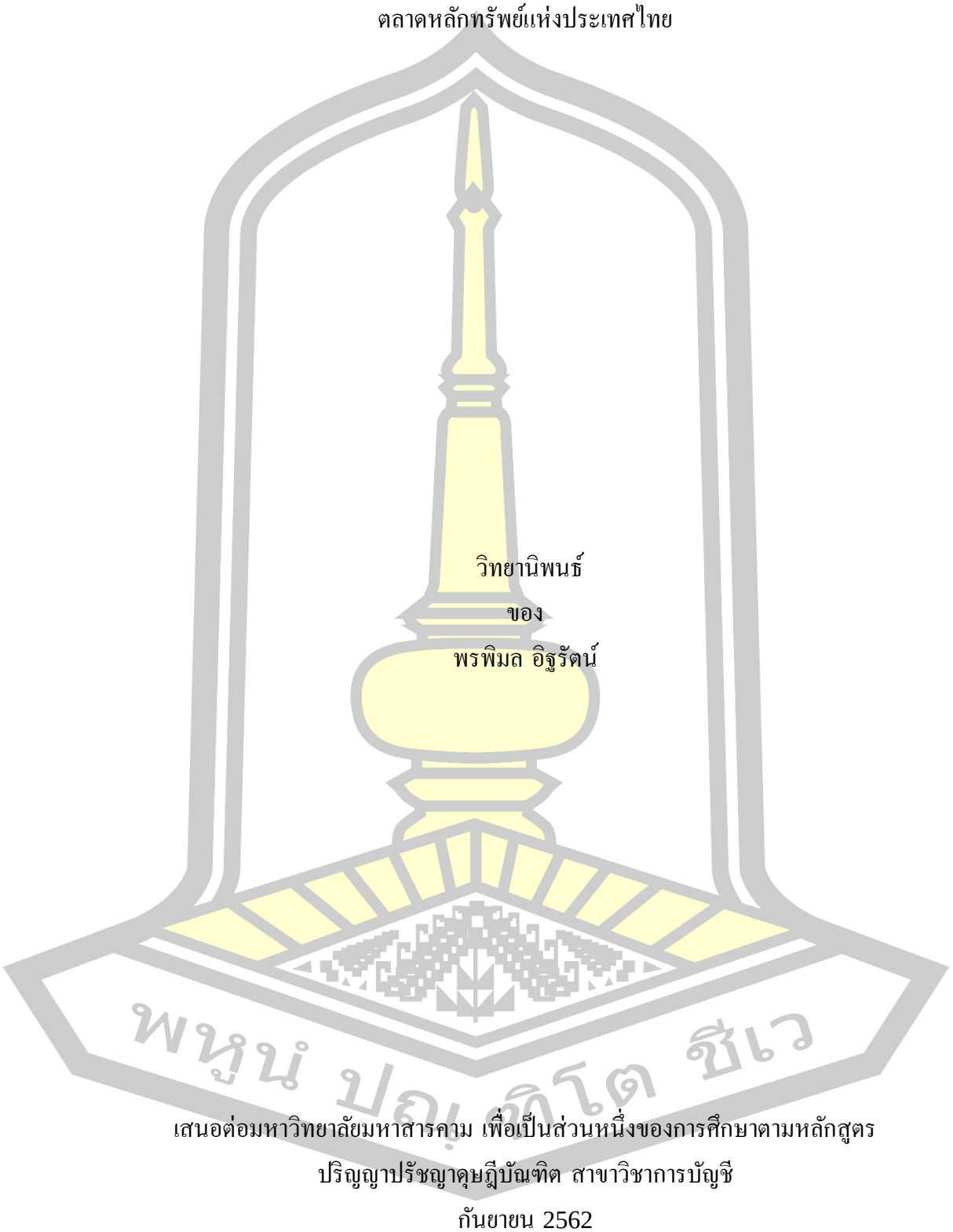
The Incremental Information Content of Key Audit Matters on Stock Returns: Evidence from Companies in the Stock Exchange of Thailand

Pornpimon Ittarat

A Thesis Submitted in Partial Fulfillment of Requirements for
degree of Doctor of Philosophy in Accounting
September 2019

ข้อมูลที่เพิ่มขึ้นของเรื่องสำคัญการตรวจสอบต่อผลตอบแทนของหุ้น: หลักฐานจาก บริษัท ในตลาดหลักทรัพย์แห่งประเทศไทย



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The examining committee has unanimously approved this Thesis, submitted by Mrs. Pornpimon Ittarat , as a partial fulfillment of the requirements for the Doctor of Philosophy Accounting at Mahasarakham University

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ABSTRACT

This paper is interesting in studying the benefits of information content in KAM, which will help to reduce the gap of information in order to better understand the users of financial statements. The conceptual model is proposed by drawing on efficient markets hypothesis and the signaling theory are useful to describe the associations of the variables in the research. The companies listed on the Stock Exchange of Thailand (SET) were selected as the sample. The data were collected from a sample 256 firms since 2014 – 2017. The objective of this research is to investigate the impact between KAM and stock returns, and factors which can affect KAM. This study use three methodology for analyze; repeated measures ANOVA, the market model, and Ordinary Least Squares (OLS) regression analysis are a method for testing the hypotheses.

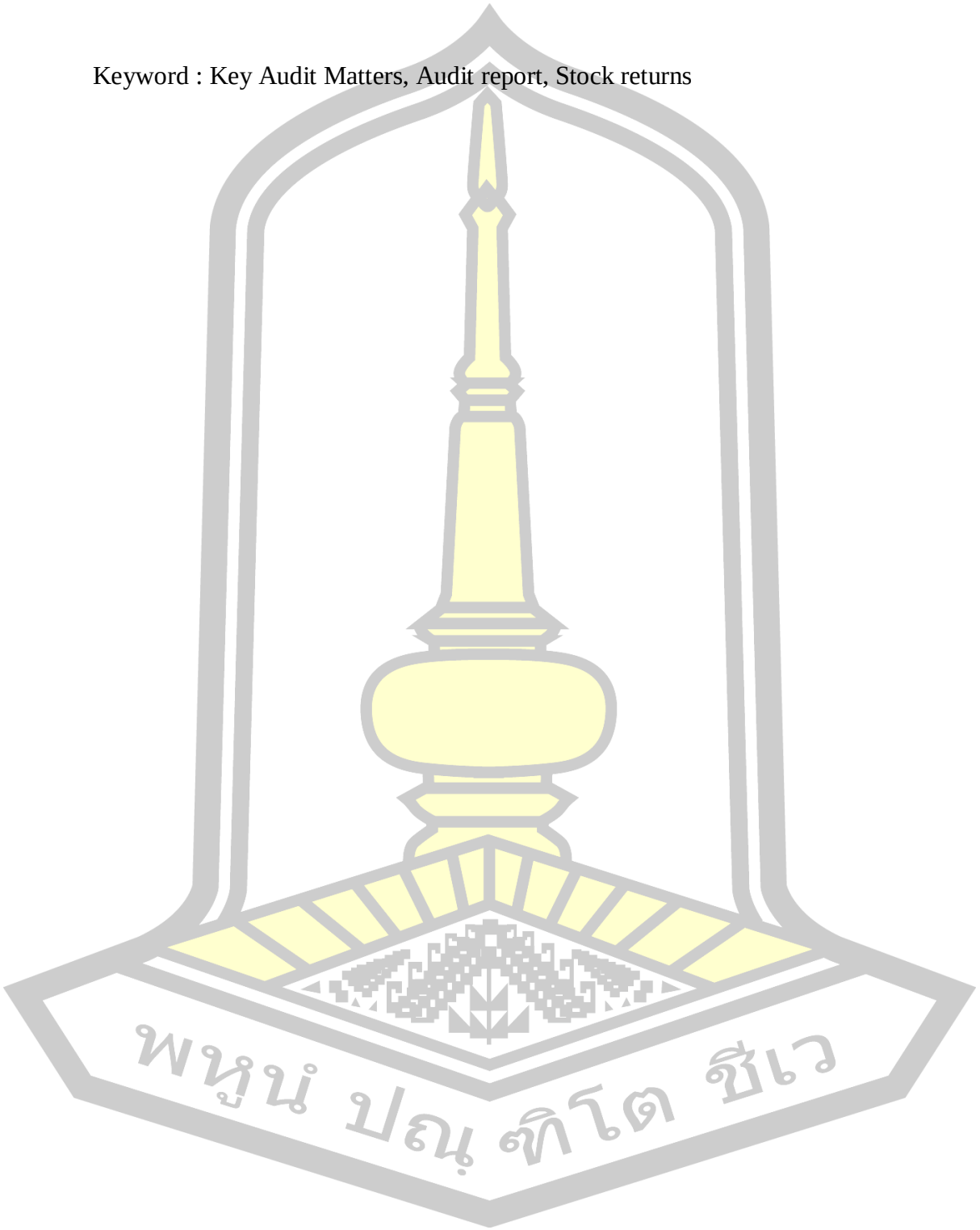
The finding shows that trend of communication of KAM little increase. In part of the overall of KAM and stock returns show that stock price reaction pre and post ISA 701 adoption are not different. The overall of KAM are not significant on stock returns, while this research adds dimension of KAM and it shows that accounts receivable and allowances and impairment dimension has negative significant on stock returns. Last section of this study about factors which can affect KAM found mixed result from evidence. The researcher found that audit firm type, audit fee, abd ROE have significant on overall of KAM.

Theoretical contribution adds to information of KAM and the literature on KAM. This research is intent to provide a clear understanding of effect on KAM. This research attempt to find evidence to test whether providing the information of KAM is a good signal to investors to make an investment decision by use stock returns surrounding report announcement and signal for companies to factor effect on KAM.

This research provides investors, executives or board of director of companies with information on the auditor's communications so that they can use the information to make decisions-making for investment or adjust the organization's management strategies to minimize communication about risk that auditors may

report to KAM. Additionally, future research may add another factor impact on KAM such as audit tenure or audit specialization.

Keyword : Key Audit Matters, Audit report, Stock returns



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Pornpimon Ittarat

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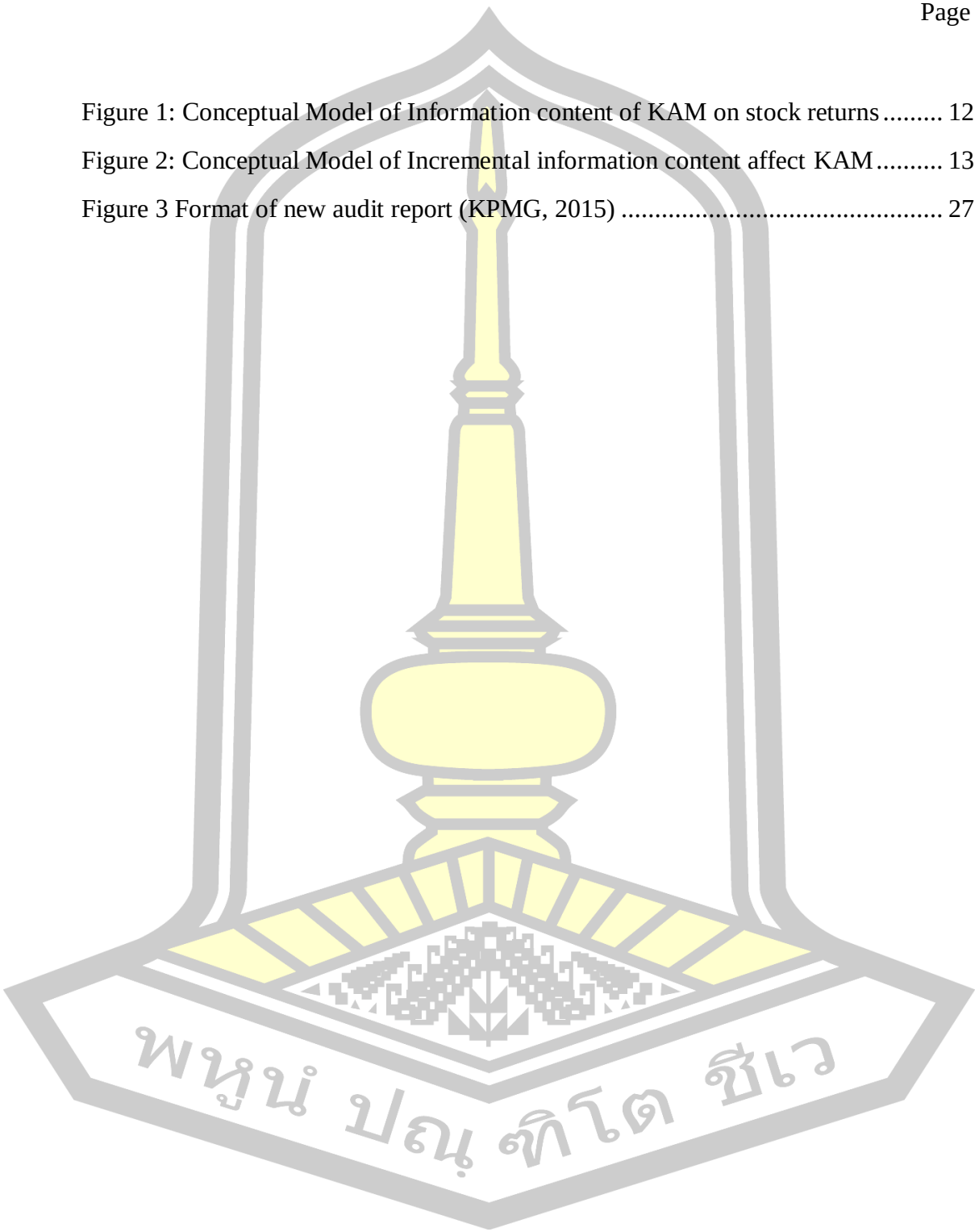


CHAPTER I

INTRODUCTION

Overview

The duty of an auditor is to audit financial statements in accordance with the auditing standards and the opinion comment on the audit report, as to whether the financial statements are accurate in materiality in accordance with financial reporting standards (Pornupatham & Vichitsarawong, 2014). Thus, an audit report is the final product of the auditing process which is observable by the public (DeAngelo, 1981), and it is an important tool used to communicate to users. Due to financial and economic crises in many countries, the users of financial statements are uncertain about the accuracy of the information in those financial statements (Pornupatham & Vichitsarawong, 2014). During the crisis of Enron, WorldCom, and Arthur Andersen in early 2000 (Gray, Turner, Coram & Mock, 2011), the company reported false information (Porter, B. & Gowthorpe, 2004). Although Enron's financial reporting was audited by Andersen, one of the world's leading auditing firms, hidden accounts were not disclosed to the public or shareholders in any way. The result, investors misunderstood the information in the audit report. Thus, the regulator has to re-emphasize the development of auditing standards.

