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Article

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Influence of external and internal auditors on key audit matters (KAMs) reporting in Thailand

Kriengkrai Boonlert-U-Thai¹ and Muttanachai Suttipun^{2*}

Abstract: The study aims to investigate the level and pattern of Key Audit Matters (KAMs) reporting, and to examine the influence of external auditor and audit committee characteristics on KAMs reporting of listed companies in the Stock Exchange of Thailand (SET). Using 200 listed companies of the SET as samples used in this study, the KAMs reporting is measured by the content analysis in auditor's report, while external auditor characteristics are proxied by audit type, audit fees, female auditor, and auditor rotation. Audit committee characteristics are proxied by audit committee member, proportion of financial expertise, meeting frequency, and member independence. Descriptive analysis, correlation matrix, and balanced panel analysis are used to analyze the data. The average level of KAMs reporting is 1.96 issues. The KAMs reporting shows a declining trend during year 2017 to 2020, while audit fees have increased during period being study. Finally, the study finds that the KAMs reporting is positively influenced by audit fees, female auditor, audit committee size, and meeting frequency. However, the study finds that high proportion of financial expertise audit committee reduces the level of KAMs reporting. The legitimacy theory can be demonstrated to explain the influence of external auditor and audit committee on KAMs reporting. Shareholders, creditors, and investors can use KAMs reporting as important information for their decision-making.

Subjects: Development Communication; Finance; Business, Management and Accounting;

Keywords: KAMs reporting; external auditor; internal auditor; Thailand



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1. Introduction

Listed companies in Thailand and all the countries are required by their stock exchange to report at least quarterly financial information such as financial statements, accounting policies and changes, and other information to their stakeholders. However, firms' information risks may cause corporate information to be less reliable (Kittiwong & Sarapaivanich, 2020). Therefore, the corporate information needs to be audited to ensure the reliability and quality of information. The audit report is an important medium to make the reliability of corporate information as well as financial statement users' decision-making. However, the traditional audit report has failed to communicate auditing information between external auditor and corporate financial statements' users such as shareholder, creditors, investors, and regulators (Li et al., 2019). It is because standardized language and form was made the traditional audit report of poor communication quality (Suttipun, 2022). It makes the financial statement users pay less attention to the traditional audit report. To develop and improve better quality of auditing communication, the International Auditing and Assurance Standards Board (International Auditing and Assurance Standards Board (IAASB), 2011) has launched the International Standard on Auditing Number 701, namely, "communicating key audit matters (KAMs) in the independent auditor's report" in 2015 (International Federation of Accountants (IFAC), 2016). As a result of this development, KAMs reporting has been mandated for all listed companies in Thailand since 2016 with the expectation that KAMs reporting will enhance the communicative quality of audit reports by providing information on corporate risk and uncertainty (Kittiwong & Sarapaivanich, 2020; Pratt, 2014).

In practices, KAMs reporting can be influenced by external auditor and audit committee characteristics. This is because the external auditor has to work together with audit committee when reviewing financial statements regarding the content of reported KAMs on the auditor's report and sometimes on audit committee's reports. These two reports of external auditor and audit committee are required by the Stock Exchange of Thailand to issue every quarter for auditor and every year for audit committee (The Stock Exchange of Thailand (SET), 2015). Legitimacy theory is employed to explain the association between KAMs reporting and characteristics of external auditor and audit committee because the corporations are willing to allow audit committee and external auditor to work together on KAMs reporting because they need to act toward society in a socially acceptable manner which can enhance corporate success (Chen et al., 2023; Deegan, 2002; Suttipun & Arwae, 2020; Velte & Issa, 2019). Moreover, KAMs reporting is a means of legitimacy corporate actions based on social expectations in which the corporations hope to show their compliance (Branco & Rodrigues, 2008; Pratoomsuwan & Yolrabil, 2020; Suttipun, 2022, 2023).

However, even though there are several prior studies on KAMs reporting in Thailand, many studies are still a longitudinal study with short-term period of data collection. For example, Wuttichindanon and Issarawornrawanich (2020) and Boonlert-U-Thai et al. (2019) collected and investigate a data of KAMs reporting of Thai listed companies during 2016 to 2017. Moreover, the previous related studies' results of influences of audit committee and external auditor on KAMs reporting in Thailand are limited and inconclusive (Boonlert-U-Thai et al., 2019; Guno & Penawuthikul, 2018; Suttipun, 2022; Wuttichindanon & Issarawornrawanich, 2020). In this study, Thai listed firms are used to document findings on KAMs' level and pattern during the period of 2017 and 2020 and investigate the association between KAMs and external auditor and audit committee characteristics.

This study uses firms listed in the Stock Exchange of Thailand (SET) as Thailand provides a unique setting for this study in terms of (1) the country ownership structure, (2) firm size, and (3) the relatively low number of reported KAMs. First, firms listed on the SET are mostly family-owned businesses with high family ownership concentration that can weaken a firm's corporate governance mechanisms (Wuttichindanon & Issarawornrawanich, 2020). Second, the sample of this study includes not only large multinational firms like those in developed countries (i.e. Australia, New Zealand, Japan, Singapore, and United States of America), but also small and medium firms that brings more variety

of firms being investigated. Third, the average number of KAMs in Thailand is relatively low as compared to that of European countries (Wuttichindanon & Issarawornrawanich, 2020). Therefore, from the research problems, there are two main research objectives which are (1) to document the level and pattern of KAMs reporting of companies listed in the Stock Exchange of Thailand (SET) during 2017 to 2020, and (2) to examine the association between KAMs and external auditor and audit committee characteristics.

