performance gap and the impacts of the new audit report with KAM after the adoption in Thailand. Evidence was derived from survey questionnaires and archival data. The links in this evidence are shown in Figure 1.

This paper provides comprehensive evidence on the impacts of the implementation of the new audit report with KAMs in Thailand in 2016. Evidence was derived from the analyses of survey questionnaires and archival data. It was found that users pay little attention to the audit reports and have little understanding of the audit function, which results in the continuous presence of reasonableness gaps. Standard setters and regulators in Thailand have succeeded in narrowing the deficiency standard gaps and the deficiency performance gaps since 2010; however, in 2018, there were still further large steps required to close the deficient standard gaps to move forward. The continuous presence of deficiency performance gaps and the continuous debate over auditors' responsibility to detect fraud also remain. Interestingly, a new deficiency performance gap exists. This paper reports weak evidence that the new audit report drives the improvement of audit quality with an increase in audit fees and audit delays and with unintended consequences. Users were confused about KAMs and felt that KAMs provide insufficiently informative and redundant information. Thus, it did not impact the market reaction.

The remainder of this paper proceeds as follows. Section 2 presents related literature. Section 3 explains the sample selection and data collection. Section 4 reports the results, and Section 5 concludes.

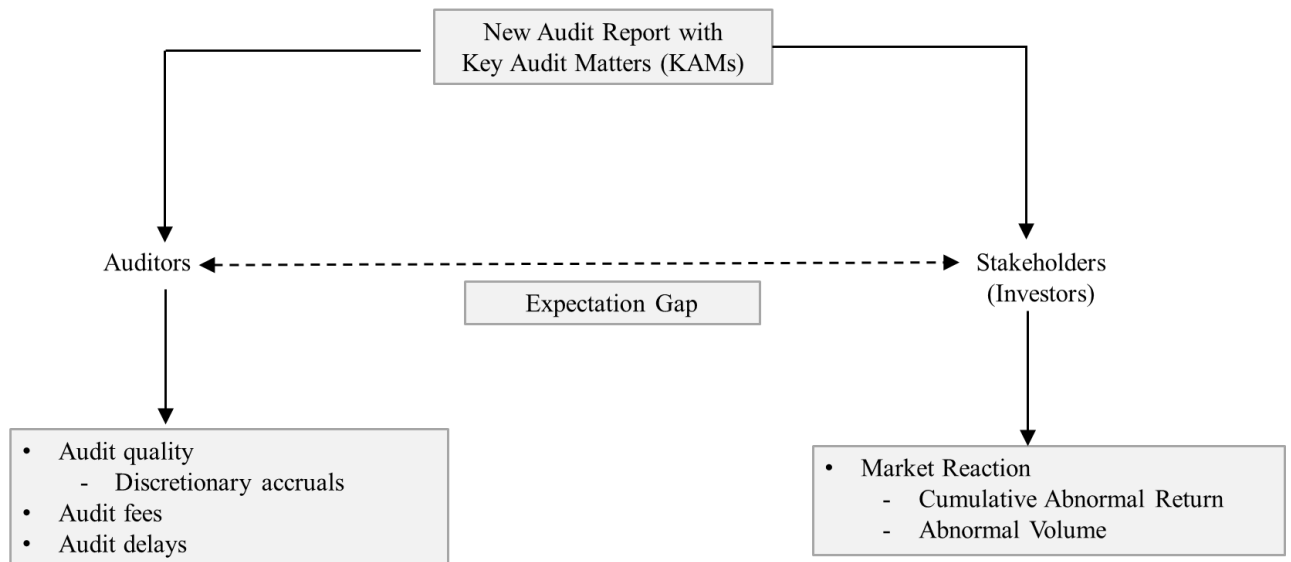


Figure 1 Conceptual Framework

2. Literature Review

2.1 Demand for Auditing

Business growth has led companies to heavily lean on external financial resources and to segregate the role of management from owners (Porter et al., 2010). Managers are thus required to report financial information to owners and external users; however, information risk causes reported financial information to be less reliable (Arens et al., 2017, 30). Thus, reported financial information must be audited to ensure the reliability of the information (Porter et al., 2010). This in turn leads to the demand for audits. An audit is a systematic process performed by an independent, competent party with the aim to gather and evaluate evidence and report on the degree of correspondence between the financial information and an applicable financial reporting framework.

There are four important reasons behind the need for audits of reported financial information, which Arens et al. (2017, 30) referred to as an ‘information risk’. First, conflict of interests between preparers and financial information users may occur when managers have motivations to put bias into the reporting to make the report more favourable rather than providing a fair presentation as demanded by users. Second, users suffer from consequences of error from using unreliable reported financial information in decision making. Third, users are unable to verify reported financial information on their own due to legal restriction, remoteness, time and budget limitations. Fourth, the enormous volume of transactions, new transactions, the complexity of accounting systems and the complexity of accounting standards causes users to be unable to assess the quality of reported financial information on their own.

The term ‘auditing’ can be defined in many aspects, mainly by standard setters and academics. Regarding the overall objectives of an audit given by the standard setters, auditing refers to the task conducted by a qualified person with the objectives ‘to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework’ and ‘to report on the financial statements, and communicate as required by the international standards on auditing, in accordance with the auditor’s findings’ (IAASB, 2009, 74). In addition to professional bodies, academics such as Porter et al. (2010, 3) stated that ‘auditing is a systematic process of objectively gathering and evaluating evidence relating to assertions about economic actions and events in which the individual or organization making the assertions has been engaged, to ascertain the degree of correspondence between those assertions and established criteria, and communicating the results to users of the reports in which the assertions are made’, while Arens et al. (2017, 28) asserted that ‘auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be done by a competent, independent person’.

Despite the different but similar definitions of auditing, empirical research has consistently shown the inconsistency between stakeholders’ expectations of auditors and what auditors believe are their duties (e.g. fraud, the reasonableness of financial forecasts in the annual report, the effectiveness of internal control).

2.2 Audit Expectation Gap

The gap between stakeholders’ expectations of the auditing function and auditors’ perceptions of their performance, called the ‘audit expectation gap’, can be explained by Limperg’s theory of rational expectation and Jensen and Meckling’s agency theory (Soltani, 2007, 31). The theory of rational expectation underscores the importance of the role of an auditor in providing financial statement users and society with confidence. An auditor is rationally expected to perform his/her work in such a manner that he/she is not disloyal to the financial statement users’ and society’s confidence and trust; however, this rational expectation may not be greater than the possible work done by an auditor. Thus, an auditor must perform sufficiently at the highest possible level to satisfy financial statement users’ expectations and society’s needs. Eventually, these expectations and needs will change, and thus the auditor must continuously improve his/her auditing methods.

Contrary to the theory of rational expectation, the agency theory provides the simple explanation of what owners (principal) expect from their auditors. According to the agency theory, the owners (principal) hire managers (agency) to run their businesses

on their behalf. To monitor and to reward managers, the owners require the managers to report financial information to them.

Although stakeholders' expectations of the auditing function create the audit expectation gap, auditors' perceptions of their performance also contribute to the gap. Auditors' perceptions of their performance may deviate from stakeholders' expectations of auditor performance, especially when there is a diversity of stakeholder expectations. In general, auditors' perceptions of duties and responsibilities are likely to be described by the auditing standards and the definitions of the term 'auditing' provided by many scholars as previously discussed. The deviation of stakeholder expectations from auditor perceptions inevitably leads to conflicts of expectations (Institute of Chartered Accountants in England and Wales, 2008).

According to Porter (1993), the audit expectation gap consists of three components, as shown in Figure 2. First, the reasonableness gap occurs when society's expectations of auditors are greater than the auditors' reasonable responsibilities. Second, the deficient standards gap occurs when the auditors' responsibilities required by the standards are lower than their reasonable responsibilities. Third, the deficient performance gap occurs when the auditors' actual performances are lower than their responsibilities required by the standards.

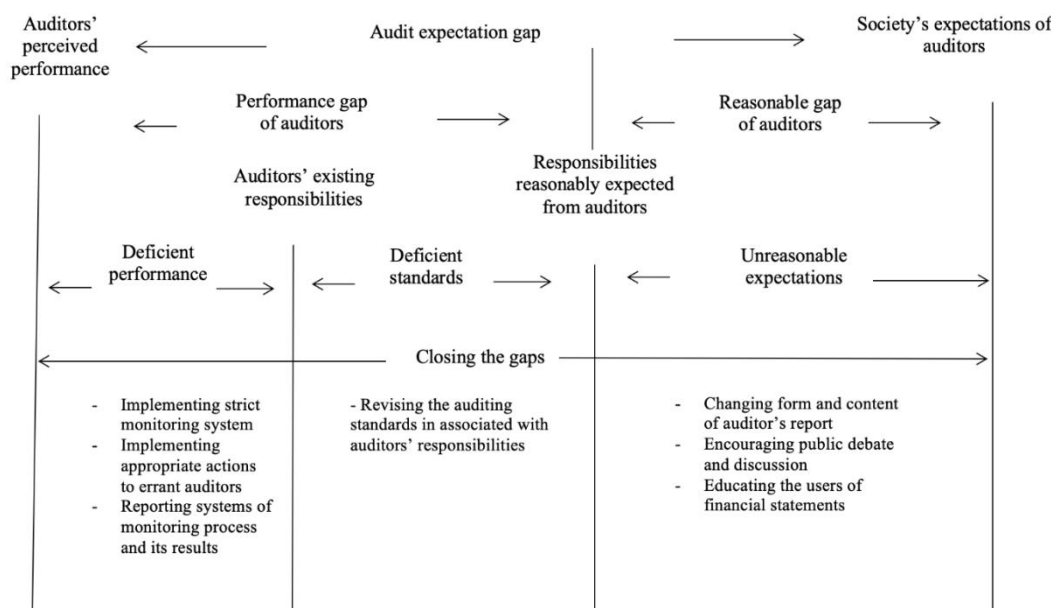


Figure 5 Porter's (1993) composition of audit expectations gap and ways to bridge the gap (Porter et al., 2012a and 2012b)

2.2.1 Research on the Audit Expectation Gap

Several studies have provided evidence on the inconsistencies between stakeholders' expectations and auditors' perceptions. Porter and Gowthorpe (2004) used a

questionnaire survey to examine the audit expectations gap in the United Kingdom (UK) and New Zealand (NZ) in 1999. They found that in the UK, in 1999, the reasonable, deficiency standards and deficiency performance gaps accounted for 50%, 42% and 8%, respectively. In NZ, for the same year, the comparative proportions consisted of 41%, 53% and 6%. For the comparative proportions in NZ in 1989, they constituted 31%, 58% and 11%. They argued that the deficiency performance gap in NZ reduced from 58% in 1989 to 53% in 1999 because the auditors had improved the performance of their responsibilities; however, a lack of knowledge related to auditing led the reasonable gap to be the largest proportion in both the UK and NZ. The auditors were expected to perform some work that was not cost-effective. The users misunderstood that the auditors guaranteed that audited financial statements were completely accurate. They also misunderstood that the company with an unqualified audit report was financially sound.

Porter and Gowthorpe (2004) highlighted that the components of the reasonable gap in 1989 reappeared in 1999. This indicated that there was no progress in educating the stakeholders of auditing about the audit and auditors' reasonable responsibilities. In 1999, the deficiency standards gap was the auditors' responsibilities to report matters of concern, especially fraud and illegal acts, to the related authority, to report the reliability of the disclosure of the management's remuneration policy and the reasonableness of financial forecasts in the annual report, to report the effectiveness of internal control and to report the adequacy of risk management.

Porter and Gowthorpe (2004) also found that the deficient performance gap was the smallest proportion due to the professional bodies effectively monitoring the auditors, the revision of auditing standards related to matters of concern, especially fraud and illegal acts, and the revision of auditing standards that made the auditors' responsibilities clearer and more stringent. They suggested that ways to narrow the audit expectations gap were to strengthen the monitoring of auditors, to improve audit firms' quality controls, to enhance auditing practitioners' education, to set out new auditing standards and to educate society about auditing.

Porter et al. (2012a) and Porter et al. (2012b) re-examined the audit expectations gap of 55 actual and potential responsibilities of auditors in the UK and NZ in 2008. They found that the non-financial community (solicitors, financial journalists and the general public) was the largest group that misunderstood auditors' responsibilities. In comparison with the results of 1999, the gap in the UK was substantially narrowed, while that in NZ was slightly widened. They explained that this was because there were different monitoring functions in these two countries. In the UK, the reasonable, deficiency standards and deficiency performance gaps constituted 52%, 45% and 3%, respectively. In NZ, the comparative proportions consisted of 50%, 43% and 7%. Porter et al. (2012a) and Porter et al. (2012b) pointed out that the UK's performance and reasonable gaps decreased from 1999, while both increased in NZ. They provided the postulation of the contradictory results that for the performance gap, it was

because the UK had stricter monitoring of auditors' performance and annually reported the monitoring process and results to society. For the reasonable gap, it was because society in the UK had a greater awareness of and engaged more in open debate and discussion of financial, economic and business issues.

Both studies also showed that the deficiency standards gap in the UK and NZ were quite identical. The deficiency standards gaps were in the auditors' following responsibilities: 1) to report matters of concern (e.g. embezzlement, illegal acts, financial statement distortions) discovered during the audit to the appropriate authorities and/or to disclose these matters in the audit report; 2) to report the effectiveness of internal control, the adequacy of financial risk assessment, the significant difficulties faced by the auditor and non-managerial employees' theft of high value assets; and 3) to report a company's specific information to the users of financial statements.

They provided four recommendations to bridge the gaps. First, the professional bodies and regulators should ensure that they have implemented strict monitoring systems of auditors' performance, appropriate actions to errant auditors and reporting systems of the monitoring process and its results. Second, the audit report should be improved by making it clearer, simpler, shorter and more understandable. Third, the auditing standards should include auditors' responsibilities to report company specific information and to report matters of the public's concern discovered during the audit to the appropriate authorities. Fourth, the auditing profession should seek opportunities to have public debates and discussions of financial, economic and business matters related to audit issues. This would help the public gain a better understanding of auditing functions and auditors' responsibilities.

2.2.2 Audit expectation gap in Southeast Asia

There is considerable evidence of the audit expectations gap from different accounting and auditing environments around the world, e.g. the UK, Australia, New Zealand, China, Hong Kong, South Africa, Spain, Finland, Saudi Arabia, Egypt, Lebanon (Porter et al., 2012a), the US, India and Bangladesh (Lee et al., 2009). For Southeast Asia, Martinis et al. (2000) and Best et al. (2001) provided evidence from Singapore. Fadzly and Ahmad (2004), Lee et al. (2007) and Lee et al. (2009) reported evidence from Malaysia, and Ongthammakul (2004) and Lee, Ali, Gloeck, Yap, and Boonyanet (2010) provided evidence from Thailand.

Best et al. (2001) conducted a mail survey of 100 auditors, 100 bankers and 100 investors. They found that the expectation gap in Singapore was quite wide, particularly the gap in the auditors' responsibilities for detecting and preventing fraud, for maintaining accounting records and for exercising judgment in selecting audit procedures. The gap was also associated with the auditors' responsibilities to report the effectiveness of internal control, the extent to which financial statements provide a

true and fair view, auditors' agreements with accounting policies used by the audited company and the usefulness of audited financial statements to monitor the entity's performance. From their findings, Best et al. (2001) suggested that to narrow the audit expectations gap, a long-form audit report similar to that of Australia should be adopted in Singapore.