In addition to the problem of crisis, the problem of the gap of information is a problem. The International Auditing and Assurance Standards Board: IAASB, (2011) suggested that information gaps or information asymmetry may be one of the key factors contributing to the problem because information gaps are the gaps between information that users believe are necessary for making a decision about user-generated data from financial statements and any public information. Consistent with Almutairi, A. R., Dunn, K. A. & Skantz (2009) the market awareness of auditing company, reporting, and quality of disclosure will affect the market's perception of information asymmetry and opportunities for profitable personal information-search activities. Namely, audits and monitoring are efficient ways to reduce agency costs

and private information production. Therefore, audits of higher quality should be associated with lower levels of information asymmetry and private information of investors.

Thus, at the beginning of 2015, the IAASB revised several international auditing standards related to the preparing of new auditor reports to address the users' needs. The most important change of the new auditor's report is the auditor's presentation "Key Audit Matters (KAM)" in the report of the auditor. The auditor's report on the audited financial statements of the listed companies will only be presented. In this connection, IAASB issued the new International Auditing Standard (ISA 701: Communicating Key Audit Matters in the Independent Auditor's Report) to determine the use of professional judgment of the auditor's opinion on KAM and to include forms and contents that should be communicated. Similarly, Tangruenrat (2017) suggested that companies that were listed on the Stock Exchange of Thailand agreed on improving the reporting format of the new audit report, especially in KAM. This is the main factor that makes the new auditor's report more valuable.

KAM defined those matters that, in the auditor's professional judgment, were the most important in the audit of the financial statements of the current period. Auditors select transient issues from matters communicated with those charged with governance such as significant risks, difficult areas encountered during the audit, and significant modification of the audit approach (Pornupatham, 2016). KAM selected matters communicated with those charged with governance (ISA 701). It is the solution to reducing the problem of an information gap and increases communication effectively. It could be explained that the presentation of KAM would enhance the communication value of the auditor's report on transparency in auditing. This is to provide information to users' financial statements to understand the most KAM in the financial statements for the current period, in the opinion of the auditor of the entity that had been audited. It can help the users understand the business and the management needs to make significant judgments (Srijunpeth, 2016). It can be said that the information of KAM is part of the auditor's opinion to provide useful information for the user's decision.

The important keys of KAM are reducing the problem of an information gap and increasing communication effectively for transparency in auditing. The Federation of Accounting Professions (FAP) in Thailand attaches importance to communicating information in KAM. Therefore, on the January 12 - 15, 2016 seminar about “The UK Experience on Implementing the Enhanced Auditor Reporting” and survey for feedback from participants; audit committee, CEO, CFO, auditor, analysts, accountant and others found that the participants have concern about KAM as follows: (1) Appropriate disclosure of information related to business risk, (2) The knowledge, experience and expertise of each auditor, and (3) The expenses may increase in order to accommodate the presentation of KAM. Therefore, FAP has a need for research to study the benefits of the new auditor's report.

In addition, the Stock Exchange of Thailand has issued comments on the risk information in the new auditor's report. In February 2016, Mr. Pariy, the executive director of the organization's media and promoting investor knowledge commented that the audit risk report from KAM is a new issue for the Thai capital market. If investors give more importance and know more about KAM, he believes that it should be more or less beneficial to the investors' decisions.

This paper is interesting in studying the benefits of information content in KAM, which will help to reduce the gap of information in order to better understand the users of financial statements. This research focuses on users of financial statements as investors because previous research indicates that the auditor's opinion in the auditor's report is related to the investment decision (Pornupatham & Vichitsarawong, 2014). The study is divided into two parts; first, the study of the effect of information content of KAM on stock returns, there by using proxies of stock returns to abnormal return, and second the study on the factors that affect the information content of KAM.

First, consider the study of the effect of information content of KAM on stock returns. Base on Efficient Markets Hypothesis (EMH) suggests that when new information enters into the market it will affect the stock returns (Fama, 1970; Martínez, Martínez & Benau, 2004). KAM is new information of audit report to

explain risk of companies. The researcher believes that when information of KAM announcement to public, it helps to decision making of investment. Previous research about information of the audit report on the stock returns has been conducted between the audit opinion and the stock returns (Baskin, 1972; Firth, 1978; Chow & Rice, 1982; Dodd, Dopuch, Holthausen & Leftwich, 1984; Dopuch, Holthausen & Leftwich, 1986; Loudder et al., 1992; Herbohn, Ragunathan & Garsden, 2007).

There are studies found that when the auditor offers a qualified opinion it has a negative significance with the stock returns. Additionally, Menon & Williams (2010) suggest that the stock returns has a more negative significance when the auditor identifies uncertainty over going concerns about company. One study has examined the react of the market about KAM in Thailand. Srijunpeth (2016) found that KAM in a new auditor's report has a positive effect on the response of SET in a volume aspect, but hasn't any effect in a price aspect.

This research is to study the impact of information of KAM on the stock returns when information of audit reports is announcement in an annual report. The researcher is interested in studying the test of an investor's perception of information content of KAM. The researcher expected that information about the risk of a company is identified in the audit report before and after an ISA 701 announcement, it may be different affect to investor's perception. Thus, this research's interest compares the study of information of a company's risk between, before and after the ISA 701 announcement to test an investor's perception about the information gap; and tests the impact between the information of a company's risk (or KAM) and the stock returns.

Second, this research expands the study about the factor effects of information in KAM. Previous research has found that two categories of the factor affect the audit report: audit firm characteristics and auditee firm characteristics. Audit firm characteristics consist of (1) an audit firm type which is Big 4 and Non – Big 4 (De Angelo, 1981; Eisenberg & Macey, 2003), (2) an audit opinion separating opinions into two main groups which are qualified and unqualified opinions (Gray, Turner, Coram, & Mock, 2011b; Ianniello & Galloppo, 2015), and (3) an audit fee cost

incurred by the company to pay a public accounting firm in order to audit the financial statements of the company (Asthana & Boone, 2012; Waworuntu, Wantah & Rusmanto, 2014; Ciesielski & Weirich, 2006). Next, auditee firm characteristics are consistent with (1) firm size proxies by a natural log of total assets (Louwers, 1998), (2) audit task difficultly or complexity of a firm that refers to the complexity of the operations of the businesses of firms (Caramanis & Spathis, 2006; Vuko & Cular, 2014), (3) profitability that is a crucial factor for the survival of the firm, and (4) liquidity that refers to the ability of the firm to meet obligations as they fall due (Caramanis & Spathis, 2006; Walker & Hay, 2013). Thus, this research has interest to study those factors that affect the information of KAM. Because the researcher believes that those factors have an effect on information of KAM, it is based on the signaling theory to send signals to an investor about information in the audit report.

Finally, the contribution shows that the growing literature on proposals expands the audit reporting model thereby analyze information of KAM separate by categories. While several concurrent working papers use experimental methods to examine the consequences of expanding the audit report, experimental studies cannot test whether auditors' disclosures provide equity investors with new information that they did not previously know. This study shows that information of KAM have found evidence about effect to investor's decision, and effect to factor about audit and auditee characteristics.

Purpose of the Research

The key purpose of this research is to investigate the impact between KAM and stock returns, and factors which can affect KAM. The specific objectives are as follows:

(1) To study and extend the scope and classified topic of KAM of companies in the Stock Exchange of Thailand.

(2) To inspect the comparison to trend of information related to KAM before and after the ISA 701 announcement.

(3) To consider the differences of stock returns when information related to KAM announcement before and after the ISA 701 announcement.

(4) To examine the impact of KAM on stock returns.

(5) To explore the impact of an audit and auditee characteristic factor to KAM.

Research Questions

The key research question is how the impact of KAM and stock returns, and other factors can affect KAM. The specific research questions are as follows:

(1) What is the scope and how to classify topic of KAM of companies in the Stock Exchange of Thailand?

(2) What is trend of information related to KAM comparing before and after ISA 701 was issued?

(3) What are different stock returns when information related to KAM announcement before and after ISA 701 was issued?

(4) What is the impact of KAM on stock returns?

(5) What are the factors that impact KAM?

Scope of the Research

This study aims to examine the impact of KAM on stock returns and the impact factor on KAM. The study is based on an efficient market hypothesis (EMH) describing investors' perceptions of information content of KAM surrounding financial statement announcement before and after the ISA 701 announcement. The Signaling Theory describes relationships between information content of KAM and stock returns and explains factors that impact on KAM.

The sample for this study is collected from the accounting data in the financial statements and the auditor's report for the companies listed on the Stock Exchange of

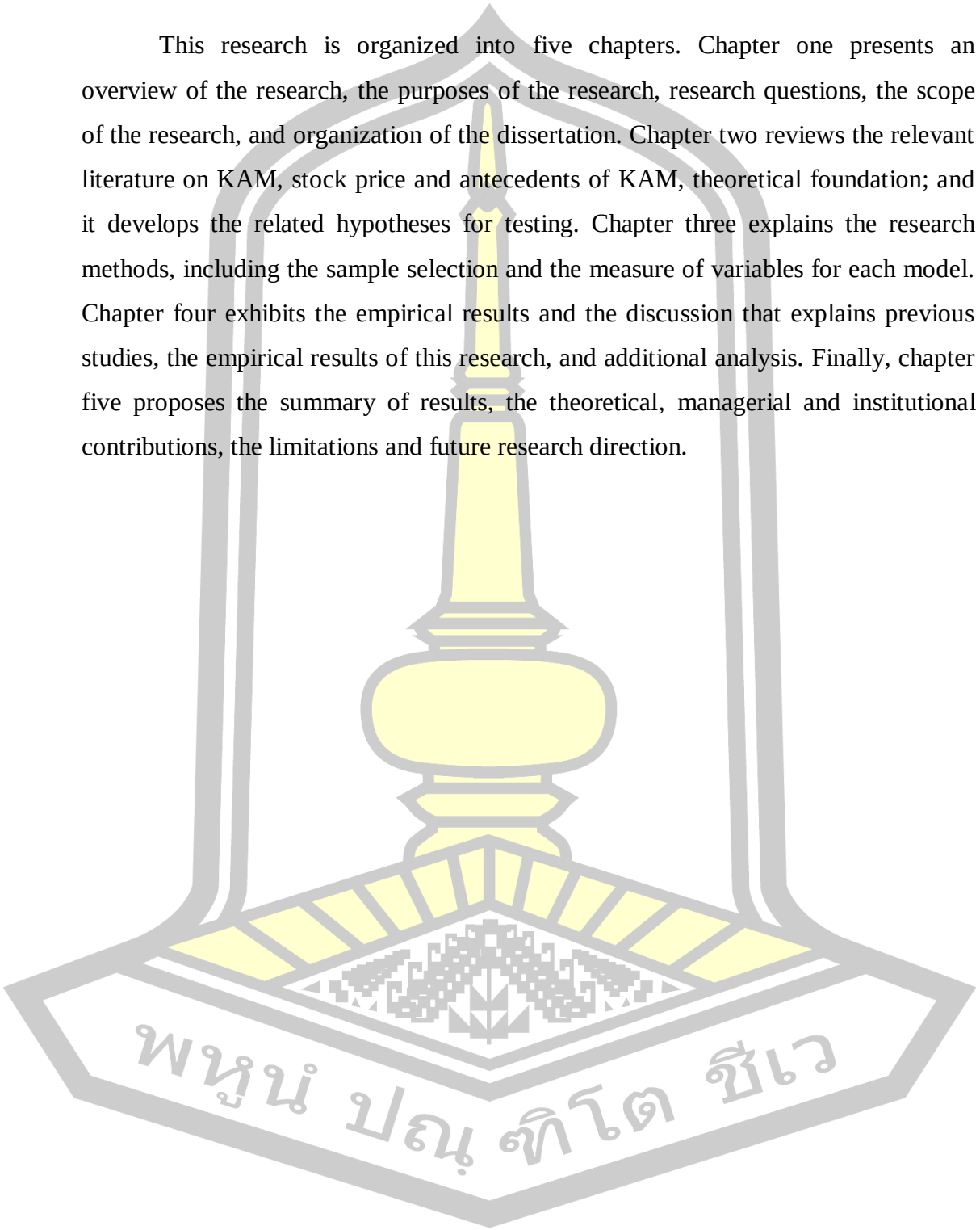
Thailand that exclude companies in the banking sector, finance, investment units, life insurance and insurance and companies undergoing rehabilitation or company removal, companies with closed accounting periods that do not match with 31 December, companies in MAI group, and companies with incomplete information during 2014 – 2017.

Definition

Key Audit Matter	is those matters that, in the auditor's professional judgment, were the most significant in the audit of the financial statements of the current period.
Stock returns	is an annual value-weight return on a firm's common stock issues.
Audit Firm Type	is accounting firm. It is separate two types: Big 4 ((PricewaterhouseCoopers (PWC), Ernst & Young (EY), KPMG, and Deloitte) and non-Big 4.
Audit Opinion	is opinion in audit report consists; qualified opinion (except for; adverse opinion; disclaimer of opinion), and unqualified opinion.
Audit fee	is cost incurred by the company to pay a public accounting firm in order to audit the financial statements of the company.
Firm complexity	is the complexity of the operations of the businesses of firm.
Profitability	is the ability of a business to earn a profit.
Liquidity	is to the ability of the firm to meet obligations as they fall due.