Consequently, the current study seeks to make the following contributions to the existing literature. First, legitimacy theory used in this study can explain the influence of external auditor and audit committee characteristics on KAMs reporting in Thailand as same as in other countries. Second, financial statement users such as shareholders, investors, and other stakeholders can gain benefits due to a firm's social expectations from positive and negative associations between external auditor and audit committee characteristics and KAMs reporting. Third, the regulators and those responsible for setting auditing and financial reporting standards can use the findings of this study when updating and improving the regulations related to audit reports and KAMs reporting in the future.

The remainder of the study is divided into seven sections. The next three sections offer the background of KAMs reporting, theoretical perspective, and empirical literature review and hypothesis development. The following section presents research design including population and sample, data collection and variable measurement, and data analysis. The next section provides empirical results and discussions following by the study's objectives. Finally, this study summarizes and concludes with summary, contributions and implications, limitations, and suggestion for future study.

2. Background

The audit report has been defined by the International Audit and Assurance Standard Board (IAASB) as an independent examination and expression of opinion on a firms' financial statements by the auditor appointed in accordance with the terms of appointment and in compliance with the relevant statutory and performance requirements. The audit report is the final report of the auditor's assignment which all auditors issue to their clients giving their opinion that the financial statement represents a true and fair view of the company's financial performance and position. The auditor's statement on a corporate financial statement is an important issue for a company's stakeholders, especially its shareholders, and other investors, and also for regulators in the country(s) where it operates. However, it has been argued that auditors cannot satisfy both the company itself and its shareholders and investors who would like higher quality information and more specific audit reporting. Therefore, as noted in the introduction, the International Auditing and Assurance Standards Board (IAASB, 2011) sought to updated and improve the traditional audit report through the implementation of International Standard on Auditing No. 701, namely, Communicating Key Audit Matters in the Independent Auditor's Report which introduced a requirement for auditors to include KAM in their auditor's report with effect from 2015 with the aim of improving the quality of information and transparency relating to the audit of the company's financial affairs.

In Thailand, the Federation of Accounting Profession (Federation of Accounting Profession (FAP, 2016) launched mandatory KAM reporting in audit reports from 2016 for companies listed in the SET and the Market for Alternative Investment (MAI). KAM reporting is used to provide information about the most important issues relating to the company's performance in an accounting period at the auditor's sole discretion (FAP, 2016). Thus, KAM reporting is a means of communicating important information to those, such as investors, who rely upon corporate financial statements in their decision-making, as well as regulators.

KAM reporting is based on the opinions of the auditors who are responsible for auditing a company's financial affairs and through the reporting of KAM they can communicate financial and non-financial information to stakeholders and others who use or rely on company financial

statements about issues which may increase corporate risk, such as revenue recognition, inventory, receivables and allowances, property valuations, asset impairment, investment and investment impairment, goodwill impairment, taxation, and provisions (FAP, 2016). Thus, the users can consider KAM reported in the audit report in corporate annual reports to gain a clearer understanding about corporate risk in their decision-making. However, KAM reporting has only been mandatory in Thailand since 2016; thus, the factors influencing KAM reporting are still unknown. Therefore, this study aims to investigate KAMs reporting of listed companies in Thailand including the pattern of KAMs reporting during 2017 to 2020 as well as to examine the influences of audit committee and external auditor on KAMs reporting.

In Thailand, there were several prior studies investigating KAMs reporting of listed companies (Boonlert-U-Thai et al., 2019; Boonyanet & Promsen, 2018; Guno & Penawuthikul, 2018; Kittiwong & Sarapaivanich, 2020; Pratoomsuwan & Yolrabil, 2018; Srijunpetch, 2017; Suttipun, 2021, 2022; Tangruenrat, 2017; Wuttichindanon & Issarawornrawanich, 2020; Yarana et al., 2018). For example, Pratoomsuwan and Yolrabil (2018) found that transparency and confidence of financial statements' users in Thailand were higher and greater after the adoption of KAMs reporting in the new audit report. Boonyanet and Promsen (2018) found an improvement of communicative quality and informative value of KAMs reporting in Thailand. Yarana et al. (2018) found that the top three issues of KAMs reporting of listed companies in Thailand during 2016 to 2017 were revenue recognition, asset and investment valuation and impairment, and inventory valuation. Moreover, they found that Big-4 auditors provided a higher level of KAMs reporting in audit reports than non-big4 auditors. Boonlert-U-Thai et al. (2019) found that there was a positive relationship between audit fee, audit delay, and KAMs reporting of listed companies in the SET. Srijunpetch (2017) found a positive impact of KAMs reporting on stock trading volume, while Kittiwong and Sarapaivanich (2020) found no influence of KAMs reporting on market reaction. Suttipun and Arwae (2020) found that there were different levels of KAMs reporting between SET100 and non-SET100 firms, and between audit rotation and non-audit rotation. He also found that there was a positive relationship between firm size, corporate complexity, and the level of KAMs reporting, while profitability had a negative influence on KAMs reporting. However, the influence of external and internal auditors on KAMs reporting is not limited and inconclusive in Thailand, thus, there is still no answer and direction of relationship between internal and external auditors, and KAMs reporting.

3. Theoretical literature review

Legitimacy theory is used to explain the influences of audit committee and external auditor on KAMs reporting in this study because the social expectations can affect corporate actions and activities including information reporting. Therefore, successful corporations will seek to satisfy their social expectations because they are a part of board society. In addition, social expectations can change time by time that make the corporations must provide more information reporting to respond to their social expectations (Suttipun, 2022). From this point, thus, legitimacy theory can explain why the corporations are willing to allow audit committee and external auditor to work on KAMs reporting because they need to act toward society in a socially acceptable manner which can enhance corporate success (Deegan, 2002). Moreover, KAMs reporting is a means of legitimacy corporate actions based on social expectations in which the corporations hope to show their compliance (Branco & Rodrigues, 2008).