Fadzly and Ahmad (2004) replicated the study of Best et al. (2001) with minor modifications. The survey questionnaires were sent to 300 brokers, 300 auditors, 300 bankers and 300 investors. In addition, Fadzly and Ahmad (2004) conducted an experiment with an additional 100 investors by giving them a brochure that contained an explanation of auditors' responsibilities and audit functions. Fadzly and Ahmad (2004) compared their findings with Best et al. (2001) and found that their findings were almost identical. Fadzly and Ahmad (2004) found that a wide audit expectation gap in Malaysia was pertinent to the auditors' responsibilities for detecting and preventing fraud, for maintaining accounting records and for reporting the effectiveness of internal control. The comparison between the results of the experimental group and the control group led Fadzly and Ahmad (2004) to suggest that reading materials, e.g. a brochure, may help educate users and correct their misunderstandings.

Unlike Best et al. (2001) and Fadzly and Ahmad (2004), Lee et al. (2007) incorporated the concept of Porter (1993) into their study in Malaysia. The survey questionnaire was distributed to 200 auditors, 200 bankers, 200 brokers, 200 investors, 200 members of the general public, 200 directors and 200 accountants. Their results revealed that in Malaysia, the reasonable gap, deficiency standards and deficiency performance gap constituted 19%, 53% and 28%, respectively. They suggested that to bridge the gaps, there should be communication with the public regarding audit functions and its nature, stricter monitoring of auditors, revisions and reviews of auditing standards.

Later on, Lee et al. (2009) provided qualitative evidence by interviewing with eight auditors, five participants from regulatory bodies, four financial controllers, two accountants, four company directors, three fund managers, four individual investors, three auditing professors and two bank officers. They found that the causes of the audit expectations gap in Malaysia were complicated. The complications resulted from the combination of the users' fallacies or ignorance, unreasonable expectation, the auditing function's complexity by nature, deficiency legislations and auditors' deficiency performance, which was caused by 'low balling' and the unreasonableness of audit fees.

For Thailand, which represents an emerging market, Lee, Ali, Gloeck, Yap, and Boonyanet (2010) incorporated the framework of Porter (1993) into their study of the audit expectations gap in Thailand. The survey questionnaire with auditors that included 42 duties (34 questions) was distributed to 200 auditors, 200 bankers, 200

brokers, 200 financial analysts, 200 management staff and 200 accountants. The responses received were 132 (13%). The comparisons across groups of auditees, audit beneficiaries and auditors were performed using the Chi-Square test. Lee, Ali, Gloeck, Yap, and Boonyanet (2010) found that in Thailand, the reasonable, deficiency standards and deficiency performance gaps constituted 46%, 46% and 2%, respectively.

In summary, the audit expectation gap has existed over different periods of time and in different accounting/auditing environments; however, most studies were conducted in developed markets. There is limited evidence from emerging markets, such as the South East Asian region. In addition, the majority of audit expectation gap studies seems to suggest that these gaps can be bridged by improving communication with the public regarding audit functions and its nature through reading materials, such as audit reports. In doing so, the new audit report with KAMs has been implemented since 2016 with the aim to improve the communicative and informative value of the previous audit report; however, there is still a lack of evidence regarding whether including KAMs in the audit report helps bridge gaps. This leads to the following research question:

RQ: Do the audit expectation gaps still exist after the implementation of the new audit report with KAMs?

2.3 Audit Report

An audit is like a black box that other people have not seen and do not know what an auditor actually does. An audit report is then used by an auditor to communicate what he/she did and what he/she found from the audit to financial statement users. Therefore, an auditor is the producer of the message of the audit and his/her opinion on the validity of audited financial statements, which heavily depends on his/her judgment and is unable to provide absolute outcomes. Users, who may have different sources of information and different processes of decision making, are the receivers of the message. To transmit the message to the receiver, the auditor uses the audit report as the transmitter. The transmitted message is not only related to the audit itself but also to the reference to the validity of audited financial statements. When the auditor and the users share the same meaning of the transmitted message, the communication process ends; however, the interpretations of the meaning of the transmitted messages are generally influenced by auditors' or users' behaviours (Hronsky, 1998).

2.3.1 Communicative and informative value of an audit report

The benefits of audit reports hinge on their communicative and informative value. The communication value of audit reports is based on the consistency between what auditors communicate through audit reports to users and what users desire and

understand, while the informative value of audit reports is based on the users' perceptions of the usefulness of the information provided (T.J. Mock et al., 2013).

Previous studies observed the impacts of the audit reports' wording on communicative and informative value. Bailey et al. (1983) observed the change in audit reports' wording in 1980 by conducting an experiment. They found that changes in audit reports' wording creates changes in the perceptions of readers. Mong and Roebuck (2005) also conducted a study on the effect of disclosing information in audit reports on auditors' litigation risk exposure. They found that audit reports with an emphasis paragraph of concerns decreased the auditors' litigation risk exposure, but the explanation of work performed by auditors did not have the same effect.

Chong and Pflugrath (2008) conducted a survey in Australia by adopting the communication theory to test whether an audit report with expanded information helped reduce the audit expectation gap. They found that audit report formats had a weak impact on perceptions of auditors and shareholders and did not reduce the expectation gap. Therefore, the attempts to reform an audit report, to change wording and to add other information seemed to be unsuccessful in closing the expectation gap.

Fakhfakh (2015) used a linguistic framework to assess whether audit reports were readable and easy to interpret. The techniques included word count, word length and number of lines. Comparing French and English versions helped them to observe the impact of the translation as well. The Flesch Reading Ease and Gunning Fog Index was employed to indicate the level of difficulty. They found that an audit report might not be readable for all users.

In sum, findings from previous studies suggest that the communicative and informative value of audit reports remains problematic. Users still misunderstand auditors' work and responsibilities and the level of assurance (Church et al., 2008). Users also demand more information because the business environment changes dynamically (International Auditing and Assurance Standards Board, 2011).

2.4 Revised Audit Report

To address the concerns raised by audit report users, the International Auditing and Assurance Standards Board (IAASB) decided to revise auditing standards related to audit reports. The recent version of audit reports had been improved and developed in 2006 and completed in 2016. Because improving the audit report is a challenging project, IAASB and the American Institute of Certified Public Accountants (AICPA) agreed to jointly support four projects that aimed to improve the quality of audit reports and financial statements (i.e. Porter et al. (2009); T. J. Mock et al. (2009); Gold et al. (2012); Asare and Wright (2012); IAASB (2016). The results of these four

studies led to the changes made in a number of auditing standards. In September 2014, exposure drafts of the International Standards on Auditing (ISAs) 700, 701, 260, 570, 705 and 706 were finally approved (IAASB, 2016).

2.5 Key Audit Matters

IAASB's the new audit report, which has been effective since 15 December 2016, is hoped to improve the communicative and informative value of audit reports. The most significant improvement is that the new audit report requires auditors to disclose 'key audit matters' (KAMs). KAMs are defined in ISA 701 as 'those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. KAMs are selected from matters communicated with those charged with governance' (IAASB, 2015, para.8). Disclosing KAMs may help users gain a better understanding of audited companies' nature of business (KPMG, 2018). In addition, comparing KAMs with those of other companies in the same industries may help audit committees have a better understanding of the companies (Deloitte Touche Tohmatsu Limited, 2015a).

IAASB's KAMs are similar to the Public Company Accounting Oversight Board's (PCAOB) Critical Audit Matters (CAMs), but the latter is defined as the most significant difficulty of the audit (EY, 2014). KAMs and CAMs are also similar to France's Justification of Our Assessments (JOAs) and the UK's Risk of Material Misstatements (RMMs). Selecting KAMs to be disclosed significantly depends on the auditor's judgment. The disclosure should be flexible. As commented to IAASB by the Chartered Finance Analyst Institution (CFA), the way to present KAMs should not be standardized (PCAOB, 2014).

2.6 Evidence of the New Audit Report

Apart from the studies funded by IAASB, other studies also tested whether disclosing KAMs really improved the communicative and informative value of audit reports. Some researchers observed the impacts of France's JOAs and UK's RMMs. Bédard et al. (2012) investigated the costs and benefits of France's mandatory for reporting JOAs since 2003. They found France's mandatory for reporting JOAs had a small impact on marketing reaction, audit quality, audit cost and even audit efficiency. It increased the symbolic value but not the informative value. Reid et al. (2018) conducted an investigation of RMMs in the UK where the new audit report began on 30 September 2013. From their regression analysis, the audit quality was found to be increased with a small increase in costs of the audit. Reid et al. (2018) also tested whether changes in audit reports and audit committee reports were beneficial for investors in the UK. They found that the new report reduced the information asymmetry and provided useful information to investors. There was some evidence that the companies were in favour of auditors who tended to give more information of audits in the audit report.

S. J. Kachelmeier et al. (2014) examined the effect of disclosing and wording CAMs in the audit report on perceived responsibilities of auditors. Testing their hypotheses gave them the results that auditor liability for misstatement and the confidence in financial statements were perceived to be lesser when disclosing CAMs. Sirois et al. (2014) tested whether the presentation of KAMs in the audit report impacted the report's informative value. They found that the readers of the audit reports paid more direct attention to KAMs. Providing too much information in the audit report might lead the reader to read only the most important information and to pay more attention to other disclosed information related to KAMs. A greater number of KAMs indicated the auditor's poor communication. Importantly, providing additional information in the audit report might magnify the audit expectation gap.

Recent studies have provided evidence of the impacts of KAMs after their implementation. Wei et al. (2017) provided evidence from Australia. Their regression of both absolute value and income-increasing discretionary accruals provides evidence that the disclosure of KAMs does not improve audit quality but increases audit costs. Almulla and Bradbury (2018) provided evidence from New Zealand and found that KAMs do not impact audit quality. Srijunpetch (2018), Boonyanet and Promsen (2018) and Boonlert-U-Thai et al. (2019) provided evidence from Thailand. Srijunpetch (2018) found that KAMs have a positive impact on stock trading volume but do not have an impact on stock price; however, Boonyanet and Promsen (2018) found that KAMs slightly improve the informative value of audit reports. KAMs related to allowances for doubtful accounts have a positive relation with stock prices. Boonlert-U-Thai et al. (2019) found that the disclosures of KAMs increased audit fees and audit delays because the auditors are more conservative.

2.7 Hypotheses Development

2.7.1 Audit quality

KAMs may improve audit quality. Bédard et al. (2018a) emphasised that auditors are required to disclose additional information in audit reports, which in turn increases auditors' accountability. The greater accountability drives auditors to obtain more and better audit evidence and to exert more professional scepticism into their audits. Li et al. (2019) highlighted that KAMs increase the transparency of audits, which increases auditor accountability and responsibility. KAMs also help promote the communication between auditors and those charged with governance. Wei et al. (2017) indicated that KAMs improve the interactions between auditors and those charged with governance.

Concurrent evidence from archival studies of the impacts of JOAs, RMMs or KAMs on audit quality in the first year of their implementation remains inconclusive. Bédard et al. (2018a) found that disclosing JOAs does not have a relation with the absolute

value of abnormal accruals⁷, which are a proxy for audit quality. Gutierrez et al. (2018b) found that disclosing RMMs does not impact audit quality as measured by accruals⁸, but Reid et al. (2018) found that disclosing RMMs improves financial reporting quality as measured by absolute abnormal accruals⁹. Almulla and Bradbury (2018) found that in New Zealand, disclosing KAMs does not affect absolute abnormal accruals¹⁰, but Li et al. (2019) reported a contradictory finding that in New Zealand, disclosing KAMs reduced absolute abnormal accruals¹¹. Wei et al. (2017) found that in Australia, disclosing KAMs does not improve audit quality as measured by discretionary accruals¹².

The inconclusiveness of this concurrent evidence leads to the following null hypothesis:

H1: There is no association between KAMs and audit quality.

2.7.2 Audit fee

Disclosing KAMs is believed to increase audit effort and audit risk, thereby increasing audit fees (Almulla & Bradbury, 2018; Bédard et al., 2018a). Auditors increase their audit fees because disclosing additional matters, such as KAMs, in audit reports may cause them to face a higher litigation risk against auditors when misstatements are subsequently revealed (Wei et al., 2017). Similar to JOAs, disclosing KAMs should lead to the increase in senior members' effort because they have more work in considering, documenting, preparing and reviewing the disclosure of KAMs (Bédard et al., 2018a). Disclosing KAMs also requires auditors to spend more time discussing these matters with audited companies (Reid et al., 2018). For the first year, audit firms must spend resources and time preparing their staff for the implementation and training of KAMs (Li et al., 2019; Reid et al., 2018).

Recent archival studies of the impacts of JOAs, RMMs or KAMs on audit fees in the first year of their implementation provide inconclusive findings. Bédard et al. (2018a)

⁷ Abnormal accruals are calculated using Sagar P Kothari et al. (2005) performance-adjusted cross-sectional variation of the Jones model, and accruals are computed using Hribar and Collins (2002) cash flow approach.

⁸ Abnormal accruals are calculated using the Jones model, including ROA. Gutierrez et al. (2018b) used the match pair-sample between listed companies in the UK Financial Times Stock Exchange (FTSE) 100 index and those in the LSE Alternative Investment Market (AIM). RMMs are required only for listed companies in the main board.

⁹ Abnormal accruals are calculated using the modified Jones (1991). Reid et al. (2018) used the match-pair sample between UK listed companies and US listed companies. The US has not yet had the requirement for CAM disclosure.

¹⁰ Abnormal accruals are calculated using the modified Jones (1991).

¹¹ Abnormal accruals are calculated using the modified Jones (1991).

¹² Abnormal accruals are calculated using Sagar P Kothari et al. (2005) performance-adjusted cross-sectional variation of the modified Jones model.

found that disclosing JOAs in the first year did not affect audit fees. Reid et al. (2018) and Gutierrez et al. (2018b) found that disclosing RMMs does not affect audit fees. Li et al. (2019) reported that disclosing KAMs increases audit fees in New Zealand, but Almulla and Bradbury (2018) found that disclosing KAMs does not increase audit fees in New Zealand in the first year of implementation. Wei et al. (2017) reported that in Australia, disclosing KAMs increases audit fees only for non-Big 4 firms. According to these inconclusive studies, the null hypothesis is as follows:

H2: There is no association between KAMs and audit fees.

2.7.3 Audit delay

Disclosing KAMs increases audit work (Bédard et al., 2018a) and requires auditors to spend more time discussing these matters with their audited companies (Reid et al., 2018). Therefore, audit delays are expected to be increased in the first year of its implementation; however, findings of concurrent studies are contradictory to this expectation. Reid et al. (2018) concluded that disclosing RMMs does not affect audit delays. Almulla and Bradbury (2018) found that disclosing KAMs does not affect audit delays. Bédard et al. (2018a) reported that disclosing JOAs does not affect audit delays. The null hypothesis regarding the impacts of disclosing KAMs on audit delays is as follows:

H3: There is no association between KAMs and audit delays.

2.7.4 Market reaction

KAMs are informative to investors because KAMs are expected to alleviate the information asymmetry problem (Almulla & Bradbury, 2018; Bédard et al., 2018a). Auditors' identified significant risks and responses to the risks are disclosed as KAMs (Almulla & Bradbury, 2018). This disclosure of KAMs may affect stock prices or trading volume, which are generally used to gauge the usefulness for market decisions because they impact the quality of financial reporting and the estimation of a company's ex ante cash flows (Gutierrez et al., 2018b). Unless they are difficult to understand, KAMs may affect the market reaction in terms of investment decisions and attention to information provided (Bédard et al., 2018a).

Concurrent studies have provided evidence that disclosing RMMs or JOAs does not affect the market reaction in the first year of implementation. Gutierrez et al. (2018b) found that disclosing RMMs does not impact absolute abnormal returns or abnormal trading volume. Bédard et al. (2018a) found that disclosing JOAs does not impact abnormal returns or abnormal trading volume. Based on these findings, the following null hypothesis is presented:

H4: There is no association between KAMs and market reaction.

3. Methodology

3.1 Survey: Audit Expectation Gaps

The compositions, structure and the extent of the audit expectation gap in Thailand after the implementation of the new audit report in 2016 was investigated using a mail survey. The sample included stakeholders or users of audits with different relationships with the audit functions and auditors. Following Porter et al. (2012a), three broad interest groups were initially identified as follows:

- auditees – the group closely associated with the audit functions;
- audit beneficiaries from the financial community – the group directly benefitting from the audit functions, such as financial statement users; and
- audit beneficiaries from outside the financial community – the group indirectly benefitting from the audit functions.