Organization of the Dissertation

This research is organized into five chapters. Chapter one presents an overview of the research, the purposes of the research, research questions, the scope of the research, and organization of the dissertation. Chapter two reviews the relevant literature on KAM, stock price and antecedents of KAM, theoretical foundation; and it develops the related hypotheses for testing. Chapter three explains the research methods, including the sample selection and the measure of variables for each model. Chapter four exhibits the empirical results and the discussion that explains previous studies, the empirical results of this research, and additional analysis. Finally, chapter five proposes the summary of results, the theoretical, managerial and institutional contributions, the limitations and future research direction.



CHAPTER II

LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

This chapter represents the primary focus of this study which was regarding important information content for Key Audit Matters and stock returns. Also extend study for studying the impact factor on Key Audit Matters. So, in detail, this chapter has presented the relevant literature review of previous studies, research in the past for information content of the auditor's report, stock returns and other factor effects on Key Audit Matters and the conceptual model.

Theoretical Foundations

The research employs two theories; Information Asymmetry and the Signaling Theory. Information Asymmetry and Signaling Theory explain the relationship between the impact factors on KAM which are detailed, including the following.

Information Asymmetry

Information affects the decision-making processes used by individuals in households, businesses, and governments. Individuals decides on the basis of public information, that is freely available, and with personal information which is available to only a subset of the public. Stiglitz (2004) explained that information asymmetries happen when "different people know different things", because some information is personal information, information asymmetries occurs between those who hold that information and those who can make better decisions if they had that information.

For more than a century, formal economic models of decision-making processes were based on the assumption of complete information, where such information asymmetries are not receive attention (Stiglitz, 2004). Despite the shortcomings of well-known information, but economists had largely expect that markets with minor information imperfections will act like a market with complete information (Stiglitz, 2000). A number of scholars have devoted their careers to

understanding the extent of incomplete information that influences decision-making in the market (Connelly, B. L., Certo, S. T., Ireland, R. D. & Reutzel, 2011). In fact, George Akerlof, Joseph Stiglitz, and Michael Spence received the 2001 Nobel Prize in Economics for their work in information economics. For this theory, it seems to reveal the limited utility of many traditional economic models, but also provide insights regarding phenomena that traditional models do not considered (Stiglitz, 1985).

Stiglitz (2000) focus on two broad categories of information where asymmetry is special significance: information about quality and information about intent. In the first case, information asymmetry is key important when one party is not fully aware of the characteristics of another party. In the second case, information asymmetry also is important when one party is concerned about another party's behavior or behavioral intentions (Elitzur & Gavious, 2003). A large number of the research on information asymmetry about behavior and intentions consider the use of incentives as mechanisms to reduce the moral hazards that may arise as a result from an individual's behavior (M. Jensen & Meckling, 2012; Ross, 1973).

This study has a focusing on the role of signaling in understanding how parties solve the problem of information asymmetries information content of KAM to invoke the signaling theory, how factor affect to KAM.

Signaling Theory

Signaling theory involves primarily reducing information asymmetry between two parties when they have access to different information (Spence, 2002; Mavlanova, Benbunan-Fich & Koufaris, 2012). The theory shows that the party can reduced this asymmetry with more information, signaling it to others. Although the theory has been developed in the labor market, signaling is a common phenomenon that is used in any market with information asymmetry.

Financial economists have developed many examples to show these general relationships. For example, they mentioned stable debt (Ross, 1973) and dividends (Bhattacharya, 1979) as a sign of the quality of the company. According to these models, only high-quality companies have the ability to operate interest and dividend

payments in the long term. On the other hand, low quality companies will not be able to maintain such payments. Therefore, such signals influence the perception of external observers' (e.g., lenders, investors) perceptions of firm quality. Due to this basic work, many of the main concepts and structures of the signaling theory grow out of the finance and economics literature (Riley, 2001).

In this study, this "signaling" eventually results in a fully revealing outcome, since managers in the "bad news" group will have incentives to distinguish their firms from those with the worthy news. However, as Lev & Penman, (1990) note, the signaling models are highly simplified one-period models which assume that the full disclosure outcome is both instantaneous and simultaneous. It is a prediction which is clearly not realistic in the case of earning forecasts.

This rationale probably cannot be expected to realistically describe managerial behavior in the case of qualified audit opinions. The first practical opportunity that the manager has to disclose a qualified opinion is at the announcement of the annual earnings numbers, since firms do not customarily announce annual earnings until the audit is essentially complete. Under the voluntary disclosure scenario described above, a manager has an incentive to disclose information only if he/she believes that the market has overreacted to the conditions which underlie the opinion, and consequently, has undervalued the firm. If, on the other hand, the manager believes that the firm is undervalued, he/she may have an incentive to act in a self-interested manner and engage in insider trading.

This research examines the impact information of KAM on the auditor's report, which is considered new information was announced in 2016. The impact of information of KAM will effect on investors' decisions, including the information disclosed, and information is a signal for investors to take into the potential risks of companies. In addition, the disclosure of this information will reduce the information gap between the auditor, companies and the investor. Therefore, the use of these two theories will help to test to test the signal and reduce the gap of data according to the signaling theory and information asymmetry.

This research can draw a conceptual model separated into two models (see in Figure 1 and Figure 2).

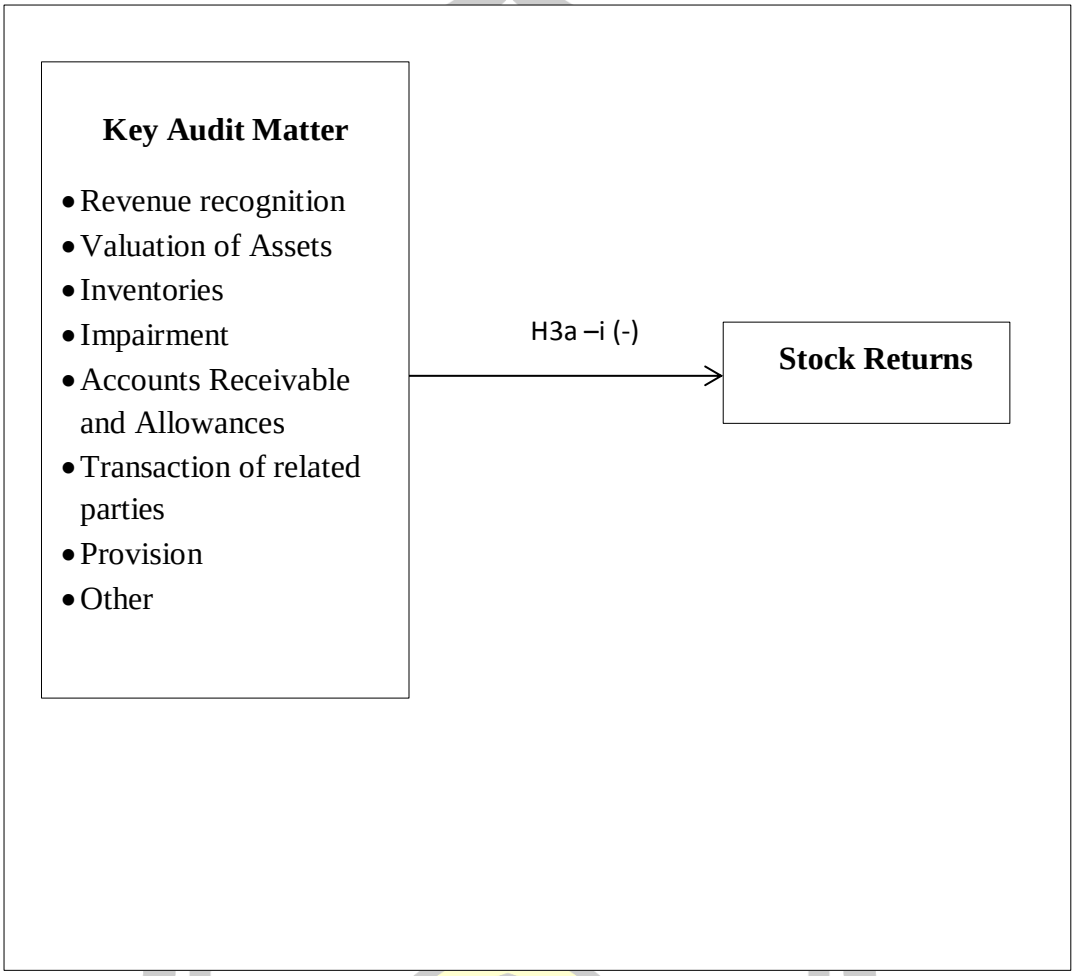


Figure 1: Conceptual Model of Information content of KAM on stock returns

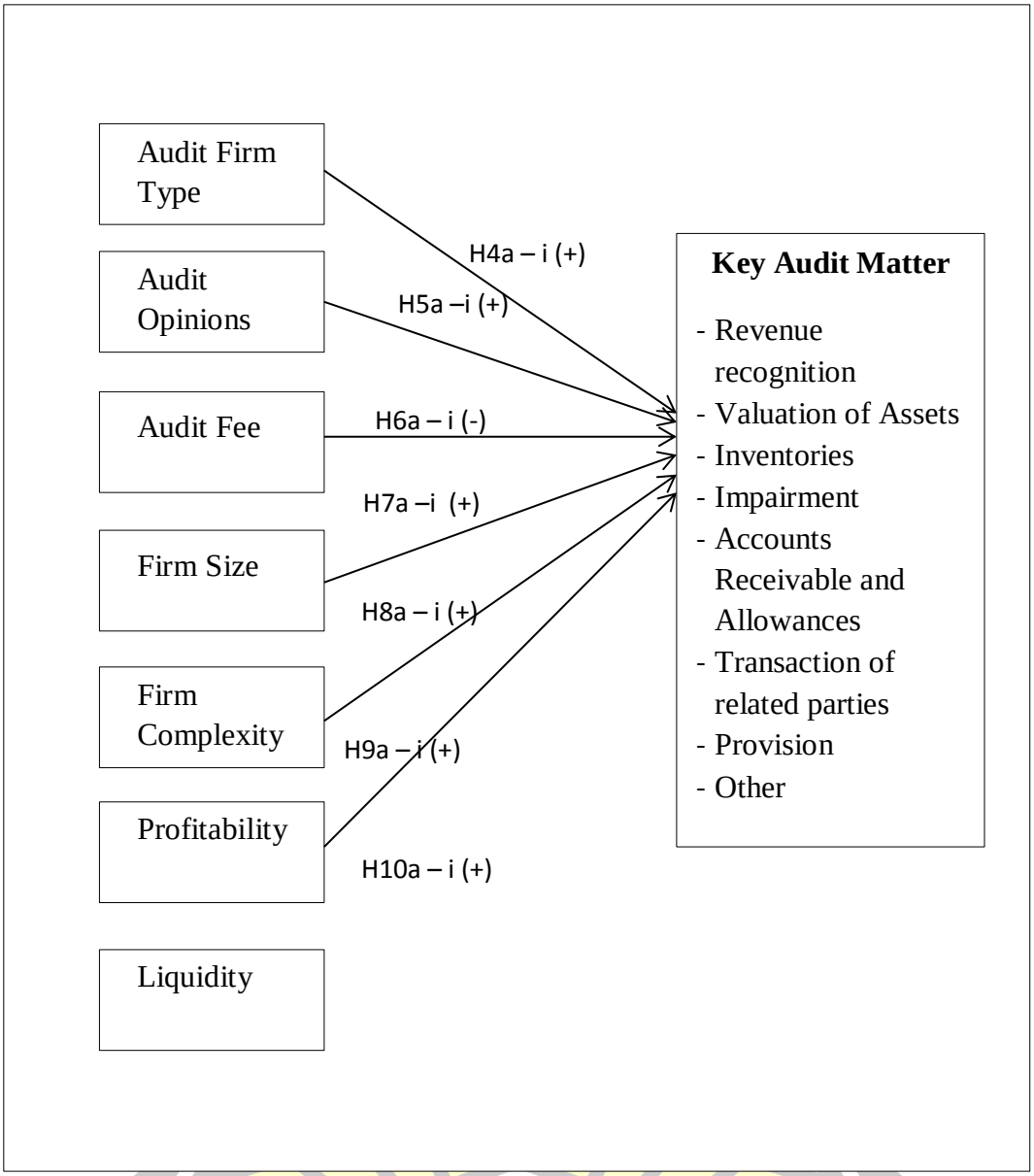


Figure 2: Conceptual Model of Incremental information content affect KAM

Relevant Literature Review and Development Hypothesis

Key Audit Matters

The International Audit and Assurance Standards Board (IAASB), which is the regulating body of International Standards for Audit (ISAs), has published a revised standard which involves creating an opinion and reporting on financial statements (Fakhfakh, 2016). In 2011, the IAASB issued the consultation paper title "Enhancing the Value of Auditor Reporting: Exploring Options for Change." and in 2012, issued an invitation to comment on "Improving the Auditor's Report." The most recent work of the regulating body has been the 2013 invitation to comment with the title, "Proposed New and Revised International Standards on Auditing, An invitation to Comment." The new draft qualification a new standard: the ISA 701: Communicating Key Audit Matters in the Independent Auditor's Report (Cordo & Fülöp, 2015).

What is new, though, is the expression "Key Audit Matters," because it has been introduced in a formal manner through the ISA 701 only offered. The standard provides a simple definition, but precisely the concept: "Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements; KAMs are, in all cases, a selection of matters communicated with those charged with governance" (IAASB, 2015; ISA 701).

Presenting KAM in the new auditor's report as required by ISA 701 appears to be a solution to solve both the gap in information and the enhancement of the communication efficiency mentioned above. This standard believes that the presentation of KAM will increase the communication value of the auditor's report on transparency in auditing. This is to provide users with financial statements in order to understand the most important aspects of the financial statements audited in the current period, in the opinion of the auditor specifically as to the audited entity. It can help the user understand financial statements and the management must use critical judgment as well. The disclosure of KAM in the auditor's report is only appropriate to listed companies (ISA, 2015).