Although there are several theories used to explain the reasons of KAMs reporting or auditor's reporting such as signaling theory (Pries & Scott, 2018), agency theory (Srijunpetch, 2017), communication theory, legitimacy theory (Suttipun, 2022), and stakeholder theory (Suttipun, 2021), there are two main reasons why the legitimacy theory can be used to explain the influences of audit committee and external auditor on KAMs reporting in Thailand. Firstly, the opinion of audit committee and external auditor will help the corporations to meet their social expectations by providing a true and fair perspective of corporate affairs (Suttipun, 2022). For instance, Big4 auditors are generally perceived as providing better quality auditor's report than non-big4 auditors because the Big4 auditors have to maintain their reputation of providing higher quality audit

services to complete with the other auditors in the international auditing market. Secondary, if there are differences in terms of audit committee's and external auditor's characteristics, this may influence on the level of KAMs reporting.

4. Empirical literature review and hypothesis development

From empirical literature review of KAMs reporting's study in Thailand and theoretical perspective, this study extends these previous related studies which examine the influence of external and internal auditors on KAMs reporting. Therefore, hypothesis development in this study will divide within two groups as external auditors and internal auditors influencing on KAMs reporting.

4.1. External auditor

In this study, four key characteristics of external auditors along with other four key characteristics of audit committee will be simultaneously tested to investigate the association between these characteristics and KAMs reporting in Thailand. The four external auditor characteristics are audit firm size, audit fees, female auditors, and auditor rotation.

Prior studies normally divide audit firms into two different types, which are Big-4 and non-big-4 audit firms (Lysak, 2020; Smith, 2017; Suttipun, 2022). In terms of Big-4 auditors, the world's largest audit companies comprise PricewaterhouseCoopers, KPMG, Deloitte, and Ernst and Young, while non-big-4 auditors are local-based audit firms. Most previous related studies found that Big-4 auditors provided more audit reports including KAMs reporting in terms of both quality and quantity of information disclosure than non-big-4 auditors (Lysak, 2020; Sarhan et al., 2019; Smith, 2017; Suttipun, 2022; Velte & Issa, 2019). It is because the Big-4 auditors service not only in the small number of countries, but also in many countries around the world. It makes them to maintain their world-class reputation on high-quality services rather than local-based audit firms. For example, Sarhan et al. (2019) found that size of external auditing firms can impact quality of audit reporting. However, some prior studies found no influence of audit type on audit reporting or KAMs reporting (Suttipun, 2021). This is because the audit regulations in many countries are strict and require both international and local audit firms to audit corporate accounts and disclosures in accordance with the international standards such as the International Auditing and Assurance Standards. Thus, the results on types of audit firms and KAMs reporting in Thailand are mixed.

H1: There is a positive association between audit firm type and KAMs reporting.

The regulation of KAMs reporting has required that the external auditors have to pay more attention when they are auditing the corporate accounts and be more critical when disclosing on them. This makes the audit firms have to spend more time, money, and the other resources to prepare their staff for the implementation and training of KAMs reporting (Li et al., 2019). Therefore, it is caused to increase for audit fees (Tangruenrat, 2017). Most prior related studies found a positive influence of audit fees on KAMs reporting (Boonlert-U-Thai et al., 2019; Li et al., 2019; Suttipun, 2022; Tangruenrat, 2017). However, Bedard et al. (2019) found no relationship between audit fees and KAMs reporting. Thus, the results on the audit fees and KAMs reporting in Thailand are mixed.

H2: There is a positive association between audit fees and KAMs reporting.

Most previous related studies of relationship between female auditors and KAMs reporting found a positive direction of correlation (Abdelfattah et al., 2021; Khunkaew et al., 2023; Nekhili et al., 2018). This is because the female auditors can provide better ability to communicate and disclose audit reporting including KAMs reporting more than do the male auditors. In addition, the female auditors are more sensitive to risk because they perceive more risks and uncertainty, participate in less risky behavior, and make less risky choices (Ho et al., 2015). For example, female auditors are

more risk-averse and more liable to personal conflicts of interest (Nekhili et al., 2018). Thus, the female auditors tend to disclose more KAMs information and issues than do the male auditors. However, the results on female auditors and KAMs reporting show no relationship in the Thai setting (Wuttichindanon & Issarawornrawanich, 2020). Thus, the results on female auditors and KAMs reporting are mixed.

H3: There is a positive association between female auditor and KAMs reporting.

In Thailand, listed companies are obliged to change their audit firms/partners in every five fiscal years following by the regulation of The Stock Exchange of Thailand (SET) (2021) because it is believed that audit rotation can increase (1) the transparency of auditing, and (2) the probity of auditors and their partners (Suttipun, 2022). Thus, audit rotation may link to higher quantity and quality of audit reports including KAMs reporting. However, the results of influence of audit rotation on KAMs reporting were mixed. For example, on the one hand, Velte and Issa (2019) found a positive relationship between audit rotation and KAMs reporting. On the other hand, Suttipun (2022) found no influence of audit rotation on KAMs reporting. In addition, using data from Lin and Yen (2023) document interesting findings on different KAMs disclosures as they are more likely to be observed when there is a change in audit partner(s) than when there is none. As a result, the number of KAMs is expected to increase. However, the results on the auditor rotation and KAMs reporting in Thailand are also mixed.

H4: There is a positive association between audit rotation and KAMs reporting.

4.2. Internal auditor

As mentioned earlier, this study also includes four key characteristics of audit committee in the tests of the association between external auditor and audit committee characteristics and KAMs reporting in Thailand. The four audit committee characteristics are audit committee size, financial expertise audit committee, audit committee meeting, and independent audit committee.