The subgroups of each broad interest group were identified, and samples of survey participants were randomly selected from their names and positions disclosed on the websites of the Securities Exchange and Commission, listed companies, universities, regulators, government bodies and companies. In September 2018, questionnaires were mailed to 2,230 individuals. Details of the interest groups are shown in Table 3. As shown in the table, the overall response rate was 8%. The low response is a general problem in the study of audit expectation gaps using questionnaire surveys. The study of Porter et al. (2012a) achieved an overall response rate of 14% in the UK in 2008 after they distributed 1,610 questionnaires and an overall response rate of 29% in New Zealand in 2008 after they distributed 1,555 questionnaires. The study in Thailand of Lee, Ali, Gloeck, Yap, Ng, et al. (2010) achieved an overall response of 13% after distributing 1,000 questionnaires.

Although the overall response of this study is lower than those of Porter et al. (2012a) and Lee, Ali, Gloeck, Yap, Ng, et al. (2010), the number of usable responses of the auditees group (independent committee, board of directors, audit committee, CFOs, accounting managers and internal auditors), which is the key stakeholder of audits, is sufficient. The number of usable responses was 111, whilst that of Porter et al. (2012a) was 42 in the UK and 137 in New Zealand and that of Lee, Ali, Gloeck, Yap, Ng, et al. (2010) was eight.

3.2.1 Survey instrument

To answer the research question regarding whether the expectation gaps still exist after the implementation of KAMs, a survey was conducted. The survey questionnaire was developed based on those of Porter et al. (2012a) and Lee, Ali, Gloeck, Yap, Ng, et al. (2010). It contained questions related to 64 actual and potential responsibilities of auditors, 53 of which were identified by Porter et al. (2012a) and 11 by Lee, Ali, Gloeck, Yap, Ng, et al. (2010). These 64 actual and potential responsibilities of

auditors are shown in Table 4. Respondents were asked to give their opinions on each suggested responsibility listed in the questionnaire in respect of three questions (1) *whether the suggested responsibility is an existing responsibility of auditors*, (2) *if so, how well the auditors performed the responsibility* and (3) *whether the suggested responsibility should be the auditors' responsibility*.

Table 24 Groups included in the survey and their response rates

Survey groups	Number of distributed questionnaires	Number of usable responses	Percentage of usable responses (%)
Auditees:			
Independent committee	400	13	3%
Board of directors	400	45	11%
Audit committee	400	27	7%
CFO/Accounting manager	400	19	5%
Internal auditors	400	8	2%
Total	2,000	112	6%
Audit beneficiaries: Financial Community:			
Stockbrokers	30	21	70%
Financial analysts	30	3	10%
Bankers-corporate lenders	30	14	47%
Institutional investors	30	0	0%
Auditing/accounting regulator	10	0	0%
Auditing academics	30	5	17%
Total	160	43	27%
Audit beneficiaries: Non-financial community			
Solicitors	20	1	5%
Financial journalists	20	1	5%
General public	30	21	70%
Total	70	23	33%
Combined totals	2,230	178	8%

3.2.2 Coding and testing the survey results

Following Porter et al. (2012a), for the *questions 1 and 3*, the choices ‘yes’, ‘no’ and ‘not sure’ were given and were later coded +1, -1 and 0, respectively. If the mean of the group’s opinion is positive, this indicates that the group members deemed the suggested responsibility is, or should be, a responsibility of auditors. The converse applies when the mean of the group’s coded opinion is negative. The absolute value of the mean, which ranges from a possible 0 to ± 100 , indicates the degree of the group members’ agreement on the suggested responsibility of auditors. The closer the mean

to ± 100 , the greater the agreement. In addition, the level of the agreement or disagreement was interpreted as follows: +68 to +100 agree strongly, +34 to +67 agree moderately, 0 to +33 agree slightly, 0 to -33 disagree slightly, -34 to -67 agree moderately and -68 to -100 disagree strongly.

For *question 2*, which asked the respondents how well the auditors performed the responsibility, the choices ‘poorly’, ‘adequately’, ‘well’ and ‘unable to judge’ were given and were later coded 1, 2, 3 and 0, respectively. If the mean of the group’s coded opinion on the suggested responsibility is less than 2.0, this indicates that the group members considered that the performance of auditors is not satisfactory. As suggested by Porter et al. (2012a), 1.9 should be used as the point to differentiate between adequate and inadequate performance. The differentiation was later affirmed by the additional test, which helped identify a perceived sub-standard performance of auditors’ responsibilities if 20% or more of the group members selected ‘poorly’.

3.3 Archival data analyses

To test hypothesis H1, discretionary accruals were used as a measurement of audit quality, similarly to previous studies. The regression model is as follows:

$$ABDAC = \alpha + \beta_1 KAMsDisclose + \beta_2 LOGASSETS + \beta_3 LEVERAGE + \beta_4 ROA + \beta_5 LOSS + \beta_6 SALEGROWTH + \beta_7 MB + \beta_8 CFO + YFIXEFF + INDFIXEFF + \varepsilon \quad (1)$$

Where,

<i>ABDAC</i>	= absolute value of discretionary accruals computed by the modified Jones model, including ROA;
<i>KAMsDisclose</i>	= 1 for the audit of financial statements for the year-ending on or after 15 December 2106 when disclosing KAMs is required, 0 otherwise;
<i>LOGASSETS</i>	= natural logarithm of total assets;
<i>LEVERAGE</i>	= total debts divided by total assets;
<i>ROA</i>	= net income divided by total assets;
<i>LOSS</i>	= 1 if the company reported loss, 0 otherwise;
<i>SALEGROWTH</i>	= sale volatility, which is changed to sales divided by total assets;
<i>MB</i>	= ratio of market to book value of equity;
<i>CFO</i>	= cash flow from operations;
<i>YFIXEFF</i>	= dummy variables of year’s fixed effects; and
<i>INDFIXEFF</i>	= dummy variables of industry’s fixed effects.

Following Bédard et al. (2018a) and Gutierrez et al. (2018b), the cross-sectional modified Jones model was used adding the return on assets to estimate discretionary accruals.

In model 1, company *LOGASSETS* was controlled, as Wei et al. (2017) found it has negative relation with the absolute value of abnormal accruals. *LEVERAGE* was controlled, as Bédard et al. (2018a) reported it has a positive relation with the absolute value of abnormal accruals. *ROA*, *LOSS* and *SALEGROWTH* were controlled, as Almulla and Bradbury (2018) and Li et al. (2019) found *ROA* has as negative relation with the absolute value of abnormal accruals, while Gutierrez et al. (2018b). Almulla and Bradbury (2018) reported that *LOSS* has a negative relation with the absolute value of abnormal accruals. Gutierrez et al. (2018b) found that *SALEGROWTH* has a positive relation with the absolute value of abnormal accruals. *MB* was controlled, as Wei et al. (2017) found it has a positive relation with the absolute value of abnormal accruals. *CFO* was controlled, as Gutierrez et al. (2018b) reported it has a positive relation with the absolute value of abnormal accruals.

To test hypothesis H₂, audit fee was used as a measurement of audit cost, similarly to previous studies. The regression model is as follows:

$$LAFEE = \alpha + \beta_1 KAMsDisclose + \beta_2 LOGASSETS + \beta_3 LEVERAGE + \beta_4 ROA + \beta_5 LOSS + \beta_6 SALEGROWTH + \beta_7 CURR + \beta_8 AR + \beta_9 INV + \beta_{10} BIG4 + YFIXEFF + INDFIXEFF + \varepsilon$$

(2)

Where,

<i>LAFEE</i>	= the natural logarithm of audit fee;
<i>KAMsDisclose</i>	= 1 for the audit of financial statements for the year-ending on or after 15 December 2106 when disclosing KAMs is required, 0 otherwise;
<i>LOGASSETS</i>	= natural logarithm of total assets;
<i>LEVERAGE</i>	= total debts divided by total assets;
<i>ROA</i>	= net income divided by total assets;
<i>LOSS</i>	= 1 if the company reported loss, 0 otherwise;
<i>SALEGROWTH</i>	= sale volatility, which is changed to sales divided by total assets;
<i>CURR</i>	= current assets divided by current liabilities;
<i>AR</i>	= accounts receivable divided by total assets;
<i>INV</i>	= inventories divided by total assets;
<i>BIG4</i>	= 1 for the Big 4 firm, 0 otherwise;
<i>YFIXEFF</i>	= dummy variables of year's fixed effects; and
<i>INDFIXEFF</i>	= dummy variables of industry's fixed effects.

In Model 2, company *LOGASSETS* was controlled, as Wei et al. (2017), Gutierrez et al. (2018b) and Almulla and Bradbury (2018) found it has a positive relation with audit fees. *LEVERAGE* was controlled, as Almulla and Bradbury (2018) reported it has a positive relation with audit fees. *ROA*, *LOSS* and *SALEGROWTH* was controlled, as Almulla and Bradbury (2018) and Gutierrez et al. (2018b) found that

ROA has a negative relation with audit fees, whilst they reported *LOSS* has a negative relation with audit fees. Gutierrez et al. (2018b) found that *SALEGROWTH* has a positive relation with audit fees, but Reid et al. (2018) found it has a negative relation with audit fees. *CURR* was controlled, as Wei et al. (2017) found it has a negative relation with audit fees. *AR* was controlled, as Gutierrez et al. (2018b) and Li et al. (2019) reported it has a positive relation with audit fees. *INV* was controlled, as Gutierrez et al. (2018b) found it has a negative relation with audit fees. *BIG4* was controlled, as Gutierrez et al. (2018b) and Wei et al. (2017) found it has a positive relation with audit fees.

To test hypothesis 3, the following model was developed:

$$LADELAY = \alpha + \beta_1 KAMsDisclose + \beta_2 LOGASSETS + \beta_3 LEVERAGE + \beta_4 ROA + \beta_5 LOSS + \beta_6 SALEGROWTH + \beta_7 MB + \beta_8 CFO + \beta_9 BUSY + \beta_{10} BIG4 + \beta_{11} LAFEE + YFIXEFF + INDFIXEFF + \varepsilon \quad (3)$$

	where,
<i>LADELAY</i>	= the natural logarithm of audit delay counting from the date of year-ending for accounting period to the date of auditor report;
<i>KAMsDisclose</i>	= 1 for the audit of financial statements for the year-ending on or after 15 December 2106 when disclosing KAMs is required, 0 otherwise;
<i>LOGASSETS</i>	= natural logarithm of total assets;
<i>LEVERAGE</i>	= total debts divided by total assets;
<i>ROA</i>	= net income divided by total assets;
<i>LOSS</i>	= 1 if the company reported loss, 0 otherwise;
<i>SALEGROWTH</i>	= sale volatility, which is changed to sales divided by total assets;
<i>MB</i>	= ratio of market to book value of equity;
<i>CFO</i>	= cash flow from operations;
<i>BUSY</i>	= 1 if the date of year-ending for accounting period is 31 December, 0 otherwise;
<i>BIG4</i>	= 1 for the Big 4 firm, 0 otherwise;
<i>YFIXEFF</i>	= dummy variables of year's fixed effects; and
<i>INDFIXEFF</i>	= dummy variables of industry's fixed effects.

In model 3, company size *LOGASSETS* were controlled, as Almulla and Bradbury (2018) and Reid et al. (2018) found it has a negative relation with audit delays, but Bédard et al. (2018a) found it has a positive relation with audit delays. Firm *ROA* was controlled, as Almulla and Bradbury (2018) found it has a positive relation with audit delays. *LOSS*, *LEVERAGE*, *SALEGROWTH*, *BUSY* and *LAFEE* were controlled, as Reid et al. (2018) found they have a positive relation with audit delays. *MB* and *CFO* were controlled, as Reid et al. (2018) found they have a negative relation with audit delays. *BIG4* was controlled, as Almulla and Bradbury (2018) found it has a positive

relation with audit delays, but Reid et al. (2018) found it has a negative relation with audit delays.

To test hypothesis 4, the impact of the market reaction on KAMs was observed based on both abnormal returns and abnormal trading volume around the date of financial statement submission to the website of the Thailand Security Exchange and Commission. Model 4 was developed to observe abnormal returns, whilst model 5 was developed to observe abnormal trading volumes. Model 4 is as follows:

$$CAR = \alpha + \beta_1 KAMsDisclose + \beta_2 LMKC + \beta_3 MB + \beta_4 LEVERAGE + \beta_5 CHNI + \beta_6 CAR3 + \beta_7 BIG + YFIXEFF + INDFIXEFF + \varepsilon \quad (4)$$

Where,

<i>CAR</i>	= cumulative abnormal return;
<i>KAMsDisclose</i>	= 1 for the audit of financial statements for the year-ending on or after 15 December 2106 when disclosing KAMs is required, 0 otherwise;
<i>LMKC</i>	= natural logarithm of market capitalization;
<i>MB</i>	= ratio of market to book value of equity;
<i>LEVERAGE</i>	= total debts divided by total assets;
<i>CHNI</i>	= current year's net income less previous year's net income divided by total assets;
<i>CAR3</i>	= the absolute value of the sum of the three-day absolute <i>CAR</i> during the period surrounding the financial statement submitting date;
<i>BIG</i>	= 1 for the Big 4 firm, 0 otherwise;
<i>YFIXEFF</i>	= dummy variables of year's fixed effects; and
<i>INDFIXEFF</i>	= dummy variables of industry's fixed effects.

For model 4, *MB* was controlled, as Bédard et al. (2018a) found it has a positive relation with abnormal returns. *LMKC* and *CHNI* were controlled, as Gutierrez et al. (2018b) reported they have a negative relation with abnormal returns. *LEVERAGE*, *CAR3* and *BIG* were controlled, as Gutierrez et al. (2018b) found they have a positive relation with abnormal returns.

Model 5 was developed to observe abnormal trading volumes as follows:

$$ABTV = \alpha + \beta_1 KAMsDisclose + \beta_2 LMKC + \beta_3 ROA + \beta_4 LOSS + \beta_5 CAR3 + \beta_6 YFIXEFF + \beta_7 INDFIXEFF + \varepsilon, \quad (5)$$

Where,

<i>ABTV</i>	= cumulative abnormal trading volume;
<i>KAMsDisclose</i>	= 1 for the audit of financial statements for the year-ending on or after

	15 December 2106 when disclosing KAMs is required, 0 otherwise;
<i>LMKC</i>	= natural logarithm of market capitalization;
<i>ROA</i>	= net income divided by total assets;
<i>LOSS</i>	= 1 if the company reported loss, 0 otherwise;
<i>CAR3</i>	= the absolute value of the sum of the three-day absolute <i>CAR</i> during the period surrounding the financial statement submitting date;
<i>YFIXEFF</i>	= dummy variables of year's fixed effects; and
<i>INDFIXEFF</i>	= dummy variables of industry's fixed effects.

Following Pevzner et al. (2015), the estimation period is [-120, -21], and the event period is [0, +1].

In model 5, *LMKC*, *ROA* and *CAR3* were controlled, as Gutierrez et al. (2018b) found they have a positive relation with abnormal trading volumes. *LOSS* was controlled, as Gutierrez et al. (2018b) reported it has a negative relation with abnormal trading volumes.

3.3.5 Sample and data collection

A sample of listed companies traded on the Main Board of the Stock Exchange of Thailand (SET) was selected, and data were used covering the two years before and two years after the implementation of KAMs in Thailand in December 2016. First, the list of 580 listed companies traded on the Main Board of SET was considered. Fifty-eight companies from financials sectors, seven companies with rehabilitation and 87 companies with insufficient data for computing necessary variables were deleted. This resulted in 428 listed companies with 1,712 firm-year observations. Twelve firm-year observations with extreme audit delays were deleted due to the SEC's enforcement of financial restatement. Thirteen firm-year observations without data of KAMs were also deleted. Observations with a value of the main variable below the 1st and above the 99th percentile were deleted. Finally, the sample included 399 companies with 1,316 firm-year observations. Data were collected from the companies' financial statements, annual reports and the Form 56-1, which are published on the Thailand Securities and Exchange Commission website or the companies' websites.