KAMs communication requires to apply his professional judgment by auditor but must also consider the nature and extent of communication with regulatory authorities. This is done to determine, whether any matters show a risk in accordance with ISA 315. It was difficult to obtain sufficient and appropriate audit evidence; difficult judgment; the internal control system has drawbacks related to the analyzed matter (IAASB, 2015, ISA 701).The key audit matters requirements are describing the matters in key audit matters section of the audit report that uses appropriate subheadings for each matter; including a reason, the auditor considers the matter is extremely important in the audit, and its impact on the audit; referring to a statement regarding the management's disclosure information about the matter, if any; including standard wording about key audit matters; when applicable, adding an explicit statement that the auditor determined there were no key audit matters to report; the requirement to determine and communicating key audit matters for a qualified or adverse opinion, prohibited for disclaimer of opinion (Cordo & Fülöp, 2015).

The number of matters that will be included in the auditor's report varies in case to case. KAMs are rely on the complexity and size of the analyzed entity, the conditions and nature of its business, and "the facts and circumstances of the audit engagement" (IAASB, 2015, ISA 701). While the number of KAMs is not mandated, the IAASB considers that a number of two - to - seven matters should be included. Sirois, Bédard, & Bera (2018) suggested that there is a risk that disclosures of other important in the financial statements may be ignored. These broad discoveries are consistent with Institute of Directors Southern Africa [IODSA], which stated that there is a relationship between the number of KAMs disclosed and a user's intention to depend on KAM instead of the financial statements.

KPMG has summarized in 2016 the issues of KAM that have been disclosed in the auditor's report that began in 2015. The most topics of disclosure are revenue, IT application and control, management override of control, taxation, recoverability of loans and receivable, and goodwill and intangible respectively. In the content of Thailand, the Federation of Accounting Professions (FAP) has a prepared summary about "Experience on Key Audit Matters in the First Year in Thailand." The result shows that it has fifteen topics of KAM (Revenue not fraud, Inventories, Accounts

Receivable and Allowances, Impairment-Non-current assets, Impairment-Investment, Impairment-Goodwill, Taxation/Deferred Tax, Acquisitions/Disposals, Inventories-Real estate development cost, PPE, Investment property, Provisions, Liabilities from insurance contracts, Investments, and Litigation and claims). Consistent with, Tangruenrat (2017) used to consider about KAM through topics of risk. He separated the topic of KAM into eight topics (Revenue recognition, Asset measure, Impairment, Allowance of inventories, Allowance for doubtful accounts, Entities of related parties, Estimate liability and others). This study adapted method to measurement Key Audit Matters followed by FAP and Tangruenrat (2017) by counting of amount for each topic of Key Audit Matters (see Table 1). Based on the classification of the study, the results of the KAM report in the report of the auditor will make the study of this research more visible. This study expands the scope and level of topic information of KAM in accordance with first objective of this research.

The information of KAM identifies the risks that should be considered. The researcher believes that, in the past, the auditor's report identified these risks in the auditor's report, but not specific in any paragraph. Therefore, this study examines the trends identified in the topic of KAM in Table 1 that are prior to the forced disclosure of KAM and after the disclosure of KAM. What are the trends that auditors have reported about risk? This research expects that disclosures of risks are likely to increase as more specific risk indicators are identified. Thus, the researcher proposes the following alternative hypothesis:

Hypothesis 1: The trend of disclosure about the topic of KAM pre and post ISA 701 has increased trends.

Table 1: Topic of Key Audit Matters

Topic
1. Revenue recognition
2. Valuation of Assets - Valuation of subsidiaries or joint ventures - Valuation of PPE - Valuation of deferred tax - Valuation of investment - Valuation of financial instruments and biological assets
3. Inventories
4. Impairment - Impairment – Non-current assets (not goodwill) - Impairment – Investment - Impairment – Goodwill
5. Accounts Receivable and Allowances
6. Transaction of related parties - Acquisitions/disposals - Transaction of related parties
7. Provision - Liabilities and expense - Liabilities from insurance contracts - Employee benefit
8. Other - Tax (not deferred tax) - Going concern - Litigation and claims - others

Key Audit Matters and Stock returns

The research about KAM is a limitative study because it is a new topic in International Standards on Auditing. Therefore, this research has developed the study from past research related to the information in the auditor's report that affects the stock returns. Follow by EMH, A stock returns occurs when the information is disseminated to the investor, including information such as public information or the use of inside information. The current stock price will respond to all public information immediately. The current price reflects all public information. And the time it takes to adjust the stock returns after receiving the information. This paper depends on the semi-strong form level of market efficiency. This study defined stock returns is an annual value-weight return on a firm's common stock issues and compute by daily price closing of stock during the reporting announcement; thereby abnormal return is measurement of stock returns.

The prior study (Ball, Walker & Whittred, 1979; Chow & Rice, 1982; Ameen, Chan & Guffey, 1994) found that the conventional audit report indicates the auditor's opinion about whether or not the financial statements are presented independently, in all material respects, as to the financial position of the company. If an auditor believes that the financial statements are not accurate in essence, the auditor will express an unqualified opinion which provides reasonable assurance to the investors that the financial statements are free from material misstatement. If the auditor believes that the financial statements are significant errors, the auditor should issue an "except for" opinion or an "adverse" opinion. If the auditor is unable to form an opinion about the financial statements due to a lack of sufficient audit evidence, the auditor should disclaim the opinion (Cordo & Fülöp, 2015). Prior research shows that the vast majority of public companies receive unqualified opinions (Ball et al., 1979; Chow & Rice, 1982; Ameen, Chan & Guffey, 1994; Tahinakis & Samarinas, 2016).

Before the collapse of Enron and WorldCom, previous research focused on testing the auditor's opinion on stock returns. Ittonen (2012) suggests that there are two main reasons why an audit report may impact the initial share return. First, the audit report may exist information that affects the estimated future cash flow and/or future cash flow risks. The information affecting this composition is related to the

investor. Second, the audit report can provide vital information about the company's viability in the form of continuous audit reports. The audit report should reflect access to auditor and internal information such as estimates and management plans. Regarding the decision to disclose information of the auditor, also disclose some personal information (Mutchler, 1984).

After these crises, research has benefited from recessions (resulting in more going concern audit reports) and changes of regulatory (e.g. the enactment of SOX, going concern). For example, Menon, K. & Williams (2010) found that market reaction is negative when a going concern audit report is disclosed. Similarly, many studies indicate that firms with going concern modifications have a significant adverse price reaction in the period surrounding the announcement (Schaub & Highfield, 2003; Herbohn et al., 2007; Citron, Taffler & Uang, 2008). Therefore, the researcher is interested studying new audit reports and the stock returns; thereby, stock returns are a proxy of stock price and measurement by cumulative abnormal returns.

This study uses an event study methodology to analyze whether the information content of KAM has an impact on stock returns. At stage of the analysis, the researcher assesses the effect of KAM on the stock returns of the interested sample of companies. For each piece of news related to information in the audit report, one estimate the abnormal return of a company with respect to a general common stock index. Therefore, the focus of this research is not on the long-term reaction of the market surrounding the announcement date. The researcher studies the short-window event approach.

Previous study (Mcwilliams & Siegel, 1997), conclusions from an event study are effective when it is assumed that there are no confusing effects from other events during the event window. The longer the time period, it takes to measure the information content of an audit report, the more difficult it is for researchers to separate the impact of one particular event. Therefore, a short period or window reduces the chance that the results may be sensitive to other disturbances events and

some previous studies (Hsu, Young & Chu, 2011; Martínez, Martínez & Benau, 2004b; Taffler, Lu & Kausar, 2004) investigated abnormal stock returns in a short event window surrounding the expected audit report disclosure.

Thus, this paper examines whether the basic assumption in the short event window studies is that the stock returns are efficient, in that all new information will be incorporated into the stock returns immediately after its announcement. Therefore, when the content of the audit report is disclosed, the investors will immediately evaluate the value of the company and the stock returns adjust to a new equilibrium (Ittonen, 2012). This study compares the differentiation of risk disclosures (KAM) from the auditor's report when financial statements are announcements before and after the adoption of the ISA 701. Thus, the researcher proposes the following alternative hypothesis:

Hypothesis 2: Information of KAM that is different when information announcements are given between pre and post - adoption of ISA 701

In addition, the difference of information perception during the audit report announcement, the researchers have been interested in information of the KAM effect on stock returns. The most experimental literature will examines the relevance of audit opinions in the decision-making process of financial statement users, while archival studies focus on stock returns around the announcement of the audit report (Ittonen, 2012). Previous study found that the qualified opinion has a negative, significant effect on the stock returns (Chan, 2003; Chen, Su & Zhao, 2000; Soltani, 2000; Ianniello & Galloppo, 2015), while Chow & Rice (1982) and Dodd et al., (1984)find no significant market reaction. Srijunpeth (2016) found that KAM in a new form of auditor's report has a positive effect on the response of SET in a volume aspect, but hasn't any effect in a price aspect. Because of, KAM is new information, investor who does not understand to disclose about that information.

The researcher believes that information of KAM is important for decision-making of investor. Thus, in this study, the researcher believes that the information content of KAM has a negative effect on the stock returns because the information of KAM is about the risk of the company. If the auditor discloses more risk in this paragraph, the investor will be less interested in investing. Thus, the researcher proposes the following alternative hypotheses:

Hypothesis 3a: Information contents overall of KAM about have negative effect on stock returns.

In this study, the researcher is expanded the scope of KAM by separated to categories from information content of KAM. The researcher believes that information each categories of KAM is important to investors' decision. In each category of KAM will communication to different important such as revenue recognition, assets, inventory, impairment, provision, and other. Thus, this research expected to found evident in depth of impact between information of KAM and stock returns. The researcher expected that each of information of KAM effect to stock returns.

Hypothesis 3b: Information contents of KAM about revenue recognition have negative effects on stock returns.

Hypothesis 3c: Information contents of KAM about valuation of assets have negative effects on stock returns.

Hypothesis 3d: Information contents of KAM about inventories have negative effects on stock returns.

Hypothesis 3e: Information contents of KAM about impairment have negative effects on stock returns.

Hypothesis 3f: Information contents of KAM about accounts receivable and allowances have negative effects on stock returns.

Hypothesis 3g: Information contents of KAM about transaction of related parties have negative effects on stock returns.

Hypothesis 3h: Information contents of KAM about provision have negative effects on stock returns.

Hypothesis 3i: Information contents of KAM about other have negative effects on stock returns.

Factor impact on Key Audit Matters

Previous research about the information content of the audit report study is separated into two types: audit firm characteristic and auditee firm characteristic. Therefore, in this study analysis divides into two types.

Audit firm characteristic

(a) Audit Firm Type

Power (Fuerman & Kraten, 2009) question that is a audit report regularly a quality label or does it help to generate greater information and understanding about the specific inspection audit process that has been undertaken? In fact, the financial audit report will act as a quality label. The labels only work as unsuspected signals of suitability for the purpose if there are clear public standards of what quality is (and if) there is social confidence in the label-producing expert.

The concept of develop audit reporting, or having the auditor communicate of additional information related to users, through the audit report, is not new. Scholars and professional bodies alike have expressed interest in this matter. Cordo & Fülöp (2015) form the developments of financial and auditors reporting certified by the ISAB, IAASB and PCAOB. Many researchers have investigated or examined the impact that an expanded audit report would bring to users' needs, and to receiving increasingly information from the audit mission. For example, in Poland, an additional reports were issued by auditors, which containing information relate to shareholders (Dobija, Cieślak & Iwuć, 2013).

The regulatory has defined KAM 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. The quality of professional judgment depends on individual skills and experiences of an auditor. For example, Nelson & Tan (2005) suggest that auditors need to perform a variety of tasks in order to build overall assurance or insistence opinion. In doing so, various personal trait of the auditor (e.g., skills and personality) affect the results.

The amount of academic research has provided evidence that the top tier audit firms provide higher quality audits (Becker, Defond, Jiambalvo & Subramanyam, 1998; Francis & Krishnan, 1999; Krishnan, 2003; Francis & Yu, 2009). From the point of view of the audit report, Big N audit firms can expect to have more accurate audit opinions than their non-Big-N counterparts (Habib, 2013). Big N auditors deploy more audit efforts in a less procedural and more contextual approach by allocating more resources to risk assessment and planning. Similarly, DeFond & Francis (2005) suggest that quality audits will be pushed from the auditor's office or office to the level of each auditor. Previous study shows that audit opinion of Big 4 serves as an effective label of quality, while most second-tier (i.e., non-Big 4) firms ''lack the industry knowledge, geographic presence, and reputation to bid successfully for large accounts'' (De Angelo, 1981; Watkins, Hillison & Morecroft, 2004; Eisenberg & Macey, 2003). Fuerman & Kraten (2009) suggest that a Big 4 firm is a distinctiveness quality label that notify the investor that a constantly high level of knowledge, owning, and reputation have been applied to the audit.

From the previous literature, this study believes that a Big 4 audit firm (PricewaterhouseCoopers (PWC), Ernst & Young (EY), KPMG, and Deloitte) can report about detection risk in a KAM paragraph more than non-big 4 audit firm. Thus, in this study is to examine the predictive variables that will affect KAM in order to expand the research. Thus, the first variable of an audit firm characteristic's to exam the audit firm type. The researcher proposes the following alternative hypotheses;

Hypothesis 4a: Big 4 have effect more than non – Big 4 on overall of KAM.

The researcher expected that the information in each area of KAM is important in the process of monitoring the risk that the auditor must use his/her judgment and expertise in investigating and reporting potential risks. Therefore, this study expected that a big audit firm can report about detection risk in each area of KAM paragraph more than non-big 4 audit firm. The researcher proposes the following alternative hypotheses;

Hypothesis 4b: Big 4 have effect more than non – Big 4 on KAM about the revenue recognition.

Hypothesis 4c: Big 4 have effect more than non – Big 4 on KAM about the valuation of assets.

Hypothesis 4d: Big 4 have effect more than non – Big 4 on KAM about the inventories.

Hypothesis 4e: Big 4 have effect more than non – Big 4 on KAM about the impairment.

Hypothesis 4f: Big 4 have effect more than non – Big 4 on KAM about the accounts receivable and allowances.

Hypothesis 4g: Big 4 have effect more than non – Big 4 on KAM about the transaction of related parties.

Hypothesis 4h: Big 4 have effect more than non – Big 4 on KAM about the provision.