Although the external auditors present and communicate the audit reports including KAMs reporting, the auditors generally work together with corporate audit committee. Two important roles of audit committee are to review corporate financial statements and to prepare the audit committee's reports.¹ Moreover, audit committee plays as a monitoring role in KAMs reporting of the external auditor's audit reporting (Kang, 2019). Thus, different audit committee's characteristics may influence audit reports such as the number of KAMs. According to prior studies, there are four main variables used to represent audit committee's characteristics, which are audit committee size, expertise of audit committee, audit committee's meeting, and independent audit committee. In variables of audit committee size, the previous related literatures of Rifai and Siregar (2021), Wuttichindanon and Issarawornrawanich (2020), Sarhan et al. (2019), Velte and Issa (2019, 2020), Boonlert-U-Thai et al. (2019), and Al-Shaer et al. (2017) found a positive influence of audit committee size on KAMs reporting. For example, Al-Shaer et al. (2017) found that the firms with higher quantity and quality of audit committee make higher quantity and quality disclosure on audit and KAMs information. Thus, the size of audit committee can increase the level of KAMs reporting in the audit reports.

H5: There is a positive association between audit committee size and KAMs reporting.

In Thailand under regulation of the SET, the listed companies need to have at least one audit committee who have knowledge and experience to review the reliability of financial statements (The SET, 2015). It means that expertise of audit committee has to have financial and accounting knowledge. This can be explained by legitimacy theory that the opinion of expertise of audit committee can help the corporations to meet their social expectations by providing a true and

fair perspective of corporate affairs (Suttipun, 2022). However, the results were inconclusive because although Velte (2020) found a positive influence of expertise of audit committee on KAMs reporting, but Wuttichindanon and Issarawornrawanich (2020) found no relationship between variables in Thailand. On the other hand, Morais and Curto (2018) found a negative impact of expertise of audit committee on KAMs reporting because expertise audit committee can reduce corporate risk and uncertainty that can affect KAMs reporting of the external auditors.

H6: There is a positive association between expertise audit committee and KAMs reporting.

The number of audit committee meetings can affect the quality and quantity of audit reports including KAMs reporting in Thai context because the influence of corporate governance mechanisms on KAMs reporting may vary in different institutional settings (Velte & Issa, 2019). In addition, legitimacy theory can explain why the corporations allow more meetings of audit committee to work on KAMs reporting because they need to act toward society in a socially acceptable manner which can enhance corporate success (Deegan, 2002). However, the findings of prior studies provided mixed results on the number of audit committee meetings. For example, Velte and Issa (2019, 2020) and Rifai and Siregar (2021) found a positive relationship between audit committee meetings and KAMs readability, while Wuttichindanon and Issarawornrawanich (2020) found no relationship between the two variables.

H7: There is a positive association between audit committee meetings and KAMs reporting.

In Thailand, there is a requirement that requires all listed firms have three or more independent audit committee members (SET, 2015). In addition, the SET also requires that one-third of audit committee members must be independent. This is because the greater proportion of independent audit committee members can provide stronger corporate governance mechanisms to safeguard corporate shareholders' wealth (Velte & Issa, 2019). As a result, it can be mentioned that the independent audit committee plays an oversight role to balance and sustain all of shareholders demands. According to prior studies, Wuttichindanon and Issarawornrawanich (2020), Sarhan et al. (2019), and Velte and Issa (2019) found a positive influence of independent audit committee on KAMs reporting. On the other hand, Abu and Jaffar (2020) found no relationship between both variables. Thus, the results on the relationship between the number of independent audit committee members and KAMs reporting are mixed.

H8: There is a positive association between independent committee and KAMs reporting.

5. Research design

To investigate the level and pattern of KAMs reporting of listed companies in Thailand and to examine the association between external auditor and audit committee characteristics and KAMs reporting, the study uses a sample of listed companies from the Stock Exchange of Thailand during 2017 to 2020 (SET, 2021). The listed companies of the SET are used as the sample of this study because KAMs reporting is mandatory audit reporting for only listed companies but not for limited companies and partnership. However, this study does not include the listed companies that (1) do not end their fiscal year on 31st December each year, (2) do not have annual reports during 2017 to 2020, (3) are registered in the financial industry and property fund sector of property and construction industry at the SET, (4) are withdrawn from listing by the SET, (5) are under rehabilitation, and (6) are in the Thailand Market Alternative Investment. After reducing these conditions, 200 listed firms are adopted as the sample of this study. Corporate audit reports and annual reports of the cases during 2017 to 2020 are used to collect data of KAMs reporting as well as external auditor and audit committee characteristic data. This is because the corporate annual reports are included KAMs reporting which is a part of auditing reports. In addition, annual reports to collect data is that the annual report is a statutory report that is widely recognized as the principal means

by which companies communicate their actions and activities (Suttipun, 2021). Therefore, the final balanced panel sample consists of 800 firm-years of observations. The study indicates the equation of sample selection, and it is shown below.

Number of listed companies in 2020	743 firms
(Less) Firms which do not have annual reports 2017–2022	(163) firms
(Less) Firms which do not have 31 st December as accounting day	(60) firms
(Less) Firms which are in financial industry and funding	(128) firms
(Less) Firms which are withdrawn from the SET	(17) firms
(Less) Firms which are in the Alternative capital market	(175) firms
Number of samples used in this study	200 firms

Source: The Stock Exchange of Thailand (2021)

The corporate audit reports and annual reports are used to collect four main sources which are KAMs reporting, audit committee, external auditor, and corporate characteristics. Content analysis by the number of key issues or concerns counted is used to quantify the level of KAMs reporting in auditor's report. It is because the content analysis has been the most common method used to assess the reporting of non-financial information (Suttipun & Arwae, 2020) and has been used in many previous studies (Suttipun, 2021, 2022). Moreover, Suttipun and Yordudom (2022) asserted that content analysis is a technique allowing a replicable and valid inference to be drawn from data according to the context. Word count from annual reports was used as the analysis unit because it can be more easily categorized and needs less subjective judgment by the researcher. External auditor characteristics are proxied using audit firm type, audit fees, female auditor, and external auditor's rotation and audit committee's characteristics are measured using the number of audit committee (to represent the size of audit committee), proportion of expertise audit committee, meeting frequency, and independent audit committee. In addition, the corporate characteristics are also used as control variables, which are firm size, profitability, firm risk, and industry and year fixed effects. These proxies were used in prior studies as control variables (Khunkaew et al., 2023; Suttipun, 2021, 2022; Suttipun & Yordudom, 2022). The control variables are also collected by the corporate annual reports. All variables of interest and control variables used in this study are summarized in Table 1.