4. Results

4.2 Audit Performance Expectation Gaps

4.2.1 Society's expectations of auditors

As illustrated in Table 4, auditors were expected by society to perform 58 of 64 suggested responsibilities. These 58 responsibilities are shown in column 6 and are labelled 'S'. Six suggested responsibilities on the list (2.17a, 2.17b, 2.17c, 2.24a, 2.24b and 2.24c) were not expected by society to be performed by auditors.

Table 4 Contribution of responsibilities to components of the audit expectations performance gap in Thailand in 2018.

No.	Suggested responsibilities of auditors ²	1 ¹	2 ¹	3 ¹	4 ¹	5 ¹	6 ¹
		(%)		(%)		(%)	
2.1	Prepare the client's financial statements	-	-	-	-	41	S
2.2	Guarantee that the company's audited financial statements are completely accurate	-	-	-	-	44	S
2.3	State whether or not the financial statements fairly reflect the company's financial affairs	-	D	-	R	-	S
2.4	Guarantee that a company with a clean audit report is financially sound	-	-	-	-	44	S
2.5a	Report to an appropriate authority doubts about the client's continued existence	-	-	-	-	53	S
2.5b	Disclose in the audit report doubts about the client's continued existence	-	D	-	R	-	S
2.6	Ensure compliance with the disclosure requirements of the Companies Acts	-	D	-	R	-	S
2.7	Report breaches of tax law to Revenue Department	-	-	-	-	48	S
2.8a	Detect theft of a material amount (e.g. > 5per cent of turnover or total assets) of the client's assets by non-managerial employees	-	D	-	R	-	S
2.8b	Detect theft of a material amount (e.g. > 5per cent of turnover or total assets) of the client's assets by directors/senior management	-	D	-	R	-	S
2.9a	Detect minor (but not petty) theft of the client's assets by non-managerial employees	-	-	-	-	46	S
2.9b	Detect minor (but not petty) theft of the client's assets by directors/senior managements	-	-	-	-	61	S
2.10	Detect deliberate distortion of the client's financial statements	-	D	-	R	-	S
2.11a	In the absence of a regulated industry duty, report to an appropriate authority (e.g. Police, SEC) minor (but not petty) theft of the client's assets by non-managerial employees	-	-	-	-	41	S
2.11b	In the absence of a regulated industry duty, report to an appropriate authority (e.g. Police, SEC) theft of a material amount of the client's assets by non-managerial employees	-	-	-	-	63	S
2.11c	In the absence of a regulated industry duty, report to an appropriate authority (e.g. Police, SEC) embezzlement of the client's assets by directors/senior management	-	D	-	R	-	S
2.11d	In absence of regulated industry duty, report to appropriate authority (e.g. Police or SEC) deliberate distortion of client's financial statements	-	D	-	R	-	S
2.12a	Disclose in the audit report minor (but not petty) theft of the client's assets by non-managerial employees	-	-	-	-	47	S
2.12b	Disclose in the audit report theft of a material amount of the client's assets by non-managerial employees	-	D	-	R	-	S

No.	Suggested responsibilities of auditors ²	1 ¹	2 ¹	3 ¹	4 ¹	5 ¹	6 ¹
		(%)		(%)		(%)	
2.12c	Disclose in the audit report embezzlement of the client's assets by directors/ senior management	-	D	-	R	-	S
2.12d	Disclose in the audit report deliberate distortion of the client's financial statements	-	D	-	R	-	S
2.13	In absence of a regulated industry duty, report to an appropriate authority (e.g. police, SEC) suspicions of theft or deliberate distortion of the client's financial statements	-	D	-	R	-	S
2.14a	Detect illegal acts by the client's directors/senior management which directly impact on the client's financial statements (e.g. political payoffs)	-	D	-	R	-	S
2.14 b	Detect illegal acts by the client's directors/senior management which only indirectly impact on the client's financial statements (e.g. breaches of environmental laws and regulations)	-	-	-	-	64	S
2.15a	Disclose in the audit report illegal acts by the client's directors/senior management which directly impact on the client's financial statements	10	D	-	R	-	S
2.15 b	Disclose in the audit report illegal acts by the client's directors/senior management which only indirectly impact on the client's financial statements (e.g. breaches of environmental laws)	-	-	-	-	58	S
2.16	In the absence of a regulated industry duty, report to an appropriate authority (e.g. police, SEC) illegal acts by client's directors/management that illegal acts have been committed by the company's management or directors	-	D	-	R	-	S
2.17a	Examine & report (in audit report) on reliability of information in the client's annual report about its equal employment opportunities policy and record	-	-	-	-	-	-
2.17b	Examine and report (in the audit report) on the reliability of information in the client's annual report about its product safety policy and record	-	-	-	-	-	-
2.17c	Examine and report (in audit report) on reliability of information in client's annual report about its occupational health and safety policy and record	-	-	-	-	-	-
2.17d	Examine and report (in the audit report) on the reliability of information in client's annual report about its directors' remuneration	-	D	-	R	-	S
2.18a	Examine and report (in the audit report) on the effectiveness of the client's internal financial controls	-	-	79	R	-	S
2.18 b	Examine and report (in the audit report) on the effectiveness of the client's operating systems and internal non-financial controls	-	-	-	-	47	S
2.19	Examine and report (in the audit report) on the client's IT systems	-	-	-	-	48	S
2.20	Examine & report (in the audit report) on client's non-financial performance	-	-	-	-	39	S
2.21	Examine and report (in the audit report) on the efficiency and effectiveness of the client's management and administration	-	-	-	-	46	S
2.22	Audit half-yearly published financial statements	-	-	-	-	74	S
2.23	Examine and report (in the audit report) on the reasonableness of financial forecasts included in the client's annual report	-	-	61	R	-	S
2.24a	Consider & report (in audit report) on client's impact on its local community	-	-	-	-	-	-
2.24b	Consider and report (in the audit report) on the client's impact on its environment (other than its carbon footprint)	-	-	-	-	-	-
2.24c	Consider and report (in the audit report) on the client's carbon footprint	-	-	-	-	-	-
2.25a	Examine and report (in the audit report) on the reliability of information in the client's entire annual report	-	-	73	R	-	S

No.	Suggested responsibilities of auditors ²	1 ¹	2 ¹	3 ¹	4 ¹	5 ¹	6 ¹
		(%)		(%)		(%)	
2.25b	Examine and report (in the audit report) on information in the client's annual report which is inconsistent with the financial statements	-	D	-	R	-	S
2.26a	For listed company clients, examine compliance with a specified set of the Stock Exchange's corporate governance requirements and report (in the audit report) on compliance therewith	-	-	61	R	-	S
2.26b	For listed company clients, examine compliance with all of the Stock Exchange's corporate governance requirements and report (in the audit report) instances of non-compliance	-	-	-	-	59	S
2.27a	Examine and report to the client's directors (or audit committee) on the adequacy of the client's procedures for identifying financial risks (e.g. credit, interest rate, foreign exchange and liquidity risks)	-	D	-	R	-	S
2.27b	Examine and report to the client's directors (or audit committee) on the adequacy of procedures for identifying operational risks (e.g. machinery breakdown, entering new markets, materials or labour shortages)	-	-	-	-	51	S
2.28a	Examine and report (in audit report) on adequacy of client's procedures for identifying financial risks (e.g. credit, interest rate, foreign exchange risks)	-	-	52	R	-	S
2.28b	Examine and report (in audit report) on adequacy of procedures for identifying operational risks (e.g. machinery breakdown, labour shortages)	-	-	-	-	39	S
2.29a	Examine and report (in attached audit report) on the reliability of information provided on the Internet by the client in its audited financial statements	-	-	75	R	-	S
2.29b	Examine and report (in attached audit report) on reliability of information (other than in its audited financial statements) posted on Internet by client	-	-	-	-	60	S
2.30a	Report to directors (or audit committee) significant difficulties encountered during the audit (e.g. disagreements with senior managers re financial reporting matters)	-	D	-	R	-	S
2.30b	Report in audit report significant difficulties encountered during the audit (e.g. disagreements with senior managers about financial reporting matters)	-	D	-	R	-	S
2.31	Verify every accounting transaction	-	-	-	-	56	S
2.32	Verify the accounting estimates in the financial statement	-	D	-	R	-	S
2.33	Prevent fraud and errors in the company	-	-	-	-	50	S
2.34	Plan the accounting system and internal control system	-	-	-	-	42	S
2.35	Comply with Code of Ethics for professional accountant	-	D	-	R	-	S
2.36	Maintain confidentiality and safe custody of the audit working papers	-	D	-	R	-	S
2.37	Report in the published auditor's report the future prospects of the company	-	-	-	-	32	S
2.38	Express an opinion on the company's accounts to shareholders in a general meeting	-	D	-	R	-	S
2.39	Report in the published auditor's report on failures of auditors in obtaining all the information and explanation in forming their opinion on the company's accounts	-	D	-	R	-	S
2.40	Report in the published an auditor's report on any deficiencies or failure on the manner proper accounting and other records (including registers) are kept by the company	-	D	-	R	-	S
2.41	Audit published quarterly company's reports	-	-	-	-	69	S
	No. of responsibilities	1	2	6	3	26	5
	Measure of unfulfilled expectation attaching to component	10		401		132	

No.	Suggested responsibilities of auditors ²	1 ¹	2 ¹	3 ¹	4 ¹	5 ¹	6 ¹
		(%)		(%)		(%)	
						2	
	Proportion of expectation-performance gap	1 %		22 %		76%	

¹ 1=Deficient performance gap, 2=Auditors' existing responsibilities, 3=Deficient standards gap, 4=Responsibilities reasonably

expected from auditors, 5=Reasonableness gap and 6 = Society expectations of auditors.

² The percentage of respondents from auditees, financial and non-financial community who agreed that (1) auditors should perform

the responsibility (in cases of reasonableness gaps and deficiency standards gap) or (2) the auditors perform the responsibility

poorly in case of the deficiency performance gap.

³ D is coded for existing responsibilities of auditors indicated in the auditing standards. The responsibilities 2.11c, 2.11d, 2.12b,

2.13, 2.16 and 2.30b are from the implementations of the new auditing standards related to the new audit report with KAMs.

⁴ R is coded for responsibilities that are reasonably expected for auditors to perform.

⁵ S is coded for responsibilities that the respondents indicated should be performed by auditors.

⁶ Responsibilities highlighted in bold are those that contribute to the components of the audit expectation gap.

4.2.2 Responsibilities reasonably expected from auditors

Table 5, column 4 shows that 32 of the 64 suggested responsibilities were reasonably expected to be performed by auditors and are labelled 'R'. Rs are suggested responsibilities that 20% of the combined group of respondents from auditees and those from the financial community signified that auditors should perform. As explained by Porter et al. (2012a), these two groups are close to the audit function but from different views. On one hand, auditees, which are the subject to be audited, are more concerned about the audit costs and are therefore more likely to limit the responsibilities of auditors. On the other hand, the respondents from the financial community are beneficiaries of the audits and are therefore more likely to extend the responsibilities of auditors. Opinions from these two groups are thus useful to consider whether the benefits from the suggested responsibilities of auditors outweigh their costs. The opinions of the respondents from the non-financial community are excluded because they are too remote from the audits.

4.2.3 Reasonableness gap

Table 5, column 5 shows the reasonableness gap, which is a gap between what society expects auditors to achieve and what they can reasonably be expected to accomplish (compared between columns 4 and 6). Twenty-six responsibilities (highlighted in bold) are found to contribute to this reasonableness gap. Twenty-three are readily explainable, and three are less readily explainable (2.15b, 2.5a and 2.7).

4.2.4 Deficient standards gap

Table 5, column 3 illustrates the deficient standards gap, which is a gap between the duties that can reasonably be expected of auditors and auditors' existing duties as defined by auditing standards (compare columns 2 and 4). The results in Table 5, column 4 show that 32 responsibilities are reasonably expected from auditors, while Table 5, column 2 shows that 26 are existing responsibilities. Thus, the remaining six responsibilities (2.18a, 2.23, 2.25a, 2.26a, 2.28a and 2.29a) contribute to the deficient standards gap.

4.2.5 Deficient performance gap

The results shown in Table 5, column 1 indicate that there is only one auditor responsibility that constituted the deficient performance gap. This is the auditors' responsibility to disclose in the audit report illegal acts by the client's directors/senior management that directly impact the client's financial statements (2.15a).

4.2.6 Structure and extent of the audit expectation performance gap

Figure 3 illustrates that the structure of the audit expectation gap consisted of 76% of the reasonableness gap, 23% of the deficient standards gap and 1% of the auditor deficient performance gap. First, for the reasonableness gap, 26 responsibilities contributed to this gap. The first and second greatest contributions were society's unreasonable expectations of auditors to audit half-year published financial statements (2.22) and published quarterly company reports (2.41). Seventy-four per cent and 69% of society expected auditors to perform responsibilities 2.22 and 2.41, respectively. The smallest contribution was society's unreasonable expectation of auditors to report in the published auditor's report the future prospects of the company (2.37), and 32% of society unreasonably expected them to perform this responsibility.

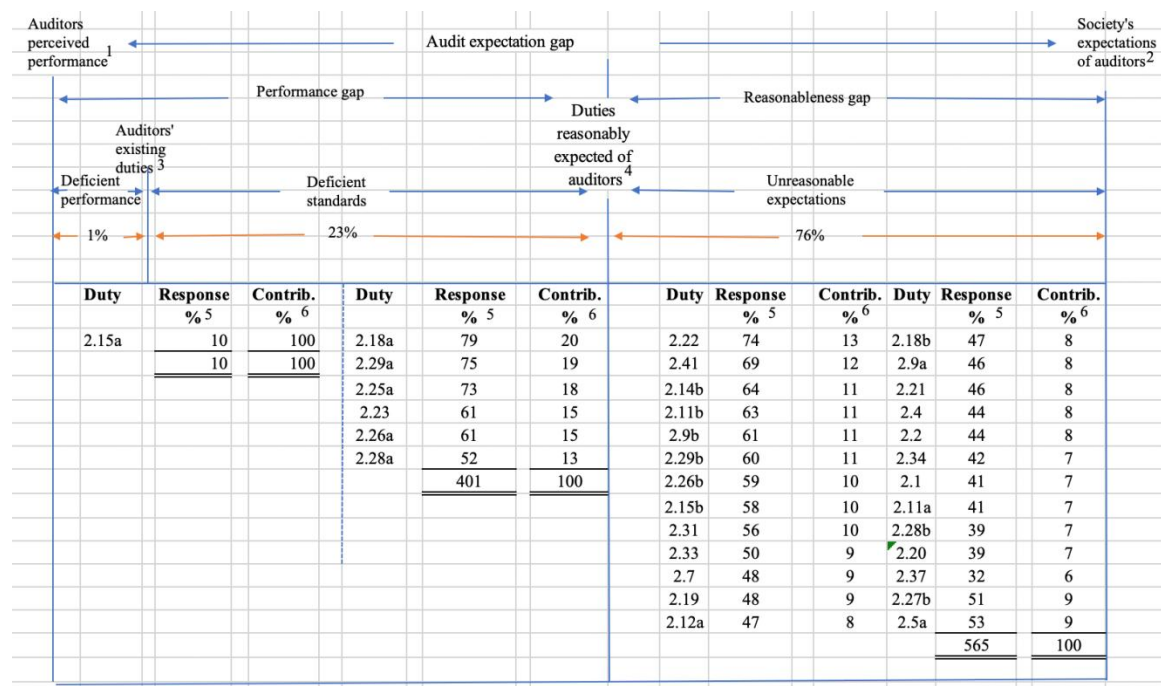


Figure 6 Relative contribution of responsibilities to components and components of the audit expectation performance gap in Thailand in 2018

¹ Society perceived that auditors performed the responsibilities deficiently.