Hypothesis 4i: Big 4 have effect more than non – Big 4 on information contents of KAM about the others.

(b) Audit opinions

The second variable to exam the predictive variables that affect KAM is the opinion of auditor. The opinions of an auditor are of four types: (1) Unqualified Opinions which state that there are no material problems with the financial statements; (2) Qualified Opinions which indicate that the financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and represent the actual financial condition of the Company, unless the transaction is

specific or the events may be identified; (3) Disclaimer of Opinion which is a rejection from the auditor to express an opinion on the financial statements; and (4) an Adverse Opinion which states that the financial statements are not truly independent of the company's actual condition or are inconsistent with GAAP. Prior research shows analysis about the opinion of an auditor by separating opinions into two main groups (Ianniello & Galloppo, 2015):

(1) Qualified opinions (including "except for", adverse opinions and disclaimers of opinion),
(2) Unqualified opinions with an emphasis of matter paragraph related to the going concern uncertainty or financial distress.

Gray et al., (2011a) studied the perceptions and misperceptions respecting the unqualified auditor's report. Preparers of financial statement, users, and auditors suggest that users do not read the auditor's report. Instead, users look at the auditor's report to verify if it has an unqualified opinion and to check the name of the accounting firm signing the report. Non-professional investors use secondary data sources for financial information and never seek out to other information in the auditor's report. Regarding the auditor's report of the newly designed, analysts and participating bankers propose that new material added to the auditor's report does not matter whether the added material is boilerplate in nature—they still do not read the report.

The above reason is one of causes for changing the auditor's report format. The key changes in addition to providing information on KAM are the move of the auditor's opinion in the first paragraph (see Figure 3). ISA 701 (A6) mentioned the relationship between Key Audit Matters and the Auditor's Opinion as being "when the auditor expresses a qualified or adverse opinion in accordance with ISA 705 (Revised), presenting the description of a matter giving rise to a modified opinion in the Basis for Qualified (Adverse) Opinion section helps promote intended users' understanding and identify such circumstances when they occur. Separating the communication of this matter from other key audit matters described in the Key Audit Matters section therefore gives it the appropriate prominence in the auditor's report."

This research expects that the company for which the auditor gives the qualification opinion will result in more KAM reporting. Thus, the researcher proposes the following alternative hypotheses;

Hypothesis 5a: Qualified opinions have effect more than unqualified opinion on overall of KAM.

This research expected that the disclosure of risks of information content of KAM will affect the auditor's opinion on the accuracy of the financial statements. Therefore, the researchers expected that the information on each category of KAM should influence the opinion of the auditor. Thus, the researcher proposes the following alternative hypotheses;

Hypothesis 5b: Qualified opinions have effect more than unqualified opinion on KAM about the revenue recognition.

Hypothesis 5c: Qualified opinions have effect more than unqualified opinion on KAM about the valuation of assets.

Hypothesis 5d: Qualified opinions have effect more than unqualified opinion on KAM about the inventories.

Hypothesis 5e: Qualified opinions have effect more than unqualified opinion on KAM about the impairment.

Hypothesis 5f: Qualified opinions have effect more than unqualified opinion on KAM about the accounts receivable and allowances.

Hypothesis 5g: Qualified opinions have effect more than unqualified opinion on KAM about the transaction of related parties.

Hypothesis 5h: Qualified opinions have effect more than unqualified opinion on KAM about the provision.

Hypothesis 5i: Qualified opinions have effect more than unqualified opinion on KAM about the others.

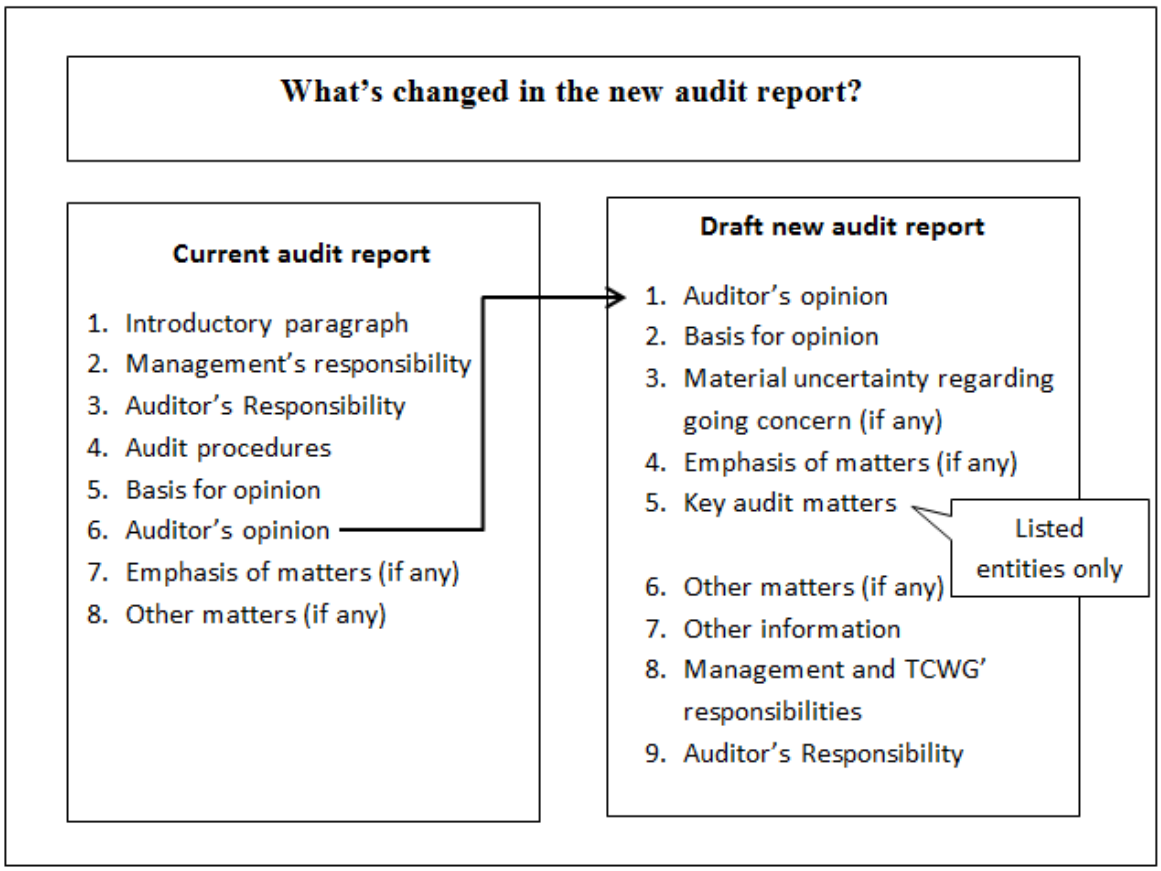


Figure 3 Format of new audit report (KPMG, 2015)

(c) Audit Fee

Audit fee is the cost incurred by the company to pay a public accounting firm to check the financial statement of the company. There are many studies related with the association of audit fees with audit quality research (Asthana & Boone, 2012; Rusmanto & Waworuntu, 2015). Asthana & Boone (2012) found that abnormal audit fees are negatively correlated with the quality of audit issued by the audit firm. In the academic literature, audit fees are frequently modeled as a function of the cost of the audit effort and the auditor's expected legal liability (Simunic, 1980). In audit literature it is found that the audit fee will increase, attributable to the new regulation (S. Asthana, Balsam & Kim, 2009; Griffin & Lont, 2007; Ettredge, Li & Scholz, 2007). After, the crisis of large companies such as Enron and WorldCom, regulatory authorities legislated the Sarbanes-Oxley Act of 2002 (SOX) which spurred an

increase in audit fees (Ciesielski & Weirich, 2006; Ghosh & Pawlewicz, 2009). Because some key SOX provisions relate to increase in audit effort, a growing consensus has emerged among academics and practitioners that audit fees are expected to increase following SOX (Griffin & Lont, 2007; M. Ettredge, Sherwood, & Sun, 2018). Audit fee increases after SOX may be driven by a consistent increase in auditors' expected legal liability (Ghosh & Pawlewicz, 2009; K. C. Chan, Jacob, Lee & Seow, 2012).

Similarly, when the regulatory changes force a new format of the audit report, the researcher expects that from a critical audit process, the auditor may need more time and skills for judgment of the audit risk (Gutierrez, Minutti-Meza, W. & Vulcheva, 2016). They found mixed evidence of a change in audit fees, ranging from an increase of nearly four percent to no change. Previous research has found a positive association between audit fees and risk, client size, complexity, and auditor litigation risk (Carcello & Li, 2013; Hay, Knechel & Li, 2006; Seetharaman, Gul & Lynn, 2002). Thus, a potential change in auditor's effort and risk premium that result from increased disclosures in the auditor's report under the new regime, may affect the cost of audits.

According to the signaling theory, the information of economics perspective suggests the existence of information asymmetry between firms and external investors (Wu, 2012). Due to the lack of a mechanism to provide information, "bad money drives out good" is the prevailing sentiment in the market. Signaling provides the best way to moderate information asymmetry (Spence, 1973). The two basic methods of transmitting a signal in the audit market are to choose reputable information intermediaries voluntarily to assure outside investors of the credibility of accounting information (Fan & Wong, 2005) and to purchase additional audit services (Carcello, Hermanson, Neal & Riley, 2002). Both methods result in higher audit costs and fees. Thus, the researcher expects that when the auditor has more the burden of auditing and disclosure for audit opinions, therefore need to spend more time and skills, resulting in increased audit fees as well. This study proposes the following alternative hypotheses;

Hypothesis 6a: Audit fee has a positive effect on overall of KAM

This study expected that each category of KAM needs to spend more time and skills of auditor in auditing and disclosure and opinion of auditor. Thus, the researcher expects that audit fee will affect the disclosure of risk information from each category of KAM.

Hypothesis 6b: Audit fee has a positive effect on KAM about the revenue recognition.

Hypothesis 6c: Audit fee has a positive effect on KAM about the valuation of assets.

Hypothesis 6d: Audit fee has a positive effect on KAM about the inventories.

Hypothesis 6e: Audit fee has a positive effect on KAM about the impairment.

Hypothesis 6f: Audit fee has a positive effect on KAM about the accounts receivable and allowances.

Hypothesis 6g: Audit fee has a positive effect on KAM about the transaction of related parties.

Hypothesis 6h: Audit fee has a positive effect on KAM about the provision.

Hypothesis 6i: Audit fee has a positive effect on KAM about the others.

Auditee firm characteristic

Audit reports provide reliable information that indicate if financial reports have been prepared in line with recognized accounting standards or not, thereby influencing decision-making. A detailed breakdown by the auditor of key variables in the financial report that are not in line with economic substance would be useful. These issues therefore raise a lacuna to warrant a detailed study on the audit report and investment decisions (Wisdom, O., Oyebisi, O., Dorcas, A., David, A. & Oyedeji, 2017). Consistence, (Guiral, A., Rodgers, W., Ruiz, E. & Gonzalo (2010) posit that since the audit report's main aim is to allow stakeholders to assess the viability of financial information, it helps in the improvement of the stakeholder's capacity to make rational economic decisions about the company.

The next variable to exam the predictive variables that affect KAM is a financial information variable. KAM is a part of the auditor's report. KPMG (2016) suggests that KAM is a significant issue that the auditor pays attention to in performing audits. This may include;

- The auditor's opinion is that there is a high risk of material misstatement or significant risk.
- The subject matter that the auditor must decide about the items in the financial statements that management requires is significant judgment, including uncertain accounting estimates.
- The results of the audit of events or important transactions occur during the period.

Thus, communication of KAM is related to firm risk. Following Nicholas Dopuch, Robert W. Holthausen & Richard W. Leftwich (1987) the study considers firm financial measures and other indicators, such as characteristic of audit firm, which is an independent variables to examine the relationship with the audit qualifications. Researchers can use empirical models to assess the extent of the validation properties that can be expected from publicly available information (Nicholas Dopuch et al., 1987). Based on the signaling theory, it explains how asymmetric information affects the volume of financial information that is supplied by management. The signaling theory presupposes that managers use the information to separate good firms from the bad ones (P. Akhalumeh, Agweda & Ogunkuade, 2017). The financial reporting and audit reporting process help to reduce the extent to which managers can use information asymmetry opportunistically to get outsiders to do certain things (Ittonen, 2012).

The researcher found that there was a study that examined the relationship between the auditor's opinion and auditee firm characteristics to conclude the financial information; firm size (Louwers, 1998; K. C. W. Chen & Church, 1992; Mutchler, Hopwood & Mckeown, 1997), audit task difficultly or complexity of a firm (Caramanis & Spathis, 2006; Vuko & Cular, 2014; P. B. Akhalumeh, Izevbekhai & Ohenhen, 2017), firm growth (Pratt & Stice, 1994; T., 2017), profitability (P. B.

Akhalumeh et al., 2017; Moradi, Salehi & Mareshk, 2013), and liquidity (Caramanis & Spathis, 2006; Walker & Hay, 2013). In modeling the auditor's opinion, there are decisions for financially distressed companies. Mutchler et al. (1997) concluded that qualitative variables related to the list of good and bad news do not have the power to explain more when compared to financial variables. Laitinen & Laitinen (1998) used logistic regression analysis based on 17 financial and non-financial variables to describe qualifications in large companies in Finland. Caramanis & Spathis (2006) analyzed three component of financial distress: audit task difficulty, performance, and liquidity. They found that financial distress was related to the opinion of an auditor. Their results showed that the likelihood of receiving a qualified audit report is higher with financial information.

(a) Firm size

Past research has examined the auditor's opinion, and one of the features of the company is its firm size. Those research studies on firm size provide modified audit opinions or qualified opinions on how large and small-firm size can perform, following by the Conceptual Framework for Financial Reporting in part of going concern (GC). Louwers (1998) suggested that auditors focus on characteristics of client and distress rather than auditor's economic incentives or litigation risk when evaluating clients. If companies that receive a modified audit opinion share similar characteristics, identifying those characteristics could help stakeholders and auditor detect the GC of the company (Gissel, Robertson & Stefaniak, 2010). One of the most widely studied company characteristics used to describe auditor-issued modified opinion is that the size of company. It is a generally held view that the probability of receiving a modified audit opinion is greater for smaller, than for larger, companies. However, the reasons for this opinion-size relationship are unclear. Smaller companies may be more sensitive to factors that affect a company's GC status (K. C. W. Chen & Church, 1992), while larger companies have more resources to employ towards avoiding bankruptcy (Mutchler et al., 1997), as well as more negotiating power with auditors in the opinion-decision process (Butler, Leone & Willenborg, 2004). Auditors may also fail to issue modified audit opinions to larger firms, as they

could compromise independence because of client or audit fee pressures (De Angelo, 1981).