To analyze the data of this study, descriptive analysis is firstly used to investigate the level and pattern of KAMs reporting of listed companies in the SET during 2017 to 2020. Before investigating the association between external auditor and audit committee characteristics and KAMs reporting, correlation matrix is used to test for multicollinearity problem between variables used in this study. Finally, balanced panel analysis is used to examine the association between external auditor and audit committee characteristics and KAMs reporting. The multiple regression models are indicated below. In addition, the study provides robustness test of the influence of external and internal auditors on KAMs reporting between the interest groups of Top100 and Non-top100 firms of the SET.

$$\text{KAMs} = \beta_0 + \beta_1 \text{BIG4} + \beta_2 \text{FEES} + \beta_3 \text{FEAUDIT} + \beta_4 \text{ROTATE} + \beta_5 \text{COMMIT} + \beta_6 \text{EXPERT} + \beta_7 \text{MEETING} + \beta_8 \text{COMINDEP} + \varepsilon \quad (1)$$

$$\text{KAMs} = \beta_0 + \beta_1 \text{BIG4} + \beta_2 \text{FEES} + \beta_3 \text{FEAUDIT} + \beta_4 \text{ROTATE} + \beta_5 \text{COMMIT} + \beta_6 \text{EXPERT} + \beta_7 \text{MEETING} + \beta_8 \text{COMINDEP} + \beta_9 \text{SIZE} + \beta_{10} \text{PROFIT} + \beta_{11} \text{RISK} + \beta_{12} \text{IF} + \beta_{13} \text{YF} + \varepsilon \quad (2)$$

Table 1. Proxies of variables used in this study

Variables	Notation	Measurement
KAMs reporting	KAMs	Content analysis by the number of issues counted Suttipun, (2022)
Audit firm type	BIG4	Dummy variables as 1 = Big4 auditors, 0 = otherwise Suttipun, (2021)
Audit fees	FEES	Audit fees (Million baht) Suttipun & Yordudom, (2022)
Female auditor	FEAUDIT	Dummy variables as 1 = female auditor, 0 = otherwise Khunkaew et al. (2023), Suttipun (2022)
Auditor rotation	ROTATE	Dummy variables as 1 = having rotation, 0 = otherwise Suttipun (2022)
Audit committee member	COMMIT	Number of audit committee Suttipun (2022)
Financial expertise audit committee	EXPERT	Proportion of audit committee' expert in areas of finance on total audit committee Suttipun (2022)
Audit committee Meeting	MEETING	Number of audit committee meetings in each year Suttipun (2022)
Independent audit committee	COMINDEP	Proportion of independent audit committee on total audit committee Suttipun (2022)
Firm size	SIZE	Dummy variables as 1 = TOP100 firms, 0 = otherwise Suttipun & Yordudom (2022)
Profitability	PROFIT	Return on asset (ROA) Suttipun (2021)
Risk	Risk	Ratio of total liability on total equity Suttipun (2021, 2023)
Industry	IF	Industry-fixed-effects Suttipun (2021)
Year	YF	Year-fixed-effects Suttipun & Yordudom (2022)

6. Empirical results and discussion

From 800 firm-years of observations, Table 2 provides the descriptive analysis for the variables used in this study. For example, average KAMs reporting is 1.9587 issues per year during 2017 to 2020 (SD = 0.9509). In terms of external auditor characteristics, descriptive statistics indicate that approximately 64.10 percent of audit firms are Big4, average FEES is 4.5130 million baht (SD = 6.0143), approximately 52.90 percent of auditors are female, and auditor's rotation is approximately 5.40 percent. In terms of audit committee characteristics, descriptive statistics indicate that the average number of audit committee members is 3.1400 persons (SD = 0.3682) which is similar to the minimum requirement of the Stock Exchange of Thailand, the proportion of expertise audit committee on total committee is 0.2912 (SD = 0.2150), the average number of audit committee meetings per year is 6.0637 times, and the proportion of independent audit committee on total committee is 0.9857 (SD = 0.0926). For control variables, return on assets as a proxy for PROFIT is 4.25 percent (SD = 8.3), while D/E ratio as a proxy for RISK is 1.1282 times (SD = 1.6257). Moreover, 29.00 percent of the sample firms-year observations are among Top100 firms.

Table 2 shows the average number of KAMs reporting in Thailand, which is relatively low (1.9587 issues per year) as compared to that of other countries. This level of KAMs reporting in Thailand is interesting as all listed firms in Thailand are also required by SET to have their audit reports include

Table 2. Descriptive analysis of variables used in the study

Numeric variables	Mean	SD	Max	Min	Median
KAMs	1.9587	0.9509	6.00	0.00	2.00
FEES	4.5130	6.0143	70.97	0.40	1.20
COMMIT	3.1400	0.3682	6.00	2.00	3.00
EXPERT	0.2912	0.2150	1.00	0.00	0.33
MEETING	6.0637	2.9636	21.00	3.00	4.00
COMINDEP	0.9857	0.0926	1.00	0.25	1.00
PROFIT	0.0425	0.0830	0.31	-0.71	0.07
RISK	1.1282	1.6257	29.26	-2.83	1.70
Categorical variables	Frequency		Percent		
BIG4	513		64.10		
• BIG4 auditors	287		35.90		
• Non-big4 auditors					
FEAUDIT	423		52.90		
• Female auditors	377		47.10		
• Male auditors					
ROTATE	43		5.40		
• Audit rotation	757		94.60		
• Non-audit rotation					
SIZE	232		29.00		
• Top100 firms	568		71.00		
• Non-top100 firms					

KAMs reporting as a separate KAMs paragraph, but couple firms still have no issue of KAMs reporting in their audit reports. The reason is that the external auditors did not disclose KAMs issues in their audit reports because they do not find any risk and uncertainty of their clients. Therefore, although there is KAMs paragraph in the audit reports, no KAMs issues or concerns are stated. On the other hand, the highest number of KAMs was six issues per year.