² 20% of respondents expected auditors to perform the responsibilities.

³ The existing responsibilities of auditors are adapted from Porter et al. (2012) and Lee et al. (2010). The responsibilities 2.3, 2.5b, 2.6, 2.8a, 2.8b, 2.10, 2.12c, 2.12d, 2.14a, 2.15a, 2.17d, 2.25b, 2.27a and 2.30a are from Porter et al. (2012), while the responsibilities 2.32, 2.35, 2.36, 2.38, 2.39 and 2.40 are from Lee et al. (2010). The responsibilities 2.11c, 2.11d, 2.12b, 2.13, 2.16 and 2.30b are from the implementations of the new auditing standards related to the new audit report with KAMs.

⁴ The percentage of respondents from auditees, financial and non-financial community who agreed that (1) auditors should perform the responsibilities in cases of the reasonableness gap and the deficiency standards gap or (2) auditors perform the responsibilities poorly in case of the deficiency performance gap.

Second, six suggested responsibilities contributed the deficient standards gap. The first greatest contribution (79%) to this gap was society's reasonable expectation of auditors to examine and to report (in the audit report) the effectiveness of the client's internal financial controls (2.18a). The second and third greatest contributions (75% and 73%, respectively) were society's reasonable expectations of auditors to examine and to report (in attached audit report) the reliability of information provided on the Internet by the client in its audited financial statements (2.29a) and information in the client's entire annual report (2.25a). The smallest contribution (52%) was society's reasonable expectation of auditors to examine and to report (in audit report) the adequacy of client's procedures for identifying financial risks (e.g. credit, interest rate, foreign exchange risks) (2.28).

Third, the deficient performance gap consisted of only one existing responsibility of auditors to disclose in the audit report illegal acts by the client's directors/senior management that directly impact the client's financial statements (2.15a). Eleven per cent of society perceived that auditors' performance of this responsibility was unsatisfactory.

4.2.7 Summary

In comparison with the findings of Lee, Ali, Gloeck, Yap, Ng, et al. (2010), the findings suggest that after the implementation of KAMs, the deficient performance and deficient standards gaps became narrower, while the reasonableness gap became broader. The auditors' existing responsibilities to detect deliberate distortion of the client's financial statements (2.10) and to disclose it in the audit report (2.12d), which contributed to the deficiency performance gap, disappeared in 2018. This may be due to the close monitoring (e.g. audit firm inspection) of auditors' performance by the Security Exchange and Commission and the tremendous effort of the Thailand Federation of Accountants to promote audit quality; however, a new deficiency performance gap was found in 2018, which is the auditors' responsibility to disclose in the audit report illegal acts by the client's directors/senior management that directly impact the client's financial statements (2.15a). This may have resulted from the series of illegal acts by the listed companies' directors/senior management reported by mass media in the past few years. Society has therefore perceived that the auditors' performance was unsatisfactory. To close this gap, standard setters should raise auditors' awareness of detecting and reporting illegal acts committed by companies' management and should also closely monitor the auditors' performance.

The narrower deficiency standards gap may have resulted from the large reforms of the auditor's report and related auditing standards in 2016, especially the requirement of auditors' disclosing KAMs, which refer to the auditors' responsibilities 2.5a, 2.11c, 2.11d, 2.12b, 2.13, 2.16 and 2.30b; however, the remaining gap is associated with society's reasonable expectations of auditors to examine and to report in the audit report the effectiveness of the client's internal financial controls (2.18a), the reliability of information provided on the Internet by the client in its audited financial statements (2.29a) and information in the client's entire annual report (2.25a), the reasonableness of financial forecasts included in the client's annual report (2.23), the compliance with a specified set of the Stock Exchange's corporate governance requirements (2.26a) and the adequacy of client's procedures for identifying financial risks. Performing these responsibilities would make insignificantly increased in deficiency standards gap.

4.3 Archival Data Analyses

4.3.1 Audit quality

4.3.1.1 Descriptive statistics

Model 1 was used to test the impacts of disclosing KAMs on audit quality measured by abnormal accruals. Untabulated results¹³ show that absolute values of abnormal accruals were on average 0.120 (median =0.091). Approximately 51% of the firm-year observations are from the period after the implementation of KAMs. Approximately 19% of the firm-year observations reported losses. The sample had on average total assets approximately Baht 6 billion (Baht 5 billion) and reported good performances as the average ROA was approximately 0.052 (median=0.052).

There was no different characteristic between the firm-year observations for the abnormal accruals model before or after the implementation of KAMs (Untabulated).

4.3.1.4 Regression results

Hypothesis 1 predicts that disclosing KAMs does not impact audit quality after the implementation of KAMs in Thailand. Model 1 was used to address this hypothesis. The results in Table 6 show a weak significant negative effect of *KAMsDisclose* on *ABDAC* (-0.055 P=0.061). Therefore, null hypothesis H1 was rejected. This indicates that disclosing KAMs helps improve audit quality by reducing discretionary accruals by approximately 5.5%.

Table 6 Regression analyses

ABDAC	Pred Sign	Coef.		P-value
(1) KAMsDisclose	-	-0.055	*	0.061
(2) LOGASSETS	-	-0.006	***	0.005
(3) LEVERAGE	+	0.002		0.905
(4) ROA	-	-0.164	***	0.007
(5) LOSS	-	0.020	**	0.039
(6) SALEGROWTH	+	-0.059	***	0.001
(7) MB	+	-0.002		0.210
(8) CFO	+	0.221	***	0.000
Intercept		0.256	***	0.000
YFIXEFF		Yes		
INDFIXEFF		Yes		
Robust variance estimates		Yes		
N. Obs.		1,414		

¹³ To reduce the impacts of outliers, data of all continuous variables were winsorised at the 1th and 99th percentiles. The sample of abnormal accruals included 1,414 firm-year observations.

ABDAC	Pred Sign	Coef.	P-value
Adjusted R2		0.13	
Loglikelihood ratio		215.882	***
AIC*N		-2716.714	
BIC		-92.561	

*, ** and *** indicate significance at the 0.10, 0.05 and 0.01 levels, respectively. P-values are one-tailed for predicted sign except when the estimated coefficient has a sign opposite to expectation. All other p-values are two-tailed.

4.3.2 Audit fees

4.3.2.1 Descriptive statistics

Model 2 was adopted to test the impacts of disclosing KAMs on audit fees. Untabulated results¹⁴ show that paid audit fees were on average Baht 2.4 million (median=2.1 million). Approximately 65% of the firm-year observations were audited by Big 4 firms. Clients paid higher audit fees after the implementation of disclosing than before the implementation. They paid audit fees of approximately Baht 2.2 million (median=2.1 million) before disclosing KAMs; however, they paid audit fees of approximately Baht 2.5 million (2.3 million) after the implementation. This provided evidence that disclosing KAMs increases audit fees.

4.3.2.4 Regression results

Hypothesis 2 predicts that disclosing KAMs does not impact audit fees after the implementation of KAMs in Thailand. Model 2 was used to address this hypothesis. Table 7 reports the results of the regression analysis. A significant and positive effect of *KAMsDisclose* (0.135 P=0.050) on *LAFEE* was found. Therefore, null hypothesis H2 was rejected. After the implementation, clients paid higher audit fees (approximately 14.4%) than before the implementation.

Table 7 Regression analysis

LAFEE	Pred. Sign	Coef.		P-value
(1) KAMsDisclose	+	0.135	**	0.050
(2) LOGASSETS	+	0.336	***	0.000
(3) LEVERAGE	+	0.106	***	0.002
(4) ROA	-	-0.803	***	0.004
(5) LOSS	-	0.042		0.389
(6) SALEGROWTH	+	-0.016		0.872
(7) CURR	-	-0.006		0.316
(8) AR	+	0.051		0.109
(9) INV	-	-0.119		0.154
(10) BIG	+	0.216	***	0.000
Intercept		6.880	***	0.000
YFIXEFF		Yes		
INDFIXEFF		Yes		
Robust variance estimates		Yes		
N. Obs.		1,375		
Loglikelihood ratio		953.526	***	

¹⁴ To reduce the impacts of outliers, data of all continuous variables were winsorised at the 1th and 99th percentiles. The sample of audit fees included 1,375 firm-year observations.

	Pred.		
LAFEE	Sign	Coef.	P-value
Adjusted R2		0.49	

Notes: *, ** and *** indicate significance at the 0.10, 0.05 and 0.01 levels, respectively. P-values are one-tailed for predicted sign except when the estimated coefficient has a sign opposite to expectation. All other p-values are two-tailed.

4.3.3 Audit delays

4.3.1.1 Descriptive statistics

Model 3 was adopted to test the impacts of disclosing KAMs on audit delays. Untabulated results¹⁵ show that audit delays were on average 53 days (median=54 days). Approximately 96% of the firm-year observations' year endings were 31 December. Audit delays before the implementation of disclosing KAMs and those after the implementation of KAMs were not significantly different. This provides evidence that the implementation of disclosing KAMs does not impact audit delays.

4.3.1.2 Regression results

Hypothesis 3 predicts that disclosing KAMs does not impact audit delays after the implementation of KAMs in Thailand. Model 3 was used to test this hypothesis. In Table 8, the results show that *KAMsDisclose* is positively (weak significance) related to *LADELAY* (0.031 P=0.063). Therefore, null hypothesis H3 was rejected. Audit delays after the implementation are approximately 3.2% (exponential function of 0.031 less 1) longer than before the implementation.

Table 25 Regression analysis

	Pred.			
LADELAY	Sign	Coef.		P-value
(1) KAMsDisclose	+	0.031	*	0.063
(2) LOGASSETS	?	-0.013	***	0.000
(3) LEVERAGE	+	0.016	***	0.003
(4) ROA	+	-0.126		0.080
(5) LOSS	+	-0.011		0.279
(6) SALEGROWTH	+	0.037	**	0.029
(7) MB	-	-0.002		0.255
(8) CFO	-	-0.138	***	0.000
(9) BUSY	+	-0.012		0.401
(10) BIG	?	-0.049	***	0.000
(11) LAFEE	+	0.023	***	0.000

¹⁵ To reduce the impacts of outliers, data of all continuous variables were winsorised at the 1th and 99th percentiles. The sample of audit delays included 1,355 firm-year observations..

LADELAY	Pred. Sign	Coef.		P-value
Intercept		4.013	***	0.000
YFIXEFF		Yes		
INDFIXEFF		Yes		
Robust variance estimates		Yes		
N. Obs.		1,355		
Loglikelihood ratio		197.746	***	
Adjusted R2		0.12		

*, ** and *** indicate significance at the 0.10, 0.05 and 0.01 levels, respectively. P-values are one-tailed for predicted sign except when the estimated coefficient has a sign opposite to expectation. All other p-values are two-tailed.

4.3.4 Market reaction

4.3.1.1 Descriptive statistic

Models 4 and 5 were adopted to tests the impacts of disclosing KAMs on market reaction measured by cumulative abnormal returns and abnormal trading volume. Untabulated results¹⁶ and Figure 4 show the abnormal returns in period [-30, +30] in 2014, 2015, 2016 and 2017. Day 0 of the period was the date that companies filed their financial information on the SEC's website. It was found that negative abnormal returns in 2014 occurred after the filing date in the period [+1,+3]. In 2015, positive abnormal returns occurred before the filing date in the period [-3,-2]. In 2016, when requiring the disclosures of KAMs, abnormal returns occurred both before and after the filing date. There were positive abnormal returns in day [-1] and in the period [+3,+4]. In 2017, abnormal returns occurred before the filing date in the period [-4,-3]. Cumulative abnormal returns in the period [0,+1] were on average -0.003 (median=0.000), and abnormal trading volumes were on average 1.528 (0.810). There were no significant differences in the characteristics of firms compared to before and after disclosing KAMs.

¹⁶ To reduce the impacts of outliers, data of all continuous variables were winsorised at the 1th and 99th percentiles. The sample of the market reaction model included 1,270 firm-year observations.

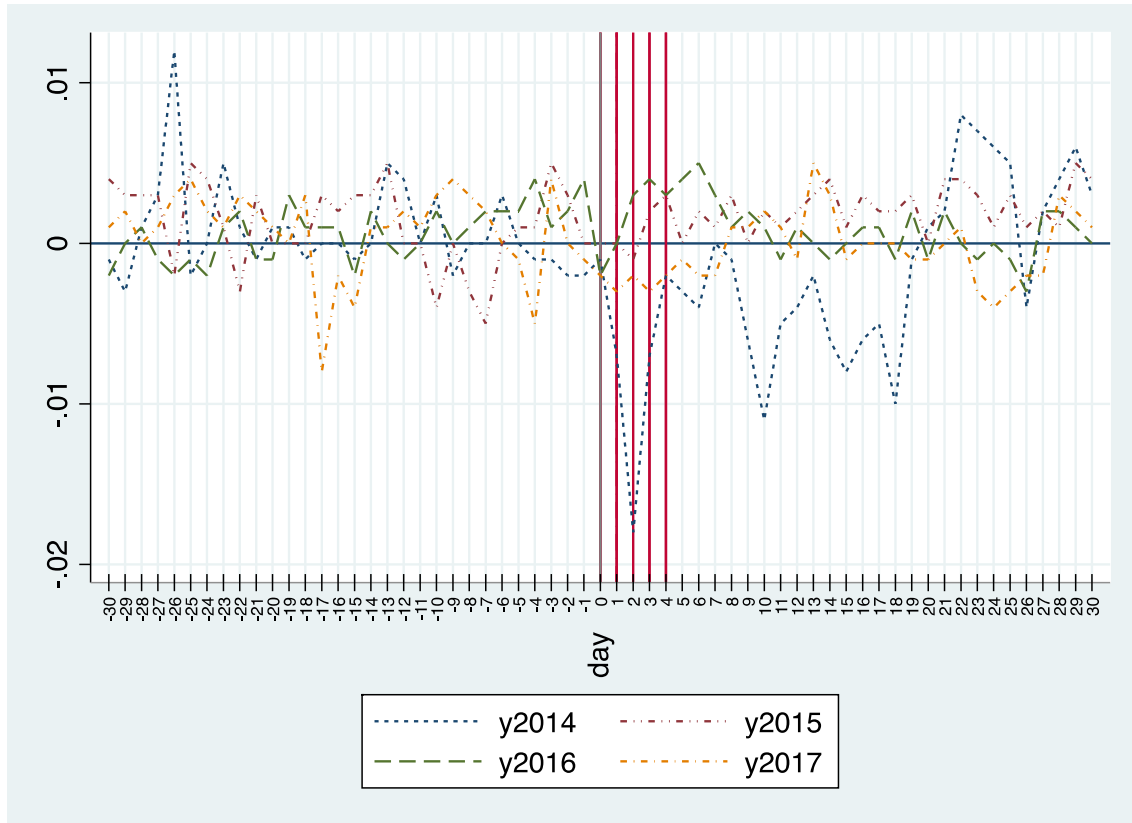


Figure 7 Abnormal returns in period [-30, +30]

4.3.1.4 Regression results

Hypothesis 4 predicts that disclosing KAMs does not impact the market reaction after the implementation of KAMs in Thailand. Models 4 and 5 were used to address this hypothesis. Table 9, Panel A presents the results of the cumulative abnormal return model (model 4), while Panel B presents the results of the abnormal trading volume model (model 5). For both models, insignificant relationships were found between *KAMsDisclose* and *CAR* as well as *ABTV*. Therefore, null hypothesis H4 that disclosing KAMs does not impact the market reaction at the earnings announcement date after the implementation of the requirement for KAMs in Thailand was accepted.