From the previous literature, this study analyses the firm size factor impact on information of KAM. Firm size is a proxy by the natural log of total assets. The researcher believes that large companies have high complex and number of transaction more than small companies. This may result in large companies have more risk about operate in company. Thus, the researcher expects that the large firm client has more information about KAM than the small firm client. The following hypotheses with respect to firm size are developed:

Hypothesis 7a: Firm size has a positive effect on overall of KAM.

This research expected that dimension of KAM involve about assets may be affect information of KAM, because firm size compute by natural log of total assets. First category of KAM is revenue recognition, it communicate about revenue of company. Thus, the researcher expects that this category not effect of KAM. The following hypotheses with respect to firm size are developed:

Hypothesis 7b: Firm size does not effect on KAM about the revenue recognition.

Second category of KAM is valuation of assets, it communicate about assets of company such as; valuation of PPE, valuation of investment and valuation of financial instruments and biological assets. It involve asset of company. Thus, the researcher expects that this category has effect of KAM. The following hypotheses with respect to firm size are developed:

Hypothesis 7c: Firm size has a positive effect on KAM about the valuation of assets.

Third category of KAM is inventory, it communicate about inventory of company. The inventory is a part of assets. It involve asset of company. Thus, the researcher expects that this category has effect of KAM. The following hypotheses with respect to firm size are developed:

Hypothesis 7d: Firm size has a positive effect on KAM about the inventories.

Fourth category of KAM is impairment, it communicate about impairment of company such as; impairment of non-current assets, impairment of investment and, impairment goodwill. It involve asset of company. Thus, the researcher expects that this category has effect of KAM. The following hypotheses with respect to firm size are developed:

Hypothesis 7e: Firm size has a positive effect on KAM about the impairment.

Next category of KAM is accounts receivable and allowances. It is a part of assets the same as inventory. Thus, the researcher expects that this category has effect of KAM. The following hypotheses with respect to firm size are developed:

Hypothesis 7f: Firm size has a positive effect on KAM about the accounts receivable and allowances.

Sixth category of KAM is transaction of related parties. It communicates about transaction between the parent company and subsidiaries of related parties. Most transactions involve acquisitions or disposals of company and other transaction of related parties. Thus, the researcher expects that this category has effect of KAM. The following hypotheses with respect to firm size are developed:

Hypothesis 7g: Firm size has a positive effect on KAM about the transaction of related parties.

Next category of KAM is provision. This category communicates about liability of firm such as; liabilities form insurance contracts and employee benefit. And the Last category is others. This category communicates about taxation, litigation and claims and, going concern. Two categories are not involves about asset of firms. Thus, the researcher expects that two categories have not effect of KAM. The following hypotheses with respect to firm size are developed:

Hypothesis 7h: Firm size does not effect on KAM about the provision.

Hypothesis 7i: Firm size does not effect on KAM about the others.

(b) Firm complexity

The relative importance of receivables and inventory on the client's balance sheet is related to the probability of an audit failure (Pratt & Stice, 1994). The previous empirical studies (e.g., see Simunic, 1980; Ham, Losell & Smieliauskas, 1985; Willingham & Wright, 1985; Kreutzfeldt & Wallace, 1986; Francis & Simon, 1987; and Simon & Francis, 1988) suggest that receivables and inventory require subjective judgment in determining their values, and accordingly are difficult and risky to audit. Pierre & Anderson (1984) note that nearly 50 percent of the errors related to the balance sheet are associated with either accounts receivable or inventory, and the financial press has identified a number of cases where management has intentionally overstated receivables and/or inventory, many of which have resulted in lawsuits against incumbent auditors. Therefore, the differences in the items, and the receivables and inventory make the audit process of the auditor different depending on the company. Thus, the difficulty and risk of audit in this research is called firm complexity.

Firm complexity refers to the complexity of the operations of the businesses of firms (P. Akhalumeh et al., 2017). More complex operations would require more substantive tests, and that means more time to complete an audit engagement. Prior study found their use of proxies for complexity about inventories, receivables, and

sales of the firm (Caramanis & Spathis, 2006; Vuko & Cular, 2014; P. B. Akhalumeh et al., 2017). Thus, this study measures firm complexity by inventory divided by total assets. The researcher believes that inventory of firms which have more complexity of operations will have more information about KAM. Follow by report of KPMG and FAP issued a summary of the risk disclosed by the auditor in KAM, which found the highest number of risks associated about inventories. Therefore, the researcher sees that the more complex the company is in the list. And many debtors will result in more exposure in the KAM. The research proposes the following alternative hypotheses;

Hypothesis 8a: Firm complexity has a positive effect on overall of KAM.

This research expected that categories involve about inventory and assets have effect firm complexity because proxy of firm complexity is inventory divided by total assets. This study expects that five categories of KAM should be related to inventory and assets are valuation of assets, inventory, impairment, accounts receivable and allowances and, transaction of related parties categories. While, three categories of KAM are not related to inventory and assets are revenue recognition, provision, and others categories. Thus, the research proposes the following alternative hypotheses;

Hypothesis 8b: Firm complexity does not effect on KAM about the revenue recognition.

Hypothesis 8c: Firm complexity has a positive effect on KAM about the valuation of assets.

Hypothesis 8d: Firm complexity has a positive effect on KAM about the inventories.

Hypothesis 8e: Firm complexity has a positive effect on KAM about the impairment.

Hypothesis 8f: Firm complexity has a positive effect on KAM about the accounts receivable and allowances.

Hypothesis 8g: Firm complexity has a positive effect on KAM about the transaction of related parties.

Hypothesis 8h: Firm complexity does not effect on KAM about the provision.

Hypothesis 8i: Firm complexity does not effect on KAM about the others.

(c) Profitability

Profitability is the ability of a business to earn a profit. Profitability is thought to positively correlated with success of management, and compensation management, therefore being developed in various countries (T., 2017). Profitability (a measure of performance), which is commonly proxied by ROA, ROE or EPS, is commonly studied by its signaling effect on stakeholders as profitability might signal good or bad news which may prompt a company to either quickly or reluctantly release its audited accounting report (Moradi et al., 2013). (Eghlaiow, S., Wickremasinghe, G. & Paguio, 2013) found a positive, but not significant, relationship between good news and audit report timeliness; the same was found between ROE and timeliness for Iranian firms. Ahmed & Hossain (2010) found that in Bangladesh, profitability is among the factors that significantly reduce the time taken to prepare the audit report. P. B. Akhalumeh et al. (2017) found that profitability has an effect on audit report lag. Thus, this study uses ROE is proxies of profitability because ROE is a measure of real profitability, comparing with the profit that shareholders receive from to the capital provided or owned by shareholders. In term of conceptual, it is the most important indicator of the profitability of equity investors. ROE measures the efficiency of the company that can use the money from shareholders to generate profits and growth of company. Unlike other investment returns ratios, ROE is a profitability ratio from the perspective of investors, not the company. In other words, this ratio calculates the amount of money that is invested by investors in the company, not the company's investment in assets or other things. Thus, this paper proposes the following alternative hypotheses;

Hypothesis 9a: Profitability has a negative effect on overall of KAM.

This research expected that categories involve about income and equity has effect information of KAM, because of profitability in this study computed by

dividing net income by shareholder's equity. This study expects that two categories of KAM should be related to income and equity is revenue recognition and impairment. Thus, the research proposes the following alternative hypotheses;

Hypothesis 9b: Profitability has a negative effect on KAM about the revenue recognition.

Hypothesis 9c: Profitability does not effect on KAM about the valuation of assets.

Hypothesis 9d: Profitability does not effect on KAM about the inventories.

Hypothesis 9e: Profitability has a negative effect on KAM about the impairment.

Hypothesis 9f: Profitability does not effect on KAM about the accounts receivable and allowances.

Hypothesis 9g: Profitability does not effect on KAM about the transaction of related parties.

Hypothesis 9h: Profitability does not effect on KAM about the provision.

Hypothesis 9i: Profitability does not effect on KAM about the others.

(d) Liquidity

Liquidity refers to the ability of the firm to meet obligations as they fall due. Liquidity is a clear indication of financial health. The feasibility of a qualified audit report is higher when the financial health of a company deteriorates. Measuring the composition of this asset is an important variable in the forecasting process on audit opinion, as receivables and inventories may be unmanageably large in comparison to total assets (Caramanis & Spathis, 2006). Liquidity measures had been studied in some previous studies in predicting the audit opinion qualifications. Traditional liquidity measures used in accounting and auditing research are current and quick ratios (T., 2017). This study has measured the ratio of current assets to current liabilities (Walker & Hay, 2013). The researcher proposes the following alternative hypothesis;

Hypothesis 10a: Liquidity has a positive effect on overall of KAM

For this factor is liquidity, it involved about current assets and current liability. Liquidity for companies typically refers to a company's ability to use its current assets to meet its current or short-term liabilities. This study focuses on liability of firm because debt is a fairly sensitive item. Two categories are related to liability; provision and other categories. The researcher expects that two categories may be affect to information of KAM. The researcher proposes the following alternative hypothesis;

Hypothesis 10b: Liquidity does not effect on KAM about the revenue recognition

Hypothesis 10c: Liquidity does not effect on KAM about the valuation of assets

Hypothesis 10d: Liquidity does not effect on KAM about the inventories

Hypothesis 10e: Liquidity does not effect on KAM about the impairment

Hypothesis 10f: Liquidity does not effect on KAM about the accounts receivable and allowances

Hypothesis 10g: Liquidity does not effect on KAM about the transaction of related parties

Hypothesis 10h: Liquidity has a positive effect on KAM about the provision

Hypothesis 10i: Liquidity has a positive effect on KAM about the others

From the above literature review, this research can and summaries of all hypothesized relationship in Table 2.

Table 2: Summary of Hypothesized Relationships

Hypotheses	Description of Hypothesized Relationship
H1	The trend of disclosure about the topic of KAM pre and post ISA 701 has increased trends.
H2	Information of KAM that is different when information announcements are given between pre and post – adoption of ISA 701
H3a	Information contents overall of KAM about have negative effect on stock returns.
H3b	Information contents of KAM about revenue recognition have negative effects on stock returns.
H3c	Information contents of KAM about valuation of assets have negative effects on stock returns.
H3d	Information contents of KAM about inventories have negative effects on stock returns.
H3e	Information contents of KAM about impairment have negative effect on stock returns.
H3f	Information contents of KAM about accounts receivable and allowances have negative effect on stock returns.
H3g	Information contents of KAM about transaction of related parties have negative effect on stock returns.
H3h	Information contents of KAM about provision have negative effect on stock returns.
H3i	Information contents of KAM about others have negative effect on stock returns.

Table 2: Summary of Hypothesized Relationships (Continued)

Hypotheses	Description of Hypothesized Relationship
H4a	Big 4 have effect more than non – Big 4 on overall of KAM
H4b	Big 4 have effect more than non – Big 4 on KAM about the revenue recognition.
H4c	Big 4 have effect more than non – Big 4 on KAM about the valuation of assets.
H4d	Big 4 have effect more than non – Big 4 on KAM about the inventories
H4f	Big 4 have effect more than non – Big 4 on KAM about the accounts receivable and allowances
H4g	Big 4 have effect more than non – Big 4 on KAM about the transaction of related parties
H4h	Big 4 have effect more than non – Big 4 on KAM about the provision
H4i	Big 4 have effect more than non – Big 4 on KAM about the others
H5a	Qualified opinions have effect more than unqualified opinion on overall of KAM.
H5b	Qualified opinions have effect more than unqualified opinion on KAM about revenue recognition
H5c	Qualified opinions have effect more than unqualified opinion on KAM about valuation of assets
H5d	Qualified opinions have effect more than unqualified opinion on KAM about the inventories
H5e	Qualified opinions have effect more than unqualified opinion on KAM about the impairment
H5f	Qualified opinions have effect more than unqualified opinion on KAM about the accounts receivable and allowances
H5g	Qualified opinions have effect more than unqualified opinion on KAM about the transaction of related parties

Table 2: Summary of Hypothesized Relationships (Continued)

Hypotheses	Description of Hypothesized Relationship
H5h	Qualified opinions have effect more than unqualified opinion on KAM about the provision
H5i	Qualified opinions have effect more than unqualified opinion on KAM about the others
H6a	Audit fee have a positive effect on overall of KAM
H6b	Audit fee have a positive effect on KAM about the revenue recognition
H6c	Audit fee have a positive effect on KAM about the valuation of assets
H6d	Audit fee have a positive effect on KAM about the inventories
H6e	Audit fee have a positive effect on KAM about the impairment
H6f	Audit fee have a positive effect on KAM about the accounts receivable and allowances
H6g	Audit fee have a positive effect on KAM about the transaction of related parties
H6h	Audit fee have a positive effect on KAM about the provision
H6i	Audit fee have a positive effect on KAM about the others
H7a	Firm size has a positive effect on overall of KAM
H7b	Firm size does not effect on KAM about the revenue recognition
H7c	Firm size has a positive effect on KAM about the valuation of assets
H7d	Firm size has a positive effect on KAM about the inventories
H7e	Firm size has a positive effect on KAM about the impairment
H7f	Firm size has a positive effect on KAM about the accounts receivable and allowances

Table 2: Summary of Hypothesized Relationships (Continued)