To investigate the pattern of KAMs reporting of listed companies in Thailand, the study uses descriptive statistics based on the yearly average of some select variables (Table 3). First, the pattern of KAMs has slightly been dropped from 2.1250 average issues (SD=0.0664) in year 2017 to 2.0100 average issues (SD=0.0708) in year 2018, 1.8600 average issues (SD=0.0676) in year 2019, and 1.8392 average issues (SD=0.0622) in year 2020. The downward pattern of KAMs reporting in this study is consistent with Sirois et al. (2018) findings that external auditors tend to provide same KAMs issues as those reported in prior years of their corporate clients' reports. Thus, if the corporations can close or reduce their risk and uncertainty, the number of KAMs issues will decrease either. The most three common issues of KAMs reporting of listed companies in the SET are revenue recognition, inventory valuation, and impairment of asset. In details of top three issues of KAMs reporting, revenue recognition is disclosed in areas of volume and category of trade that conducts by the corporations. On the inventory valuation's issue, the external auditors commend on the net realization value of current inventory. Finally, the auditors highlight in the indications of assets' impairment. In addition, the auditors also suggest that impairment of assets may by an issue of allowance for impairment. The result of this study is quite similar with the findings of Tangruenrat (2017) who finds that top-three issues of KAMs reporting in Thailand on the first year (year 2016) were revenue recognition, valuation of assets, and impairment of assets.

Table 3. Descriptive analysis of variables used in provide a pattern of variables

Variables	Year	Mean	SD	Max	Min	Medium
KAMs	2017	2.125	.066	5.000	1.000	2.000
	2018	2.010	.070	6.000	1.000	2.000
	2019	1.860	.067	5.000	1.000	2.000
	2020	1.839	.062	5.000	0.000	2.000
	Average	1.958	.950	6.000	0.000	2.000
FEES	2017	3.991	.376	53.850	.400	2.514
	2018	4.435	.408	57.970	.420	2.800
	2019	4.673	.423	53.090	.440	2.940
	2020	4.970	.486	70.970	.450	3.000
	Average	4.513	6.014	70.970	.400	1.200
PROFIT	2017	.044	.007	.290	-.710	.049
	2018	.048	.005	.310	-.410	.040
	2019	.044	.004	.260	-.180	.037
	2020	.032	.005	.270	-.170	.031
	Average	.042	.083	.310	-.710	.070

In terms of the pattern of audit fees during period being study, the study finds that there is an increase of audit fees from 3.991 million baht (SD = .376) in 2017, to 4.435 million baht (SD = .408) in 2018, 4.673 million baht (SD = .423) in 2019, and 4.971 million baht (SD = .486) in 2020). Finally, the study finds a decrease of corporate profit measured by the return on asset (ROA). In details, although there has been similar profit level between 2017 and 2019 from .044 to .048, it is dropped down to .032 in 2020. This may be because all listed companies have been negatively influenced by COVID-19 pandemic since the beginning of year 2020. When considering all these three patterns, the finding on audit fee pattern is interesting as it is opposite to the decreasing trend of KAMs even though firms' profitability on average was quite stable during the years 2017–2019.

Before testing for the association between external auditor and audit committee characteristics and KAMs reporting, correlation matrix is used to test for multicollinearity problem between variables used in this study. Table 4, therefore, shows the correlation matrix. No multicollinearity problem between variables used is apparent. Moreover, to test for correlations between one dependent variable, ten independent variables, and three control variables, the finding indicates that KAMs is positively correlated to BIG4, FEES, COMMIT, MEETING, SIZE, and RISK at 0.01 and 0.05 levels. However, there is negative correlation between KAMs and PROFIT at 0.01 level.

Table 5 shows the findings of balanced panel analysis from model A and model B. The R square from both models is from 0.142 to 0.174, and the adjusted R square is from 0.133 to 0.162, showing that the models explain approximately 13.3 to 16.2 percent of the variance in the data. To investigate the association between external auditor and audit committee characteristics KAMs reporting in Thailand, the study uses the findings of both models showing that KAMs is positively associated with FEES, FEAUDIT, COMMIT, and MEETING at 0.01 and 0.05 levels, while EXPERT has a negative association with KAMs at 0.05 level. However, there is no significant association between KAMs and BIG4, ROTATE, or COMINDEP at 0.05 level.

The results on control variables show that there is a negative association between PROFIT and KAMs at 0.01 level, while other control variables (SIZE, RISK and KAMs) provide no association with KAMs at 0.05 level. The finding on PROFIT indicates that the number of KAMs increases when a firm's return of assets is decreasing.