Table 9 Regression analysis
Panel A: Cumulative abnormal return model

	CAR		
	Pred. Sign	Coef.	P-value
(1) KAMsDisclose	?	0.002	0.634
(2) LMKC	-	0.002 *	0.058
(3) MB	+	0.000	0.549
(4) LEV	+	-0.009	0.136
(5) CHNI	-	0.110 ***	0.000
(6) CAR3	+	-0.084	0.225
(7) BIG	+	0.005 **	0.037
Intercept		-0.046 ***	0.021
YFIXEFF		Yes	
INDFIXEFF		Yes	
Robust variance estimates		Yes	
N. Obs.		1,270	
Loglikelihood ratio		68.226 ***	
Adjusted R2		0.04	

Table 9 Regression analysis
Panel B: Abnormal trading volume

	ABTV		
	Pred. Sign	Coef.	P-value
(1) KAMsDisclose	?	0.417	0.178
(2) LMKC	-	0.003 *	0.941
(3) ROA	+	2.716	0.012
(4) LOSS	+	-0.292	0.142
(5) CAR3	-	26.166 ***	0.000
Intercept		0.865 ***	0.419
YFIXEFF		Yes	
INDFIXEFF		Yes	
Robust variance estimates		Yes	
N. Obs.		1,270	
Loglikelihood ratio		190.646 ***	
Adjusted R2		0.13	

*, ** and *** indicate significance at the 0.10, 0.05 and 0.01 levels, respectively. P-values are one-tailed for predicted sign except when the estimated coefficient has a sign opposite to expectation. All other p-values are two-tailed.

4.3.5 Summary

The archival data analyses provided (weak) evidence that the implementation of disclosing KAMs in Thailand in 2016 improves audit quality and increases audit fees and audit delays with no impact on market reaction. After implementation, disclosing KAMs tended to reduce discretionary accruals by approximately 5.5%, increase audit fees by approximately 14.4% and increase audit delays by approximately 3.2%.

5. Conclusion

This paper provides comprehensive evidence of audit stakeholders' perceptions on KAMs, including the audit expectation gap, and the impacts of KAMs on audit quality, audit fees, audit delays and market reactions. Evidence is derived from the analyses of questionnaires and archival data. The analyses are subject to the following limitations. First, the overall response rate of the survey was low, which may undermine the credibility of the results from analysing the audit expectation performance gap. Second, to observe the impacts of a new audit report on the audit expectation gap after the implementation of KAMs in Thailand in 2016, the results from this study were compared with those of Lee, Ali, Gloeck, Yap, Ng, et al. (2010). The difficulty in reconciling the actual and potential responsibilities of auditors listed by Porter et al. (2012a), Porter et al. (2012b) and Lee et al. (2010) may reduce the correctness of the comparison. Third, there is a lack of consensus on the definition and the measurement of audit quality (Li et al., 2019). Similar to other studies (Almulla & Bradbury, 2018; Bédard et al., 2018a.e.g., ; Gutierrez et al., 2018b), audit quality was measured using discretionary accruals. Fourth, the two-year post-period of the implementation of KAMs may be too short to observe the impact on audit quality, audit fees, audit delays and market reaction.

Notwithstanding the aforementioned limitations, the conclusion and suggestions are as follows.

First, the survey data analysis provided evidence that the reasonableness gaps were widened from 30% in 2010 to 78% in 2018. It is possible that the dynamic changes in the business world have led to more complex business transactions and also to greater expectations of auditing functions than those in the past and thus have magnified the reasonable gap.

To narrow the reasonable gap, it is suggested that the reforms of the audit report be done in parallel with proactive approaches to educating users about audit functions. To change this perception, the standard setters and regulators in Thailand should seek efficient ways to help users understand and recognise the importance of audit functions. This could include promoting on-going and proactive education on auditing through mass media, seminars and the website of the Thailand Federation of Accounting Professions (www.tfac.or.th) as well as encouraging public debates and discussions on auditing issues.

Second, this study is the first to provide evidence that the deficiency standards gaps were narrowed from 63% in 2010 to 23% in 2018. This may have resulted from the large reforms of the auditor report and related auditing standards in 2016, especially the requirement for auditors to disclose KAMs; however, the remaining gap is associated with society's reasonable expectations of auditors to examine and to report

in the audit report the effectiveness of the client's internal financial controls, the reliability of information provided on the Internet by the client in its audited financial statements as well as information in the client's entire annual report. Performing these responsibilities would make audits more valuable and would increase benefits to society.

Third, it was found that the deficiency performance gaps were narrower after the implementation of the new audit report. The deficiency performance gaps were narrower from 7% in 2010 to 1% in 2018. The auditors' existing responsibilities to detect deliberate distortion of the client's financial statements and to disclose it in the audit report, which contributed to the deficiency performance gap in 2010, disappeared in 2018. This may be due to close monitoring (e.g. audit firm inspection) of auditors' performance by the Security Exchange and Commission and the tremendous effort of the Thailand Federation of Accountants to promote audit quality; however, a new deficiency performance gap was found in 2018. The gap is the auditors' responsibility to disclose in the audit report illegal acts by the client's directors/senior management that directly impact the client's financial statements. This may have resulted from the series of illegal acts by the listed companies' directors/senior management reported by mass media in the past few years. Society has therefore perceived that auditors' performance is unsatisfactory. To close this gap, the standard setters should raise auditors' awareness of detecting and reporting illegal acts committed by companies' management and should also closely monitor the auditors' performance.

Fourth, the archival data analyses provided weak evidence that the new audit report with KAMs improves audit quality by reducing discretionary accruals. It is possible that disclosing KAMs leads auditors to feel more responsible (Bédard et al., 2018a; Li et al., 2019) and accountable (Li et al., 2019), thereby seeking more and better audit evidence and having more professional scepticism in their audits (Bédard et al., 2018a). Disclosing KAMs also improves the communication between auditors and those charged with governance (Li et al., 2019) and interactions between auditors and those charged with governance (Wei et al., 2017). The evidence is consistent with that of Li et al. (2019) but inconsistent with that of Almulla and Bradbury (2018) and Wei et al. (2017).

Fifth, the analyses also provided weak evidence that disclosing KAMs has economic consequences by increasing audit fees and audit delays. After the implementation of the new audit report in Thailand, audit fees and audit delays increased by approximately 14.4% and 3.2%, respectively. Audit firms must spend resources and time preparing and training their staff, especially in the first year of the implementation of KAMs (Li et al., 2019; Reid et al., 2018). Costs associated with preparing and training staff may be added to their audit fees and absorbed by their clients. Increases in audit fees may compensate for increases in audit risk and audit effort. Auditors may face a higher litigation risk when misstatements are found (Wei

et al., 2017) after disclosing KAMs. Disclosing KAMs increases audit effort (Almulla & Bradbury, 2018; Bédard et al., 2018a). It increases senior members' working hours on the disclosure of KAMs (Bédard et al., 2018a). KAMs may also lead to disagreements between auditors and management, and thus auditors may spend more time discussing these matters with audited companies' managers and audit committees (Reid et al., 2018). Therefore, audit fees and audit delays may increase.

The evidence of the impacts of disclosing KAMs on audit fees is consistent with that of Li et al. (2019) and Wei et al. (2017) but inconsistent with that of Bédard et al. (2018a), Almulla and Bradbury (2018), Reid et al. (2018) and Gutierrez et al. (2018b). The consistency and inconsistency of the evidence on the impact of disclosing KAMs on audit quality, audit fees and audit delays may have resulted from country-level factors and the studies' methodologies. The effects of the implementation of the new audit reports with KAMs may vary across countries. Therefore, it is suggested that future research should examine the impacts of country-level factors, e.g. culture, legal systems and regulatory bodies, on the association between disclosing KAMs and audit quality, audit fees and audit delays. Using the match-pair sample methodology used by Reid et al. (2018) and Gutierrez et al. (2018b) should help future studies capture the impacts of disclosing KAMs on audit quality, audit fees and audit delays. For a further examination of the impacts of KAMs on audit fees, future research should use other measures of audit quality, e.g. financial restatements, real earnings management and results of regulatory audit firm inspections.

Finally, findings from the archival data analyses support that KAMs have little informative value to users and provide redundant information. Cumulative abnormal returns and abnormal trading volumes around the dates that audited companies filed their audited financial statements on the SEC's website were observed, and it was found that disclosing KAMs does not impact the market reaction. As pointed out by Almulla and Bradbury (2018), in New Zealand, investors had already known matters disclosed as KAMs in the year before the implementation of the requirement for disclosing KAMs. Wei et al. (2017) found that in Australia, one-third of matters disclosed as KAMs had already been reported in audited clients' previous year's annual report before the implementation of the requirement for disclosing KAMs. This finding is similar to those of Bédard et al. (2018a) and Gutierrez et al. (2018b). Bédard et al. (2018a) found that disclosing JOAs does not impact abnormal returns or abnormal trading volume in France. Gutierrez et al. (2018b) found that disclosing RMMs does not impact absolute abnormal returns or abnormal trading volume in the UK.

To alleviate users' confusion regarding KAMs and to reduce their belief that KAMs have little informative value and provide redundant information, standard setters and regulators in Thailand should seek efficient ways to proactively educate users

regarding KAMs by promoting users' understanding of audit functions and encouraging a greater recognition of the importance of audit functions.

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APPENDIX 7: PUBLICATION

Kitiwong, W. and Srijunpetch, S. (2019). Culture Influences on the Disclosures of Key Audit Matters. *Journal of Accounting Profession*, 15(46), 45-63.

Cultural Influences on the Disclosures of Key Audit Matters

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Received: April 10, 2019

Revised: June 11, 2019

Accepted: June 14, 2019

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ABSTRACT

Our study explores the impact of national culture on the disclosures of key audit matters (KAMs). We focus two cultural dimensions of Hofstede (2001) and Hofstede et al. (2010): uncertainty avoidance and masculinity, which are the different cultural dimensions among Thailand, Malaysia, and Singapore. Thailand has strong uncertainty avoidance and is feminine but Malaysia and Singapore have weak uncertainty avoidance and are mixing between masculine and feminine. As both nature and number of KAMs vary according to an industry which a company operates in (Ernst & Young Global Limited, 2016), we select only sample from the industrial sector. Our final sample covers the disclosures of KAMs in 2016-2018 which consists of 174, 364, and 238 firm-year observations from Thailand, Malaysia and Singapore, respectively. From the results of our regression models, we found that a country's cultural characteristics of uncertainty avoidance and masculinity do not affect a number of KAMs disclosed by auditors. A country's characteristic of masculinity also does not affect types of KAMs disclosed by the auditors. However, we found that auditors from a country with strong uncertainty avoidance (e.g., Thailand) are more likely to disclose industry-common KAMs which most of companies in the same industry share the similar ones. They might avoid disclosing entity-specific and audit-specific KAMs in the first few years of the adoption of KAMs because the consequence of the disclosures of KAMs remains unclear.

Keywords: National culture, Key Audit Matters, Thailand, Malaysia, Singapore

ผลของวัฒนธรรมในระดับชาติที่มีต่อการเปิดเผยเรื่องสำคัญ ในการตรวจสอบ

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วันที่แก้ไขปรับปรุงบทความ : 11 มิถุนายน 2562

วันที่ตอบรับตีพิมพ์บทความ : 14 มิถุนายน 2562

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บทคัดย่อ

การศึกษาของผู้วิจัยเป็นการค้นหาผลของวัฒนธรรมในระดับชาติที่มีต่อการเปิดเผยเรื่องสำคัญในการตรวจสอบ ผู้วิจัยมุ่งเน้นมุมมองด้านวัฒนธรรมของ Hofstede (2001) และ Hofstede et al. (2010) จำนวนสองด้านคือ มุมมองด้านการหลีกเลี่ยงความเสี่ยงและมุมมองด้านบุรุษเพศ ซึ่งคุณลักษณะเหล่านี้เป็นคุณลักษณะทางวัฒนธรรมที่แตกต่างกันของประเทศไทย ประเทศมาเลเซีย และประเทศสิงคโปร์ โดยประเทศไทยมีคุณลักษณะที่หลีกเลี่ยงความเสี่ยงในระดับมากและมีคุณลักษณะสตรีเพศ แต่ประเทศมาเลเซียและประเทศสิงคโปร์มีคุณลักษณะที่หลีกเลี่ยงความเสี่ยงในระดับต่ำและมีคุณลักษณะที่ก้าวร้าวระหว่างบุรุษเพศและสตรีเพศ ทั้งนี้ เนื่องจากการเปิดเผยเรื่องสำคัญในการตรวจสอบนั้น ขึ้นอยู่กับกลุ่มอุตสาหกรรมที่บริษัทดำเนินกิจการอยู่ ผู้วิจัยจึงเลือกกลุ่มตัวอย่างจากกลุ่มอุตสาหกรรมอุตสาหกรรมเพียงกลุ่มตัวอย่างเดียว ตัวอย่างครอบคลุมการเปิดเผยเรื่องสำคัญในการตรวจสอบในปี พ.ศ. 2559-2561 ซึ่งประกอบด้วย ค่าสังเกตจำนวน 172 364 และ 238 จากประเทศไทย ประเทศมาเลเซีย และประเทศสิงคโปร์ ตามลำดับ จากผลของแบบจำลองสมการถดถอย ผู้วิจัยพบว่า คุณลักษณะทางวัฒนธรรมในระดับประเทศด้านการหลีกเลี่ยงความเสี่ยงและด้านบุรุษเพศไม่มีผลต่อจำนวนเรื่องสำคัญในการตรวจสอบ คุณลักษณะทางวัฒนธรรมด้านบุรุษเพศไม่มีผลต่อประเภทของเรื่องสำคัญในการตรวจสอบที่ถูกเปิดเผยโดยผู้สอบบัญชีเช่นกัน แต่อย่างไรก็ตาม ผู้วิจัยกลับพบว่า ผู้สอบบัญชีจากประเทศที่มีคุณลักษณะที่หลีกเลี่ยงความเสี่ยงสูง (เช่น ประเทศไทย) มักจะเปิดเผยเรื่องสำคัญในการตรวจสอบที่มีลักษณะเป็นเรื่องสำคัญในการตรวจสอบที่เฉพาะเจาะจงของกลุ่มอุตสาหกรรม ที่บริษัทในกลุ่ม

อุตสาหกรรมเดียวกันเปิดเผยเป็นเรื่องสำคัญในการตรวจสอบที่เหมือนกัน ผู้สอบบัญชีเสี่ยงที่จะเปิดเรื่องสำคัญในการตรวจสอบที่มีลักษณะเฉพาะเจาะจงของแต่ละงานสอบบัญชีหรือแต่ละลูกค้าในช่วงปีแรก ๆ ของการถือใช้ปฏิบัติเกี่ยวกับเรื่องสำคัญในการตรวจสอบ เพราะผลกระทบที่ตามมาภายหลังจากการเปิดเผยเรื่องสำคัญในการตรวจสอบยังไม่ชัดเจน

คำสำคัญ: วัฒนธรรมในระดับชาติ เรื่องสำคัญในการตรวจสอบ ประเทศไทย ประเทศมาเลเซีย ประเทศสิงคโปร์

1. Introduction

After the requirement for the disclosure of KAMs in an auditor's report has been globally adopted for audits of financial statements for the periods ending on or after December 31, 2016, the current main stream of auditing research has paid more focus on its consequences. Many of them observe the impact of the disclosure of KAMs on audit quality (e.g., Almulla & Bradbury, 2018; Wei, Fargher, & Carson, 2017), audit fee (e.g., Boonlert-U-Thai, Srijunpetch, & Phakdee, 2019; Wei et al., 2017), market reaction (e.g., Almulla & Bradbury, 2018; Srijunpetch, 2017), audit delay (e.g., Almulla & Bradbury, 2018), and understandability of auditor's report (e.g., Velte, 2018). However, a few studies have investigated factors which affect auditors' disclosures of KAMs. To our knowledge, the existing evidence of the investigation is, for example, Pinto and Morais (2018) and Boonlert-U-Thai et al. (2019).