Hypotheses	Description of Hypothesized Relationship
H7g	Firm size has a positive effect on KAM about the transaction of related parties
H7h	Firm size does not effect on KAM about the provision
H7i	Firm size does not effect on KAM about the others
H8a	Firm complexity has a positive effect on overall of KAM
H8b	Firm complexity does not effect on KAM about the revenue recognition
H8c	Firm complexity has a positive effect on KAM about the valuation of assets
H8d	Firm complexity has a positive effect on KAM about the inventories
H8e	Firm complexity has a positive effect on KAM about the impairment
H8f	Firm complexity has a positive effect on KAM about the accounts receivable and allowances
H8g	Firm complexity has a positive effect on KAM about the transaction of related parties
H8h	Firm complexity does not effect on KAM about the provision
H8i	Firm complexity does not effect on KAM about the others
H9a	Profitability has a negative effect on overall of KAM
H9b	Profitability has a negative effect on KAM about the revenue recognition
H9c	Profitability does not effect on KAM about the valuation of assets
H9d	Profitability does not effect on KAM about the inventories
H9e	Profitability has a negative effect on KAM about the impairment
H9f	Profitability does not effect on KAM about the accounts receivable and allowances
H9g	Profitability does not effect on KAM about the transaction of related parties

Table 2: Summary of Hypothesized Relationships (Continued)

Hypotheses	Description of Hypothesized Relationship
H9h	Profitability does not effect on KAM about the provision
H9i	Profitability does not effect on KAM about the others
H10a	Liquidity has a positive effect on overall of KAM
H10b	Liquidity does not effect on KAM about the revenue recognition
H10c	Liquidity does not effect on KAM about the valuation of assets
H10d	Liquidity does not effect on KAM about the inventories
H10e	Liquidity does not effect on KAM about the impairment
H10f	Liquidity does not effect on KAM about the accounts receivable and allowances
H10g	Liquidity does not effect on KAM about the transaction of related parties
H10h	Liquidity has a positive effect on KAM about the provision
H10i	Liquidity has a positive effect on KAM about the others

CHAPTER III

RESEARCH METHOD

Sample and Data Collection

Sample Selection

In this study, companies listed on the Stock Exchange of Thailand were selected as the sample. The sample is chosen from the online databased of the Stock Exchange of Thailand (www.set.or.th). The companies have the accounting period from January 1 to December 31, during the years 2014-2017 for a period of four years. This study does not include companies in the financial industry, companies undergoing rehabilitation or removal from the Stock Exchange of Thailand, companies with closed accounting periods do not match, companies in MAI industry, and companies with incomplete information during the period 2014 to 2017, because of the financial structure and operational structures the oversight of these companies is significantly different from other businesses.

	Number of companies
Company listed	559
Less Company in financial industry	(122)
Less undergoing rehabilitation	(29)
Less MAI company	(152)
Total	256

Data Collection

This research is an empirical study aimed at studying the relationship between the information content of KAM and the stock returns, as well as the factors that will affect the disclosure of information content about KAM. The data collected for this study were collected from two sources: the annual report of the company listed on the

Stock Exchange of Thailand and information from SETSMART (SET Market Analysis and Reporting). Therefore, the data can be extracted as follows:

1) The information content of KAM is collected from the auditor report in the annual report on the website of the Stock Exchange of Thailand (www.set.or.th) during the year 2014-2017 for a period of four years.
2) Stock returns is collected from the daily closing price during the annual report announcement period in SETSMART during the years 2014-2017 for a period of four years.
3) Data of audit characteristics (Audit Firm Type, Auditor Opinion, and Audit Fee) and auditee characteristics (Firm Size, Firm Complexity, Profitability, Liquidity) are collected from annual report websites of the Stock Exchange of Thailand and data in SETSMART during the years 2014-2017 for a period of four years.

Variable

The variables used in this study were divided into three parts. The first part, analyzes for answers as to how of disclosure about the topic of KAM pre and post ISA 701 has increased. The variables in this part are used to answer research questions in hypotheses 1. The second part, analyzes for answers as to how the impact of KAM has an effect on the stock returns. The variables in this part are used to answer research questions in hypotheses 2 and 3(a-i). The Last part, analyzes for answers as to how the factors that impact KAM. The variables in this part are used to answer research questions in hypotheses 4(a-i).

For Hypothesis 1, this study analyzes for answers as to how of disclosure about the topic of KAM pre and post ISA 701 has increased. The variable use to analyze for this hypothesis is amount of information of KAM between 2014 – 2017, thereby information of KAM between 2014 and 2015 measured variable by content analysis of emphasize paragraph in audit report. Information of KAM between 2016 –

2017 measured variable by content analysis in paragraph of matter of KAM in audit report.

For Hypothesis 2, Information about risk of companies in KAM paragraph that is different when information announcements are given between pre and post - adoption of ISA 701. The variable use to analyze for this hypothesis is cumulative abnormal return (CAR) computed data by stock closing price each day between 2014 – 2017. In this research, the researcher obtains 252 days of an estimation period ending 2 days before the announcement.

For Hypothesis 3, this study analyzes for answers as to how the impact of KAM has an effect on the stock returns. The variables in this section are used to answer research questions in hypotheses 3 (a-i);

Dependent Variable

Stock returns is an annual value-weight return on a firm's common stock issues. Stock returns computed by use the daily closing price during the annual report announcement period measured using proxies of cumulative abnormal return (CAR) between financial report announcements in three ranges: 3 days (-1, +1), 5 days (-1, +3), 7 days (-1, +5) followed by (Ianniello & Galloppo, 2015). Based on past research, the information in the auditor's report is important to the investor (Schaub & Highfield, 2003; Citron et al., 2008).

Independent Variable

Key Audit Matter was measured by content analysis of the matter of KAM paragraph in audit report by counting the amounts separate by each topic of consistence: revenue recognition, valuation of assets, inventories, impairment, accounts receivable, transaction of related parties, provision, other and overall KAM.

Control Variable

Audit Firm Type is Accounting Firm. It is separate two types: Big 4 ((PricewaterhouseCoopers (PWC), Ernst & Young (EY), KPMG, and Deloitte) and non-Big 4. It was measured by a dummy variable; 1 = Big 4, 0 = Otherwise. The

identification of the risk of a business in a KAM paragraph requires the auditor's judgment to assess the risk. Previous study shows that the Big 4 audit opinion serves as an effective quality label, while most second-tier (i.e., non-Big 4) firms ‘‘lack knowledge of industry, geographic presence, and reputation for bidding successfully for large accounts’’ (De Angelo, 1981; Watkins et al., 2004; Eisenberg & Macey, 2003).

Firm Size was proxy for risk because market reactions differ across debt levels (see Palmrose, Richardson, & Scholz, 2004). It was measured by a natural log of total assets. Past research has examined the auditor's opinion and one of the features of the company which is its firm size.

Firm Growth was measured by the change of percentage in sales from period (t -1) to period t, where period t is the fiscal year preceding year in which the alleged error occurred (Stice, 1991).

Leverage was proxy for risk because market reactions differ across debt levels (see Palmrose et al., 2004). This study was measured by debt to equity ratio, because the researcher believe that when company have high leverage, it possible high information of KAM (C. J. P. Chen et al., 2000; Palmrose, Richardson, & Scholz, 2004b; Hsu et al., 2011).

Profitability was measured by use of proxies that are ROA. Previous research found that profitability is among the factors that significantly take the time to prepare the audit report (Ahmed & Hossain, 2010).

Liquidity was measured by current ratio. Liquidity refers to the ability of the firm to meet obligations as they fall due (Caramanis & Spathis, 2006; Walker & Hay, 2013). Therefore, when the company has less liquidity, it may result in more opinions on the part of KAM.

The Last section part of the study is hypothesis 4 (a-i), this study analyzes for answers as to what are the factors effecting KAM. The variables in this section are used to answer research questions in hypotheses 4 (a-i);

Dependent Variable

Key Audit Matter was measured by content analysis of the matter of KAM paragraph in audit report by count of amount separate by each of topic consistence; revenue recognition, valuation of assets, inventories, impairment, accounts receivable, transaction of related parties, provision, taxation and overall of KAM.

Independent Variable

Audit Firm Type is Accounting Firm. It is separate two types: Big 4 ((PricewaterhouseCoopers (PWC), Ernst & Young (EY), KPMG, and Deloitte) and non-Big 4. It was measured by a dummy variable; 1 = Big 4, 0 = Otherwise. The identification of the risk of a business in a KAM paragraph requires the auditor's judgment to assess the risk. Previous study shows that the Big 4 audit opinion serves as an effective quality label, while most second-tier (i.e., non-Big 4) firms ‘‘lack knowledge of industry, geographic presence, and reputation for bidding successfully for large accounts’’ (De Angelo, 1981; Watkins et al., 2004; Frieswick 2003; Eisenberg & Macey, 2003).

Audit opinion is opinion in audit report. It was measured by a dummy variable; 1 = qualified opinion, 0 = Otherwise. ISA 701 (A6) mentioned the relationship between Key Audit Matters and the Auditor’s Opinion that “when the auditor expresses a qualified or adverse opinion in accordance with ISA 705 (Revised), it presents the description of a matter giving rise to a modified opinion in the Basis for Qualified (Adverse) Opinion the section and helps promote intended users’ understanding, and identifies such circumstances when they occur.”

Audit Fee is the cost incurred by the company to pay a public accounting firm in order to audit the financial statements of the company. It was measured by natural log for audit fee. The regulatory changes a new format of the audit report, the researcher expects that from a critical audit process, and the auditor may need more

time and skills for judgment to audit risk (Gutierrez et al., 2016). As a result, the researcher believes that when the regulatory changes cause a new format of the audit report, audit fees increase.

Firm Size was measured by a natural log of total assets. Past research has examined the auditor's opinion and one of the features of the company is its firm size.

Firm Complexity measured by the inventory divide by total assets. Each organization has a complexity of operations, so it affects the process. More complex operations would require more substantive tests, and that means more time to complete an audit engagement (Caramanis & Spathis, 2006; Wei, 2012; Vuko & Cular, 2014; P. B. Akhalumeh et al., 2017).

Profitability was measured by using proxies that is ROE. Previous research found that profitability is among the factors that significantly take the time to prepare the audit report (Ahmed & Hossain, 2010).

Liquidity was measured by the current ratio. Liquidity refers to the ability of the firm to meet obligations as they fall due (Caramanis & Spathis, 2006; Walker & Hay, 2013).

Research Methodology

This research aim examines the impact of KAM on stock returns and the impact factor on KAM. The first methodology of this research is compare to trend of information related to KAM before and after the ISA 701 issue in Hypothesis 1. The methodology use repeated measures ANOVA analysis for describe about trend of content of KAM pre and post ISA 701 announcement.

Next methodology for Hypothesis 2 and 3(a-i), this study use event study and regression model for describe about information announcement for public, how affect to stock returns.

Repeated Measures ANOVA Analysis

In the first part, this research study about trend of audit disclosure about risk of company in audit report before and after ISA 701 announcement. The data in before ISA 701 announcement (2014 -2015) in audit report, the researcher collected by content analysis by looking at the risk of company that the auditor has provided in the emphasis paragraph, and after ISA 701 announcement (2016 -2017), the researcher collected data by looking in KAM paragraph in audit report. The researcher use research method is repeated measures ANOVA analysis for testing to trend of disclosure about risk of company.

Event Study

Second, the research method is based on a study of interesting events or an event study, which studies (W. C. Chan, 2003; Palmrose and Chen, 2000; C. J. P. Chen et al., 2000; Soltani, 2000; Ianniello & Galloppo, 2015) the effects of a particular time period for the result in Hypothesis 2. This research will focus on the timing of the auditor's report of the companies listed on the Stock Exchange of Thailand. It will study how the publication of the auditor's report will affect the rate of return of the stock. Yield anomalies are accumulated during the reporting period in the auditor's report.

Cumulative abnormal return (CAR) is a proxy of the stock returns surrounding the audit report announcement date. The date is the same as the date of the financial statement or the date on which the audited financial statement has been sent to the Stock Exchange of Thailand, which is publicly available from the auditor's report.

CAR is calculated by summing up the daily abnormal returns for the common stock of each company across the event period: 3 days (-1, +1), 5 days (-1, +3), 7 days (-1, +5). The daily abnormal return for each company *i* on each event day *t* is measured as the difference between the actual return and the estimated return as follows:

Step 1: The date of the company announcement is the date of the event or event date, which will be divided into two periods as follows:

1) Estimation window is the period representing the purchase of ordinary shares at normal price. Calculates the expected return of the sample. In this research, the researcher will obtain 252 days of an estimation period ending 2 days before the announcement follow by Ianniello & Galloppo (2015).
2) Event period or Event window is the time when the company has announced the information in the report of the auditor. The price of the common stock during this period will be tested on the impact and yield of ordinary shares. It is divided into 3 ranges; 3 days (-1, +1), 5 days (-1, +3), 7 days (-1, +5), followed by Ianniello & Galloppo (2015).

Step 2: Estimating the expected return for each sample stock over an estimation period. The expected return is calculated based on a single factor market model. The parameters of the market model are estimated using Ordinary Least Square (OLS) regression over the estimation period. This method is used to control the relation between stock returns and market return as follows in Equation (1). The market-model-adjusted return are often found as an expected return in previous event studies (Schipper & Thompson, 1983; Lummer & McConnell, 1989; Bonnier & Bruner, 1989).

$$E(R_{i,t}) = \alpha + \beta R_{m,t} \quad (1)$$

where:

$E(R_{i,t})$ = the expected return of stock (i) on day (t)

$R_{m,t}$ = the return of the market on day (t)

The market returns calculation is based on the change of the SET Index before the announcement date. The calculation is as follows Equation (2):

$$R_{m,t} = \frac{SET_t - SET_{t-1}}{SET_{t-1}} \quad (2)$$

where:

SET_t = the closing price of the market index on day (t)

SET_{t-1} = the closing price of the market index on day (t-1)

Step 3: Computing abnormal return

An abnormal return for an individual stock is the difference between the actual returns on time (t) in the event window and the expected return of an individual stock as follow in Equation 3.

$$AR_{i,t} = Ri,t - (\alpha_i + \beta_i R_{m,t}) \quad (3)$$

where:

$AR_{i,t}$ = residuals for company (i) on the event day (t).

Ri,t = the return on the common stock (i) for company on the event day (t).

$R_{m,t}$ = the estimated market return on event day (t).