Table 4. Correlation matrix

Variables	1	2	3	4	5	6	7	8	9	10	11	12
1.KAMs	1	-	-	-	-	-	-	-	-	-	-	-
2.BIG4	.118**	1	-	-	-	-	-	-	-	-	-	-
3.FEES	.321**	.285**	1	-	-	-	-	-	-	-	-	-
4.FEAUDIT	.049	.114**	-.137**	1	-	-	-	-	-	-	-	-
5.ROTATE	-.019	-.053	-.053	-.053	1	-	-	-	-	-	-	-
6.COMMIT	.113**	.103**	-.056	-.065	.030	1	-	-	-	-	-	-
7.EXPERT	-.063	.029	.005	-.028	-.067	-.029	1	-	-	-	-	-
8.MEETING	.180**	.123**	.182**	.008	.030	.051	.153**	1	-	-	-	-
9.COMINDEP	-.048	.032	.067	-.027	.037	-.180**	.051	.064	1	-	-	-
10.SIZE	.075*	.316**	.361**	-.092**	-.061	-.033	-.005	.257**	.067	1	-	-
11.PROFIT	-.192**	.093**	-.068	.022	-.069	.002	.109**	-.019	.009	.135**	1	-
12.Risk	.129**	.102**	.124**	.001	-.030	.031	.015	.041	.046	.015	.327**	1

** is significant at 0.01, and * is significant at 0.05.

Table 5. Balanced panel analysis

Variables	Model A	Model B
BIG4	.010 (.296)	.039 (1.078)
FEES	.301 (8.437**)	.296 (8.059**)
FEAUDIT	.083 (2.465*)	.078 (2.326*)
ROTATE	-.022 (-.675)	-.034 (-1.021)
COMMIT	.070 (2.049*)	.070 (2.083*)
EXPERT	-.081 (-2.404*)	-.067 (-2.022*)
MEETING	.137 (3.998**)	.142 (4.127**)
COMINDEP	-.057 (-1.693)	-.055 (-1.649)
SIZE	-	-.053 (-1.415)
PROFIT	-	-.154 (-4.330**)
RISK	-	.031 (.898)
IF	Included	Included
YF	Included	Included
Max VIF	1.171	1.336
R Square	.142	.174
Adjust R Square	.133	.162
F-value	16.310**	11.350**
Observations	800	800

** is significant at 0.01, and * is significant at 0.05.

Given the result of no association between BIG4 (audit firm type) and KAMs reporting, this finding is similar with Suttipun (2022) who found no relationship between audit type and KAMs reporting. This may imply the unique setting of Thai firms listed in the SET that there is not much different in terms of quality and quantity of work between Big4 and non-big4 auditors because the auditing regulations in many countries require the external auditors to audit the corporate accounts and disclose on them in accordance with international auditing standards. Thus, major differences in terms of quality and quantity of KAMs information in the audit reports are minimal or are not different between the works by Big4 and non-big4 auditors.

The finding on a positive association between audit fees and KAMs reporting is consistent with the findings of Suttipun (2022), Li et al. (2019), Thammasiri and Tepalagul (2016), and Fitriy et al. (2016). It is because KAMs reporting can create and increase risk and effort of the external auditors (Almulla & Bradbury, 2018). In terms of audit risk, thus, the auditors will increase the audit fees to reduce or close a higher litigation risk when misstatements are subsequently revealed (Wei et al., 2017). On the other hand, in terms of audit effort, KAMs reporting requires the auditors to spend more time to observe, consider, discuss, and report KAMs information into the audit report. Therefore, the audit fees are increased to cover and compensate the audit effort on KAMs reporting.

The finding on a positive association between female auditors and KAMs reporting is consistent with the findings of Khunkaew et al. (2023), Abdelfattah et al. (2021), Nekhili et al. (2018), and Velte (2018) indicating that female auditors provide better ability to communicate and disclose audit reporting and KAMs reporting more than do the male auditors. Moreover, female auditors are more sensitive to risk as they perceive more risks and uncertainty, participate in less risky behavior, and make less risk choices (Ho et al., 2015). For example, female auditors are more risk-averse, and more liable to personal conflicts of interest (Nekhili et al., 2018). Therefore, the female auditors tend to disclose more KAMs information and issues than do the male auditors.

The finding of no association between audit rotation and KAMs reporting is somewhat different from results of Velte (2018) and Salleh and Jasmani (2014) but is similar with Suttipun (2022) who used the samples from listed firms of the alternative capital market in Thailand. This is because, out of 800 firm-year observations, only 43 observations (5.375 percent) had rotated their external auditors during period being study. Even though there is audit rotation from one external auditor to the other, the new external auditor has to compare corporate financial statements with the past financial statements, which also include audit reports and prior KAMs reporting information (Suttipun, 2022). In addition, the study does test whether there is a different number of KAMs issue between rotation and non-rotation of auditors by using independent sampled t-test. The result is revealed that no different number of KAMs issue between both group at 0.05 level either. Therefore, the external auditors normally generate the same extent and level of KAMs reporting on the corporations audited from 2017 to 2020.

The result on a positive association between audit committee size and KAMs reporting is consistent with the results of Wuttichindanon and Issarawornrawanich (2020), Velte (2020), Sarhan et al. (2019), and Boonlert-U-Thai et al. (2019). It is because even though the external auditors present and communicate the audit reports including KAMs reporting, the auditors generally work together with corporate audit committee. Moreover, two important roles of audit committee's works are (1) to review corporate financial statements and (2) to prepare the audit committee's reports which consist of (1) their opinion on accuracy, completeness, and reliability on corporate financial statements, and (2) their opinion on sustainable development of auditors (The SET, 2015). Therefore, bigger size of audit committee can provide more level of KAMs reporting in the audit reports.

Although there is a significant negative association between expertise audit committee and KAMs reporting, this hypothesis is still rejected because the direction of finding is totally different from the study's predicted sign when developing hypothesis. Thus, the result of this study is contrast with the results of Wuttichindanon and Issarawornrawanich (2020) and Velte and Issa (2019) showing a positive association. This may be because the knowledge and experience in terms of accounting and finance of expertise audit committee can reduce or close risk and uncertainty that the external auditors will use to disclose in KAMs reporting of audit reports (SET, 2015). As a result, the finding of a negative association between expertise audit committee and KAMs reporting in Thailand supports the legitimacy theory due to a high firm's social expectations.