Our study therefore contributes to the literature on this investigation by exploring the effect of national culture on the disclosure of KAMs. We apply cultural dimensions of Hofstede (2001) and Hofstede, Hofstede, and Minkov (2010) into our study and test whether a country's cultural dimensions affect a number and types of KAMs disclosed by auditors from Thailand, Malaysia, and Singapore. Our findings may be beneficial to regulators and standard setters for gaining a clearer understanding of the factors which have impacts on the auditors' considerations to disclose matters as KAMs. Their clearer understanding may help them to establish a guideline for the auditors to have a better communication of KAMs. Our findings may also be beneficial to the auditors for providing them the comparable practices on the disclosures of KAMs in the same industry in other countries. This may lead them to reconsider whether their existing disclosures of KAMs are really KAMs according to the International Standard on Auditing (ISA) 701 Communicating Key Audit Matters in the Independent Auditor's Report issued by the International Auditing and Assurance Standards Board (2015b).

Our results indicate that national culture impacts on auditors' disclosures of KAMs. Auditors from a country with strong uncertainty avoidance (e.g., Thailand) are more likely to disclose industry-common KAMs which most of companies in the same industry share the similar ones. They might avoid disclosing entity-specific and audit-specific KAMs in the first few years of the adoption of KAMs because the consequence of the disclosures of KAMs remains unclear. Regulators and standard setters shall therefore encourage auditors to disclose more entity-specific and audit-specific KAMs. These entity-specific and audit-specific KAMs are more likely to be useful for users of financial statements than industry-common ones since they provide more specific information of an audit at an engagement level. For the auditors, they shall also reconsider whether the industry-common KAMs (e.g., the pervasiveness of the disclosures of KAMs relating to revenue recognition) they disclosed are really KAMs as defined by ISA 701.

Our paper proceeds as follows. Section 2 reviews the literature and states our hypotheses. Section 3 explains our research design. Section 4 describes our sample and sources of data and reports descriptive statistics. Section 5 provides the results of our study and section 6 gives the conclusion.

2. Literature Review and Hypotheses Development

2.1 Literature Reviews

According to ISA 701, KAMs were matters which auditors selected from those matters which they had previously discussed with those charged with governance and the auditors see them as the most significant matters in their audits. KAMs should include areas of significant auditor attention, significant risks, and significant difficulties during the audit. The areas required significant auditor attention are those with higher assessed risks of material misstatement, those with high risks, and those with complexity. These areas are therefore required more resources, audit effort, and involvements of people with expertise. The areas with significant risks shall reflect specific risks of an audited company. They include transactions or areas with significant management judgment and material unusual transactions (e.g., transactions with related parties). The significant risk areas due to fraud and the areas which are presumed by the ISAs to be significant risks¹ are not necessary to be considered as KAMs. The significant difficulties are, for example, an audit of related party transactions and an additional unexpected audit effort.

From ISA 701, the section of KAMs aims at providing users with specific information of an audit at an engagement level. Each matter is separately presented by a subheading. An auditor is required to give a description of each matter which concisely explains why the matter was considered to be one of the most significance in the audit. The description may include the reference to factors which affect the auditors' risk assessments (e.g., high estimation uncertainty, economic conditions, new accounting policies, changes in company's strategy or business model that had a material effect on the financial statements) and the explanation of the audit approach in relation to the matter, and the indication of whether the matter involves significant management judgment. In order to help the users with a less reasonable knowledge of auditing to understand KAMs, the auditor should avoid using too much highly technical auditing terms.

After KAMs have globally implemented in 2016, few studies have investigated factors which affect auditors' disclosures of KAMs. Pinto and Morais (2018) investigate the disclosures of KAMs in 2016 among listed companies on the UK's FTSE 100, France's CAC 40, and the Netherlands's AEX

¹ ISA 240, for example, presumes that an auditor shall treat revenue recognition as an area with high assessed risks of misstatement arising from fraud because there are always risks of fraud in revenue recognition.

25. The results of their OLS, Logistic and Poisson regressions provide evidence that the companies with more complexity as measured by a number of business segments and companies in countries with more precise accounting standards (rule-based accounting standards) have a greater number of disclosed KAMs. However, those under stricter regulations and supervisions like those in the finance sector have a lesser number of KAMs. By using Flesch reading ease index as a measure of readability of KAMs disclosed by 333 listed companies in 2014 and those disclosed by 327 listed companies in 2015 in London Stock Exchange in the UK, Velte (2018) found that a greater number of woman on audit committees leads to the higher readability of KAMs disclosure because of their stricter monitoring and greater risk avoidance. Boonlert-U-Thai et al. (2019) investigate the disclosures of KAMs during 2016 and 2017 among 436 listed companies in the Stock Exchange of Thailand. They found that the companies with reporting loss or a greater number of pages of audit reports have a greater number of KAMs but those audited by Big 4 have a lesser number of KAMs. However, gender difference of auditors does not affect a number of disclosed KAMs. Our study differs from these three studies. First, we provide evidence from Thailand, Malaysia, and Singapore which have different accounting and auditing environments. Second, we explore the impact of national culture on the disclosures of KAMs. Third, we explore both quantitative and qualitative characteristics of KAMs.

2.2 Hypotheses development

We apply cultural dimensions of Hofstede (2001) and Hofstede et al. (2010) into our hypotheses. The four culture dimensions (power distance, uncertainty avoidance, individualism, and masculinity) are from Hofstede (2001) while the one (long-term orientation) is from Hofstede et al. (2010). Power distance (PD) indicates the influence of a higher authority on a lesser authority's behaviours, and vice versa. It also reflects the inequity in social institutions (e.g. school, family, and community) where people have different wealth, status, and power. Uncertainty Avoidance (UAI) indicates the extent to which a person is able tolerable to an uncertainty which would gradually causes anxiety. Hofstede et al. (2010) easily describe this dimension as the sentence "what is different is dangerous". Individualism (IDV) indicates the extent to which people connect each other when they live together. Individualism does a thing only for himself but collectivism does it for his group. Masculinity (MAS) indicates the characteristics of assertiveness, competitiveness, and toughness; on the other hand, femininity (FAM) indicates the characteristics of gentleness and carefulness. Long-term orientation (LTO) indicates that people are more concerned with long-term consequences and believe in long-running positive outcome of today's hard work which is contradictory to short-term orientation (STO).

Table 1 Power Distance Index (PDI), Uncertainty Avoidance Index (UAI), Individual Value (IDV), Masculinity Index Value (MAS), and Long-term Orientation (LTO) for Thailand, Malaysia, and Singapore

	PDI	UAI	IDV	MAS	LTO
Malaysia	104 (Large)	36 (Weak)	26 (Collectivistic)	50 (MAS + FAM)	n/a*
Singapore	74 (Large)	8 (Weak)	20 (Collectivistic)	48 (MAS + FAM)	48 (LTO + STO)
Thailand	64 (Large)	64 (Strong)	20 (Collectivistic)	34 (FAM)	56 (LTO + STO)

* Malaysia was excluded from the study of Hofstede et al. (2010).

Table 1 shows cultural indexes for Thailand, Malaysia, and Singapore derived from Hofstede (2001) and Hofstede et al. (2010). All countries have a large power distance and are defined as collectivistic. Malaysia and Singapore have weak uncertainty avoidance and are mixing between masculine and feminine but Thailand has strong uncertainty avoidance and is feminine.

We focus on UAI and MAS which are the different cultural dimensions among these three countries and develop our hypotheses based on these two dimensions. Auditors from a country with strong UAI are more likely to disclose a lesser number of KAMs because they may worry that their disclosures of KAMs may lead to the negative consequences in the future (e.g., regulatory scrutiny, litigation consequence, auditor-client disagreement). We therefore state the following hypothesis:

H1: Auditors from a country with strong UAI are more likely to disclose a lesser number of KAMs.

Auditors from a country with strong UAI may also feel that what is different is dangerous. They may therefore perceive that the disclosures of specific KAMs are riskier than the disclosures of industry-common KAMs. Our hypothesis is:

H2: Auditors from a country with strong UAI are more likely to disclose industry-common KAMs.

Auditors from a country with MAS culture are more assertiveness, competitiveness, and toughness. Hence, they are less worried about their disclosures of KAMs and are more willing to disclose a greater number of KAMs. Our hypothesis is:

H3: Auditors from a country with MAS culture are more likely to disclose a greater number of KAMs; and

Auditors from a country with MAS culture are less gentleness and carefulness. They may overlook an entity-specific and audit-specific information, thereby being more likely to disclose industry-common KAMs. Our hypothesis is:

H4: Auditors from a country with MAS culture are more likely to disclose industry-common KAMs.

3. Research Design

To test our hypotheses, we follow Hope, Kang, Thomas and Yoo (2008) who observe the impact of culture on auditor choice in 37 countries during 1992–2004. They regress auditor choice Big 4/non-Big 4 on countries' culture of secrecy, other country-level control variables (e.g., investor protection, legal enforcement, gross national product), and firm-level control variables (e.g., returns on equity, size measured by the log of the market value of equity, long-term accruals). Secrecy is measured by the sum of UAI, PDI, and IDV scores which are derived from Hofstede. We first draw the following relationships:

$$KAMs = f(Auditor + Audit Firm + Client + Country + Year)$$

Our independent variable is *KAMs* which is separately tested in respect of their quantitative and qualitative characteristics. A number of *KAMs* (*NKAMs*) represent their quantitative characteristic meanwhile types of *KAMs* (*TKAMs*) represent their qualitative characteristic. As indicated by International Auditing and Assurance Standards Board (2015b), an auditor determines, based on his judgement, how many *KAMs* shall be disclosed in his auditor's report. He shall select a smaller number of matters from those which he had communicated with those charged with governance. Each disclosed *KAM* may involve many of auditor's considerations. For instance, the disclosure of *KAM* related to long-term contracts may involve the auditor's considerations on litigation and contingencies, revenue recognition, and/or accounting estimates. However, the auditor's report with too many disclosed *KAMs* may indicate less usefulness of the auditor's communication of *KAMs*. If the auditor considers to have a large number of disclosed *KAMs*, he shall reconsider whether each of them is really *KAM* as defined by ISA 701. Types of *KAMs* could be industry-common *KAMs* which companies within the same industries share the similar ones (Ernst & Young Global Limited, 2016) or entity-specific and audit-specific *KAMs* (International Auditing and Assurance Standards Board, 2015a) which are unique to a company (Ernst & Young Global Limited, 2016). According to the definition of *KAMs* given by ISA 701, the specific *KAMs* are more likely to be useful for users of financial statements than common ones since they provide more specific information of an audit at an engagement level.

To distinguish between industry-common *KAMs* and specific ones, we adapt the concept of auditor's industry specialism. Market share, which is the proportion of individual auditor's total audit fees derived from all clients in the specific industry to the total audit fees of that industry, has been widely used to identify the auditors with audit industry expertise from others. The auditors are defined as audit industry expertise if their market shares are greater than the cut-off point. 10 percent of market share is used as the cut-off point by Ferguson and Stokes (2002) while 15 percent and 20 percent of market share are used by Krishnan (2003) and Dunn and Mayhew (2004), respectively. For our study, *TKAMs* is

a proportion of a number of industry-common KAMs to a total number of KAMs. We use 10 percent, which is the smallest cut-off point used by the study of auditor industry specialization, as the cut-off point to consider whether KAMs are industry-common KAMs.

Auditor represents individual characteristics of auditors (e.g., gender differences, levels of conservatism, experience) which may affect their disclosures of KAMs. We leave a set of variables of the auditors' individual characteristics for a further study. *Audit Firm* represents the impact of audit firm on the auditors' disclosures of KAMs. Similar to previous accounting and auditing study, we classify audit firms into Big 4 and non-Big 4 (*BIG4*). Big 4 includes Deloitte, Ernst & Young (EY), KPMG, and PricewaterhouseCoopers (PwC). The study of Boonlert-U-Thai et al. (2019) found that Big 4 discloses the lesser number of KAMs.

Client represents a set of client-specific control variables which may affect disclosed KAMs. As indicated by ISA 701, client's size, complexity, and nature of business and environment may affect the number of disclosed KAMs. We follow Pinto and Morais (2018) who found positive relationships of client's size, complexity, and balances of inventory and accounts receivable and a number of KAMs but the negative relationships of client's performance and a number of KAMs. Client's size is controlled by the natural logarithm of total assets (*LogA*) while client's complexity is controlled by the natural logarithm of a number of business segments (*LogSegmt*). We also control for company's balances of inventory and accounts receivable and compute it as dividing the summation of balances of inventory and accounts receivable by total assets (*INV&AR*). Return on assets (*ROA*) is used to control for company's performance and is computed by dividing net profits by total assets.

Year captures the time-variant effects on disclosed KAMs. The disclosures of KAMs has been required for the financial statements which have year ending on or after December 31, 2016. The disclosures in the first year (FYEAR) are more likely to be problematic since auditors had no experience in doing them before.

The test procedures are as follows. To test hypotheses H1 and H3 which explore the relationships between a number of disclosed KAMs and two cultural dimensions, we employ Poisson regression model. Greene (2012, pp. 842–843) indicates that Poisson regression model is used when the observed outcomes are count numbers. It is a non-linear regression and is drawn as follows:

$$\text{Pro}(Y=y_i | x_i) = \frac{e^{-\lambda_i} \lambda_i^{\gamma_i}}{\gamma_i!}, \gamma_i=0,1,2,\dots$$

γ is a number of KAMs disclosed by an auditor i from a Poisson population with parameter λ_i , which is related to the regressors x_i . We also presume that the greater number of KAMs, the riskier.

To test hypotheses H2 and H4 which investigate the relationships between types of disclosed KAMs and the two cultural dimensions, we employ ordinary least squares regression.

4. Sample Selection and Descriptive Statistics

4.1 Sample Selection

List of sample is derived from the websites of the Stock Exchange of Thailand (www.set.or.th), the Singapore Exchange Limited (<https://www2.sgx.com>), and the Bursa Malaysia Berhad (<http://www.bursamalaysia.com/market/>). Data of the sample covers the period from 2016 to 2018 and is manually collected from their annual reports published on each country's website of the stock exchange which they have traded. We use only the observations from industrial sectors as the disclosures of KAMs vary according to the industry which listed companies have operated in. The observations that do not have all the necessary data for calculating the variables in our models are deleted. Our final sample comprises 781 firm-year observations from Thailand, Malaysia, and Singapore. 174 firm-year observations (22.3 percent of the sample) are from Thailand. 369 firm-year observations (47.2 percent) and 238 firm-year observations (30.5 percent) are from Malaysia and Singapore, respectively.

4.2 Descriptive statistics

4.2.1 Types of KAMs

Table 2 reports types of KAMs. By using 10 percent as the cut-off point, the industry-common KAMs of the audits of listed companies from the industrial sector are KAMs related to valuation of inventories (40 percent), KAMs related to valuation of accounts receivable (34 percent), KAMs related to valuation of property, plant, and equipment (24 percent), KAMs related to revenue recognition not from fraud (17 percent), KAMs related to valuation of investments (17 percent), KAMs related to valuation of goodwill (15 percent), and KAMs related to accounting for long-term/complex contracts (11 percent).

KAMs disclosed by the auditors are likely to vary among the three countries. KAMs disclosed by the auditors from Thailand are more concerned with valuation of inventories (59 percent) and revenue recognition not from fraud (33 percent). Those disclosed by the auditors from Malaysia are more concerned with valuation of accounts receivable (45 percent) and valuation of inventories (37 percent). Those disclosed by the auditors from Singapore are more concerned with valuation of property, plant, and equipment (37 percent) and valuation of accounts receivable (34 percent).

Table 2 Types of KAMs

	Thailand		Malaysia		Singapore		Total	
Total number of auditors' considerations disclosed as KAMs	174		369		238		781	
Valuation of goodwill	10	6%	55	15%	51	21%	116	15%
Valuation of intangible assets	2	1%	11	3%	36	15%	49	6%
Valuation of assets held for sales	0	0%	1	0%	4	2%	5	1%
Accounting for taxation	13	7%	17	5%	20	8%	50	6%
Revenue recognition not from fraud	58	33%	54	15%	24	10%	136	17%
Provisions	3	2%	10	3%	8	3%	21	3%
Legal provision	1	1%	0	0%	5	2%	6	1%
Acquisitions/disposals	9	5%	7	2%	16	7%	32	4%
Valuation of investments	32	18%	49	13%	55	23%	136	17%
Pensions	3	2%	2	1%	5	2%	10	1%
Financial instruments	1	1%	4	1%	12	5%	17	2%
Valuation of property, plant, and equipment	23	13%	79	21%	88	37%	190	24%
Controls	0	0%	0	0%	1	0%	1	0%
Development costs	0	0%	4	1%	2	1%	6	1%
Mining/oil/gas accounting	0	0%	4	1%	2	1%	6	1%
Going-concern	0	0%	10	3%	3	1%	13	2%
Share-based payments	0	0%	4	1%	0	0%	4	1%
Accruals	0	0%	0	0%	2	1%	2	0%
Capitalizations	0	0%	5	1%	0	0%	5	1%
Valuation of inventories	102	59%	135	37%	73	31%	310	40%
Valuation of accounts receivable	19	11%	165	45%	81	34%	265	34%
Accounting for long-term/complex contracts	9	5%	59	16%	19	8%	87	11%
Contingent liabilities	0	0%	1	0%	2	1%	3	0%
Related parties	9	5%	10	3%	8	3%	27	3%
Loans	1	1%	9	2%	0	0%	10	1%
Investment properties	2	1%	20	5%	18	8%	40	5%
Non-operate assets	1	1%	0	0%	0	0%	1	0%
Preparation of financial statements	1	1%	0	0%	0	0%	1	0%

Table 2 Types of KAMs (Cont.)

	Thailand		Malaysia		Singapore		Total	
Currencies	1	1%	1	0%	0	0%	2	0%
Debt covenants	1	1%	1	0%	0	0%	2	0%
Biological assets	0	0%	8	2%	3	1%	11	1%
Prepaid expense/deposits	0	0%	8	2%	10	4%	18	2%
Restructuring/reorganization	0	0%	0	0%	4	2%	4	1%
Adoptions of new accounting standards	0	0%	1	0%	2	1%	3	0%
Cash and bank	0	0%	0	0%	5	2%	5	1%
Development projects	0	0%	5	1%	7	3%	12	2%
Credit risk	0	0%	3	1%	3	1%	6	1%
Bonds	0	0%	0	0%	3	1%	3	0%
Non-compliance with regulations	0	0%	1	0%	1	0%	2	0%
Expense	0	0%	0	0%	2	1%	2	0%
Net assets	0	0%	3	1%	0	0%	3	0%
Other auditors and group auditors	0	0%	4	1%	0	0%	4	1%

4.2.2 Sample characteristics

Table 3 reports descriptive statistics for dependent and our test variables by country. It shows that the sample from Singapore (mean = 2.113) has the greatest number of KAMs (*NKAMs*) whilst that from Thailand (mean = 1.655) has the smallest number of KAMs. The auditors of the sample from Thailand (mean = 0.735) are more likely to disclose industry-common KAM (*TKAMs*) but those of sample from Singapore (mean = 0.532) are less likely to do so. The sample from Singapore (mean = 0.605) is more likely to employ Big 4 (*BIG4*) and its size (*LogA*) is large (mean = 19.010 or U.S.\$180 million) but that from Malaysia (0.328) is more likely to employ non-Big 4 and its size is small (mean = 18.061 or U.S.\$69 million). The business operation of sample from Malaysia is more complex (*LogSegmt*) (mean = 1.161 or 3.19 business segments) but that of sample from Thailand are less complex (mean = 0.837 or 2.31 business segments). The sample from Malaysia (0.344) and that from Singapore (mean = 0.345) report the high balances of inventories and accounts receivable (*INV&AR*). The sample from Thailand (mean = 0.061) generates the good performance (*ROA*) but that from Singapore (mean = -0.087) generates the poor performance. The sample is mainly from the second and third year of the implementation of KAMs (*FYear*).

Table 3 Descriptive Statistics

Variable	Thailand (N = 174)				Malaysia (N = 369)				Singapore (N = 238)			
	Mean	Std. Dev.	Min	Max	Mean	Std. Dev.	Min	Max	Mean	Std. Dev.	Min	Max
NKAMs	1.655	0.742	0.000	4.000	1.967	0.989	0.000	6.000	2.113	1.063	0.000	6.000
TKAMs	0.734	0.375	0.000	1.000	0.676	0.369	0.000	1.000	0.532	0.379	0.000	1.000
UAI	64.000	0.000	64.000	64.000	36.000	0.000	36.000	36.000	8.000	0.000	8.000	8.000
MAS	34.000	0.000	34.000	34.000	50.000	0.000	50.000	50.000	48.000	0.000	48.000	48.000
BIG4	0.523	0.501	0.000	1.000	0.328	0.470	0.000	1.000	0.605	0.490	0.000	1.000
LogA	18.587	1.172	16.800	23.397	18.061	1.225	15.423	22.841	19.010	1.744	11.291	24.435
LogSegmt	0.837	0.463	0.000	1.946	1.161	0.614	0.000	2.303	1.088	0.546	0.000	2.079
INV&AR	0.319	0.170	0.000	0.869	0.344	0.163	0.001	0.765	0.345	0.184	0.000	1.000
ROA	0.061	0.179	-1.000	1.847	0.027	0.091	-0.656	0.480	-0.087	1.698	-25.207	4.780
FYear	0.477	0.501	0.000	1.000	0.550	0.498	0.000	1.000	0.487	0.501	0.000	1.000

NKAMs = a number of KAMs, TKAMs = a proportion of industry-common KAMs to total KAMs and use 10 percent as the cut-off point to consider whether KAMs are industry-common KAM, UAI = Hofstede's Uncertainty Avoidance Index, UAI = Hofstede's Masculinity Index Value, BIG = 1 if the company was audited by Big 4, 0 else, LogA = the natural logarithm of total assets, LogSegmt = the natural logarithm of a number of business segments, INV&AR = the proportion of balances of inventory and accounts receivable to total assets, ROA = return on assets and is computed by dividing net profits by total assets, and FYear = 1 if it was the first year of the implementation of KAMs, 0 else.

5. Results

5.1 Variance inflation factor and correlation matrix

Table 4 reports variance inflation factor (VIF) and Pearson correlation between each pair of variables. A number of KAMs are negatively correlated with Uncertainty Avoidance Index but positively correlated with Masculinity Index Value, company size, a number of business segments, and balances of inventories and accounts receivable. Meanwhile a proportion of industry-common KAMs to a total number of KAMs are negatively correlated with Masculinity Index Value and company size but positively correlated with Uncertainty Avoidance Index and balances of inventories and accounts receivable. Most of correlations between each pair of variables are smaller. The largest one is between *UAI* and *MAS* (coefficient = -0.715 , $P < 0.000$). However, their VIFs are below the 10.00 threshold which are acceptable as concerned by Stanley and DeZoort (2007). Therefore, our models do not have the multicollinearity problem.

5.2 Regression Results

Table 5 reports the results of the regressions. The model 1 is used to test hypotheses H1 and H3 by employing the Poisson regression of a number of KAMs on our test and control variables. From table 5, the coefficients of *UAI* and *MAS* are insignificant. We therefore reject the hypothesis H1 that auditors from a country with strong UAI are more likely to disclose a lesser number of KAMs and the hypothesis H3 that auditors from a country with MAS culture are more likely to disclose a greater number of KAMs.

The model 2 is used to test the hypotheses H2 and H4 by employing ordinary least squares of a proportion of industry-common KAMs to a total number of KAMs on our test and control variables. From table 5, the coefficient of *UAI* is positively significant (0.004, $P < 0.000$). We therefore accept hypothesis H2 that auditors from a country with strong UAI are more likely to disclose industry-common KAMs. However, the coefficient of *MAS* is insignificant. We then reject hypothesis H4 that auditors from a country with MAS culture are more likely to disclose industry-common KAMs.

Table 4 Variance Inflation Factors and Correlation Matrix

	VIF	NKAMs	TKAMs	UAI	MAS	BIG4	LogA	LogSegmt	INV&AR	ROA	FYear
NKAMs		1.000									
TKAMs		-0.043 0.226	1.000								
UAI	2.37	-0.165*** 0.000	0.184*** 0.000	1.000							
MAS	2.31	0.147*** 0.000	-0.096** 0.007	-0.715*** 0.000	1.000						
BIG4	1.17	-0.043 0.226	0.018 0.616	-0.085** 0.018	-0.104*** 0.004	1.000					
LogA	1.29	0.174*** 0.000	-0.091** 0.011	-0.133*** 0.000	-0.082** 0.022	0.344*** 0.000	1.000				
LogSegmt	1.1	0.214*** 0.000	-0.063 0.077	-0.139*** 0.000	0.219*** 0.000	-0.026 0.473	0.146*** 0.000	1.000			
INV&AR	1.02	0.079* 0.027	0.144*** 0.000	-0.050 0.164	0.060 0.096	-0.019 0.602	-0.013 0.718	-0.081** 0.023	1.000		
ROA	1.06	0.033 0.363	0.077 0.069	0.059 0.100	-0.028 0.440	0.046 0.194	0.189*** 0.000	0.050 0.162	0.055 0.122	1.000	
FYear	1.01	0.011 0.761	0.032 0.368	0.000 0.995	0.047 0.187	-0.012 0.748	-0.021 0.561	-0.005 0.880	0.022 0.544	0.040 0.261	1.000

***, **, and * represent $p < 0.01$, $p < 0.05$, and $p < 0.1$, respectively, two-tailed.

NKAMs = a number of KAMs, TKAMs = a proportion of industry-common KAMs to total KAMs and use 10 percent as the cut-off point to consider whether KAMs are industry-common KAM, UAI = Hofstede's Uncertainty Avoidance Index, UAI = Hofstede's Masculinity Index Value, BIG = 1 if the company was audited by Big 4, 0 else, LogA = the natural logarithm of total assets, LogSegmt = the natural logarithm of a number of business segments, INV&AR = the proportion of balances of inventory and accounts receivable to total assets, ROA = return on assets and is computed by dividing net profits by total assets, and FYear = 1 if it was the first year of the implementation of KAMs, 0 else.

Table 5 Regression Results

$$NKAMs_i = b_0 + b_1UAI_j + b_2MAS_j + b_3BIG4_i + b_4LogA_i + b_5LogSegmt_i + b_6INV\&AR_i + b_7ROA_i + b_8FYear_i + \varepsilon_i \quad (1)$$

$$TKAMs_i = b_0 + b_1UAI_j + b_2MAS_j + b_3BIG4_i + b_4LogA_i + b_5LogSegmt_i + b_6INV\&AR_i + b_7ROA_i + b_8FYear_i + \varepsilon_i \quad (2)$$

	Predicted Sign	Model 1 Poisson regression NKAMs		Model 2 OLS regression TKAMs	
		Coef.	P-value	Coef.	P-value
UAI	H1: – and H3: +	–0.002	0.235	0.004	0.000***
MAS	H2: + and H4: +	0.003	0.542	0.003	0.275
BIG4	–	–0.105	0.063***	0.048	0.053
LogA	+	0.060	0.002***	–0.020	0.022**
LogSegmt	+	0.160	0.002***	–0.013	0.533
INV&AR	+	0.254	0.091*	0.276	0.000***
ROA	–	0.005	0.904	0.024	0.046**
FYear	+	0.010	0.842	0.014	0.520
Intercept	?	–0.759	0.164	–13.227	0.178
N		781			781
F-value		38.59			7.57
Prob > F		0.000***			0.000***
Pseudo R-squared		0.017			n/a
Adj R-squared		n/a			0.063
Log likelihood		–1135.30			n/a

P-values are one-tailed for predicted sign, except when estimated coefficient has a sign opposite to expectation. All other p-values are two-tailed.

NKAMs = a number of KAMs, TKAMs = a proportion of industry-common KAMs to total KAMs and use 10 percent as the cut-off point to consider whether KAMs are industry-common KAM, UAI = Hofstede's Uncertainty Avoidance Index, UAI = Hofstede's Masculinity Index Value, BIG = 1 if the company was audited by Big 4, 0 else, LogA = the natural logarithm of total assets, LogSegmt = the natural logarithm of a number of business segments, INV&AR = the proportion of balances of inventory and accounts receivable to total assets, ROA = return on assets and is computed by dividing net profits by total assets, and FYear = 1 if it was the first year of the implementation of KAMs, 0 else.

6. Conclusion

Our study explores the impact of national culture on the disclosures of KAMs. We focus only two cultural dimensions of Hofstede (2001) and Hofstede et al. (2010): uncertainty avoidance and masculinity, which are the different cultural dimensions among Thailand, Malaysia, and Singapore. Thailand has strong uncertainty avoidance and is feminine but Malaysia and Singapore have weak uncertainty avoidance and are mixing between masculine and feminine. As KAMs vary according to the companies which they operate in, we select only sample from the industrial sector. Our final sample covers the disclosures of KAM in 2016–2018 which consists of 174, 364, and 238 firm-year observations from Thailand, Malaysia and Singapore, respectively.

From the results of our regression models, we found that a country's cultural characteristics of uncertainty avoidance and masculinity do not affect a number of KAMs disclosed by auditors. A country's characteristic of masculinity also does not affect types of KAMs disclosed by the auditors. However, we found that auditors from a country with strong uncertainty avoidance are more likely to disclose industry-common KAMs where most of companies in the same industry share the similar ones. As highlighted by Hofstede et al. (2010), people from a country with strong uncertainty avoidance feel that "what is different is dangerous". This is the reason why the auditors from a country with strong uncertainty avoidance (e.g., Thailand) might avoid disclosing entity-specific and audit-specific KAMs but prefer disclosing industry-common ones in the first few years of the adoption of KAMs when the consequence of the disclosure of KAMs remains unclear. The auditors may worry that disclosing entity-specific and audit-specific KAMs may lead to the disagreement between auditors and clients and it may even harm their relationship. The disclosures of KAMs may also lead to regulatory scrutiny and litigation consequence in the later years. For the audits of companies in industrial sector, the auditors from a country with strong uncertainty avoidance are therefore more likely to disclose industry-common KAMs with respect to valuation of property, plant, and equipment, revenue recognition not from fraud, valuation of investments, valuation of goodwill, and accounting for long-term/complex contracts.

Our findings suggest that the auditors shall be encouraged to disclose more entity-specific and audit-specific KAMs. These entity-specific and audit-specific KAMs are more likely to be useful for users of financial statements than industry-common ones since they provide more specific information of an audit at an engagement level. Importantly, the auditors shall also reconsider whether the industry-common KAMs (e.g., the pervasiveness of the disclosures of KAMs relating to revenue recognition) they disclosed are really KAMs as defined by ISA 701. As identified by ISA 701, the significant risk areas due to fraud and the areas which are presumed by the ISAs to be significant risks (e.g., revenue recognition) are not necessary to be considered as KAMs.

Our study's limitation is that our regression models generate low Pseudo R-squared and Adj R-squared in comparison to the studies of Boonlert-U-Thai et al. (2019) and Pinto and Morais (2018). This indicates that there remain omitted variables in our models. Future international study of KAMs shall include more national factors, e.g., regulatory and supervisory system, precision of accounting standards, audit firm inspection regimes into its models. They shall also broaden sample to cover more countries which have different cultural dimensions and more industry sectors.

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