In terms of a positive association between audit committee meetings and KAMs reporting, the finding of this study is similar with Velte and Issa (2019, 2020) who found a positive relationship between audit committee meetings and KAMs readability. This is because the number of audit committee meetings is related to how many risks and uncertainties that audit committees need to discuss and solve. In addition, risk and uncertainty can enforce audit committee to call for more meetings in order to solve or reduce a firm's issues and problems. It causes higher number of KAMs issues' reporting (Abu & Jaffar, 2020). Therefore, more issues of KAMs reporting are influenced on more meetings of audit committee. Moreover, legitimacy theory can also explain the reason why listed companies allow more meetings of audit committee to work on KAMs reporting as they need to act toward society in a socially acceptable manner which can enhance corporate success (Deegan, 2002).

Finally, the result of no association between independent audit committee and KAMs reporting is different from the results of Wuttichindanon and Issarawornrawanich (2020) and Velte and Issa (2019). This may be due to the reason that even though a one-third of audit committee members is required to be independent, almost all listed firms (98.57 percent in Table 2) in Thailand already have three independent audit committee members serving on their audit committee. Thus, the quality of works between independent audit committee and the other audit committee is similar. Therefore, no influence of independent audit committee on KAMs reporting is found in this study.

Table 6. Robustness test

Variables	Top100 firms' Model	Non-top100 firms' Model
BIG4	.204 (2.960**)	.008 (.182)
FEES	.310 (3.556**)	.290 (6.256**)
FEAUDIT	.226 (2.924**)	.240 (3.048**)
ROTATE	-.016 (-.239)	-.042 (-1.104)
COMMIT	-.035 (-.509)	.148 (2.229*)
EXPERT	-.017 (-.237)	-.235 (-2.927**)
MEETING	.008 (.114)	.149 (3.862**)
COMINDEP	.059 (.882)	-.089 (-2.319*)
SIZE	.145 (1.662)	.008 (.164)
PROFIT	-.063 (-.873)	-.148 (-3.614**)
RISK	.048 (.670)	.031 (.757)
IF	Included	Included
YF	Included	Included
Max VIF	1.791	1.549
R Square	.262	.182
Adjust R Square	.215	.167
F-value	5.581**	11.942**
Observations	232	568

** is significant at 0.01, and * is significant at 0.05.

Table 6 indicates the robustness test of external and internal auditors, and KAMs reporting between Top100 and Non-top100 firms from the Stock Exchange of Thailand. The result of Top-100 firms' model is found that there is significantly positive influence of audit firm type, audit fees, and female auditor on KAMs reporting at 0.01 level, while the other external and internal auditors' variables do not have an impact on KAMs reporting during period being study. On the other model of Non-top100 firms, the study finds that there is a positive impact of audit fees female auditor, audit committee member, and audit committee meeting on KAMs reporting at 0.05 and 0.01 levels, but financial expertise member and independent audit committee have a negative influence on KAMs reporting at 0.05 and 0.01 level.

7. Summary and conclusion

To answer two main research questions on (1) the level and pattern of KAMs reporting and (2) the association between external auditor and audit committee characteristics and KAMs reporting, this study documents that the average of KAMs reporting is 1.9587 issues per year, while the pattern of KAMs reporting of listed companies in the SET is slightly dropped during period being study. In addition, the study finds the positive association between KAMs reporting and external auditor characteristics (i.e. audit fees and female auditor) and between KAMs reporting and audit committee characteristics (i.e. number of audit committee and meeting frequency). On the other hand, expertise of audit committee has a negative association with KAMs reporting. Lastly, the study finds no association between KAMs reporting and some external auditor characteristics (i.e. audit firm type and external auditor's rotation) and between KAMs reporting and some audit committee characteristics (i.e. independent audit committee).

The study provides several implications and contributions. In terms of theoretical contribution, firstly, legitimacy theory used in this study can explain the positive influence of external auditor and audit committee on KAMs reporting of listed companies in Thailand as same as in other countries where KAMs reporting is mandatory reporting. Furthermore, the study of audit committee, external auditor, and KAMs reporting would help understanding between corporations and their stakeholders, especially shareholders, creditors, and investors. In terms of practical implications, financial statement users

such as shareholders, creditors, investors, and the other stakeholders can gain benefits as social expectations from the positive influence of audit committee and external auditors on KAMs reporting. Next, the regulators and those responsible for setting auditing and reporting standards can use the findings of this study when updating and improving the regulations relating to audit reports and KAMs reporting in the future. Finally, the results can be used to evaluate the reasons of reporting on the quality and quantity of KAMs information provided in the audit report and more generally in respect of external auditor and audit committee practices in Thailand.

However, there are some limitations in this study. The study uses only one capital market of Thailand, although there are two capital market, which are the SET, and the Market for Alternative Investment. However, the Market for Alternative Investment is not used in this study because its level of market efficiency is not strong as that of the SET and the study aims to provide comparable results with other countries using one main capital market. Next, KAMs reporting is collected only quantitative data, but not qualitative data. Finally, there are several proxies of external auditor and audit committee characteristics to be investigated, while this study used only eight proxies. Therefore, to suggest for the future study, the influence of external auditor and audit committee characteristics measured using other proxies on KAMs readability of listed companies in both the SET and alternative capital markets can be examined.

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Note

1. The audit committee's report consists of (1) their opinion on accuracy, completeness, and reliability on corporate financial statements, and (2) their opinion on sustainable development of auditors (The SET, 2015).

Correction

This article has been corrected with minor changes. These changes do not impact the academic content of the article.

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