To calculate the cumulative abnormal return (CAR) for an individual stock, the abnormal return of each stock is aggregated over the event window.

The CAR is calculated as follows in Equation 4:

$$CAR_{i,t} = \sum_{t=-1}^{t=1} AR_{i.t} \quad (4)$$

In order to avoid the effect of difficulty because of the fluctuation of stock prices, the daily Average Abnormal Return (AAR) of the sample stocks was also calculated as follow in Equation 5:

$$AAR_{i,t} = \sum \frac{AR_{i,t}}{N} \quad (5)$$

Finally, the Cumulative Average Abnormal Return (CAAR) was estimated, in order to determine the overall effect of audit reports during the examination period.

$$CAAR = \sum AAR_{i,t} \dots e \quad (6)$$

Step 4: Testing the significance of abnormal return.

The assumptions for the Hypothesis 2 examination was carried out with the assistance of a t distribution test (e.g. Brown & Warner, 1985; Barber & Lyon, 1997).

Regression model

The Ordinary Least Squares (OLS) regression analysis is used to test all hypotheses following the conceptual model in this research. The regression equation is a linear combination of the independent variables that best explains and predicts the dependent variable (Aulakh, Kotabe & Teegen, 2000). Therefore, OLS regression is appropriate for examining the relationships between the dependent variables and independent variables because both dependent and independent variables in this research are the quantitative variables (Hair et al., 2010). Thus hypotheses 3 through hypotheses 11 in this research are transformed into seventeen equations. Each equation consists of the main variables related to the hypothesis testing as described in the previous chapter.

The assumptions for Hypothesis 3a – 3i examination KAM affect the stock price. Stock price proxy is the cumulative abnormal return from the analyses of the event study. The researcher is addition of variables suggested by previous study as potentially impacting price. Six specific variables measuring financial position, namely company size (SIZE), company growth (Growth), profitability (ROA, ROE), liquidity (LIQ), and leverage (LEV) are included in the model to disaggregate the information of KAM effect and the financial information (Palmrose et al., 2004a; C. J. P. Chen et al., 2000; Hsu et al., 2011)

We employ the following equation to test Hypothesis 3a – 3i as follow Equation (7) – (8) respectively:

$$CAR_{i,t} = \alpha + \beta_1 KAM\_ALL_{i,j} + \beta_2 Big4_{i,t} + \beta_4 SIZE_{i,t} + \beta_5 GROWTH\ i_{,t} + \beta_6 ROA_{i,t} + \beta_7 LIQ_{,i,t} + \beta_9 LEV_{it} + \varepsilon_{i,t} \quad (7)$$

$$CAR_{i,t} = \alpha + \beta_{10} KAM\_REV_{i,j} + \beta_{11} KAM\_ASS_{i,j} + \beta_{12} KAM\_INV_{i,j} + \beta_{13} KAM\_IMP_{i,j} + \beta_{14} KAM\_AR_{i,j} + \beta_{15} KAM\_RP_{i,j} + \beta_{16} KAM\_PRO_{i,j} + \beta_{17} KAM\_OTH_{i,j} + \beta_{18} Big4_{i,t} + \beta_{19} SIZE_{i,t} + \beta_{20} GROWTH_{i,t} + \beta_{21} ROA_{i,t} + \beta_{22} LIQ_{,i,t} + \beta_{23} LEV_{it} + \varepsilon_{i,t} \quad (8)$$

where:

$CAR_{i,t}$ = Cumulative Abnormal Return for company i on the event day t.

$KAM\_ALL_{i,j}$ = Amount of information overall of Key Audit Matters for company i on the year j.

$KAM\_REV_{i,j}$ = Amount of information of Key Audit Matters about revenue recognition for company i on the year j.

$KAM\_ASS_{i,j}$ = Amount of information of Key Audit Matters about valuation of assets for company i for year j.

$KAM\_INV_{i,j}$ = Amount of information of Key Audit Matters about inventories for company i for year j.

$KAM\_IMP_{i,j}$ = Amount of information of Key Audit Matters about impairment for company i for year j.

$KAM\_AR_{i,j}$ = Amount of information of Key Audit Matters about accounts receivable for company i for year j.

$KAM\_RP_{i,j}$ = Amount of information of Key Audit Matters about transaction of related parties for company i for year j.

KAM_$PRO_{i,j}$ = Amount of information of Key Audit Matters about provision for company i for year j.

KAM_$OTH_{i,j}$ = Amount of information of Key Audit Matters about other for company i for year j.

Control Variables

Big4 = Dummy variable Audit Firm Type; 1 = Big 4, 0 = Otherwise of company i for year t

SIZE = client size variable indicated by the natural logarithm of total assets of company i for year t

GROWTH = Growth of company i for year t compute by change in total assets.

ROA = return on asset of company i for year t

LIQ = current ratio of company i for year t

LEV = debt to equity ratio of company i for year t

For Hypothesis 4 (a-i) through 10 (a-i) the examination factors affects KAM between fiscal year 2016 -2017. This paper used multiple regression analysis to find when there is a relationship between the independent variables and the information content of KAM in the audit report. It is classified by topic.

We employ the following equation to test Hypothesis 4 (a-i) through 10 (a-i) as follow Equation (9) – (17) respectively:

$$KAM\_ALL_{i,j} = \alpha + \beta_{24}Big4_{i,t} + \beta_{25}UNQOP_{i,t} + \beta_{26}FEE_{i,t} + \beta_{27}SIZE_{i,t} + \beta_{28}IV/AS_{i,t} + \beta_{29}ROE_{i,t} + \beta_{30}LIQ_{i,t} + \varepsilon_{i,t} \quad (9)$$

$$KAM\_REV_{i,j} = \alpha + \beta_{31}Big4_{i,t} + \beta_{32}UNQOP_{i,t} + \beta_{33}FEE_{i,t} + \beta_{34}SIZE_{i,t} + \beta_{35}IV/AS_{i,t} + \beta_{38}ROE_{i,t} + \beta_{39}LIQ_{,i,t} + \varepsilon_{i,t} \quad (10)$$

$$KAM\_ASS_{i,j} = \alpha + \beta_{40} Big4_{i,t} + \beta_{41} UNQOP_{i,t} + \beta_{42} FEE_{i,t} + \beta_{43} SIZE_{i,t} + \beta_{44} IV/AS_{i,t} + \beta_{45} ROE_{i,t} + \beta_{46} LIQ_{,i,t} + \varepsilon_{i,t} \quad (11)$$

$$KAM\_INV_{i,j} = \alpha + \beta_{47} Big4_{i,t} + \beta_{48} UNQOP_{i,t} + \beta_{49} FEE_{i,t} + \beta_{50} SIZE_{i,t} + \beta_{51} IV/AS_{i,t} + \beta_{52} ROE_{i,t} + \beta_{53} LIQ_{,i,t} + \varepsilon_{i,t} \quad (12)$$

$$KAM\_IMP_{i,j} = \alpha + \beta_{54} Big4_{i,t} + \beta_{55} UNQOP_{i,t} + \beta_{56} FEE_{i,t} + \beta_{57} SIZE_{i,t} + \beta_{58} IV/AS_{i,t} + \beta_{59} ROE_{i,t} + \beta_{60} LIQ_{,i,t} + \varepsilon_{i,t} \quad (13)$$

$$KAM\_AR_{i,j} = \alpha + \beta_{61} Big4_{i,t} + \beta_{62} UNQOP_{i,t} + \beta_{63} FEE_{i,t} + \beta_{64} SIZE_{i,t} + \beta_{65} IV/AS_{i,t} + \beta_{66} ROE_{i,t} + \beta_{67} LIQ_{,i,t} + \varepsilon_{i,t} \quad (14)$$

$$KAM\_RP_{i,j} = \alpha + \beta_{68} Big4_{i,t} + \beta_{69} UNQOP_{i,t} + \beta_{70} FEE_{i,t} + \beta_{71} SIZE_{i,t} + \beta_{72} IV/AS_{i,t} + \beta_{73} ROE_{i,t} + \beta_{74} LIQ_{,i,t} + \varepsilon_{i,t} \quad (15)$$

$$KAM\_PRO_{i,j} = \alpha + \beta_{75} Big4_{i,t} + \beta_{76} UNQOP_{i,t} + \beta_{77} FEE_{i,t} + \beta_{78} SIZE_{i,t} + \beta_{79} IV/AS_{i,t} + \beta_{80} ROE_{i,t} + \beta_{81} LIQ_{,i,t} + \varepsilon_{i,t} \quad (16)$$

$$KAM\_OTH_{i,j} = \alpha + \beta_{82} Big4_{i,t} + \beta_{83} UNQOP_{i,t} + \beta_{84} FEE_{i,t} + \beta_{85} SIZE_{i,t} + \beta_{86} IV/AS_{i,t} + \beta_{87} ROE_{i,t} + \beta_{88} LIQ_{,i,t} + \varepsilon_{i,t} \quad (17)$$

where:

$KAM\_ALL_{i,j}$ = Amount information overall of Key Audit Matters for company i for year j.

$KAM\_REV_{i,j}$ = Amount information of Key Audit Matters about revenue recognition for company i for year j.

$KAM\_ASS_{i,j}$ = Amount information of Key Audit Matters about valuation of assets for company i for year j.

$KAM\_INV_{i,j}$ = Amount information of Key Audit Matters about inventories for company i for year j.

$KAM\_IMP_{i,j}$ = Amount information of Key Audit Matters about impairment for company i for year j.

KAM_$AR_{i,j}$ = Amount information of Key Audit Matters about accounts receivable for company i for year j.

KAM_$RP_{i,j}$ = Amount information of Key Audit Matters about transaction of related parties for company i for year j.

KAM_$PRO_{i,j}$ = Amount information of Key Audit Matters about provision for company i for year j.

KAM_$OTH_{i,j}$ = Amount information of Key Audit Matters about other for company i for year j.

Big4 = Dummy variable Audit Firm Type; 1 = Big 4, 0 = Otherwise for company i for year j.

UNQOP = Dummy variable Auditor's Opinion; 1 = Qualified opinion, 0 = Otherwise for company i for year t.

FEE = natural log of audit fee for company i for year t.

SIZE = client size variable indicated by the natural logarithm of total assets for company i for year t.

IV/AS = inventory divided by total assets for company i for year t.

ROE = Return on equity of company i for year t

LIQ = current ratio for company i for year t.

Table 3: Summary of Variable

Variable	Proxies	Measurement
Key Audit Matter		
Revenue recognition	KAM_*REV*	Amount information of Key Audit Matters about revenue recognition
Valuation of assets	KAM_*ASS*	Amount information of Key Audit Matters about Valuation of assets
Inventories	KAM_*INV*	Amount information of Key Audit Matters about Inventories
Impairment	KAM_*IMP*	Amount information of Key Audit Matters about Impairment
Accounts receivable	KAM_*AR*	Amount information of Key Audit Matters about Accounts receivable
Transaction of related parties	KAM_*RP*	Amount information of Key Audit Matters about Transaction of related parties
Provision	KAM_*PRO*	KAM_*PRO* Amount information of Key Audit Matters about Provision
Taxation	KAM_*TAX*	Amount information of Key Audit Matters about Taxation
Overall	KAM_*ALL*	Amount information overall of Key Audit Matters

Table 3: Summary of Variable (Continued)

Variable	Proxies	Measurement
Stock Returns	Abnormal Returns	Compute Cumulative Abnormal return
Audit Firm Type	Big 4	Dummy variable; Audit Firm Type; 1 = Big 4, 0 = Otherwise
Audit Opinion	UNQOP	Dummy variable; Auditor's Opinion; 1 = Qualified opinion, 0 = Otherwise
Audit Fee	FEE	natural log of audit fee
Profitability	ROE	Return on equity
Complexity	IV/AS	inventory divided by total assets
Liquidity	LIQ	current asset divide current liability
Leverage	LEV	debt to equity ratio
Size	SIZE	the natural logarithm of total assets

CHAPTER IV

RESULT AND DISCUSSION

The previous chapter describes the details of the research methods, which are of benefit to understand the methods used for testable hypotheses. This chapter details the results of hypotheses testing which are organized as follows.

Descriptive Statistic

Summary of sample size

This research has collected data from Listed companies on the Stock Exchange of Thailand. The study was conducted on the disclosure about Key Audit Matters (KAM) in the audit report since 2014 - 2017. The researcher selected the sample except the financial segment, companies under rehabilitation, MAI companies, and companies registered after 2013 to obtain the appropriate information for analysis. In this research, there are 256 companies that can be classified into industry in Table 4.

Table 4: Summary of sample size

Industry Group	Amount
Agro & Food Industry	27
Resources	21
Technology	29
Services	49
Industrials	48
Consumer Products	16
Property & Construction	66
Total	**256**

Summary of information content of KAM

This study collects data by content analysis about risk information content of KAM in the audit report of 256 listed companies, which has been announced to disclose important information in the Annual Report for the year 2016. However, the researcher expects that before ISA 701 announcement, the auditor have reported risk of company in audit report before ISA 701. The summary of KAM shows data since 2014 – 2017 as shown in Table 5.

Table 5: Descriptive of Pre and Post KAM

KAM	**Before-ISA 701**		**After-ISA 701**	
	2014	**2015**	**2016**	**2017**
Revenue recognition (REV)	0	0	151	155
Valuation of Assets (ASS)	21	22	94	102
Inventories (INV)	2	1	90	94
Impairment (IMP)	2	3	111	113
Accounts receivable and allowances (AR)	2	1	41	43
Transaction of related parties (RP)	15	20	41	42
Provision (PRO)	7	9	10	7
Other (OTH)	29	40	25	22
Overall (ALL)	**78**	**96**	**562**	**580**

In Table 5, the amount of important disclosures is the counting of numbers about information risk in emphasizing paragraph in 2014 to 2015, and the counting of numbers about information of Key Audit Matters in 2016 to 2017. The amount of information is likely to increase every year before and after the adoption of the ISA 701. The evidence of Table 5 found that pre-announcement of ISA 701 (2014 and 2015); the auditors give more information about other categories are 29 and 40. In this category, auditor comment about when companies have change auditor or audit firm. While in the year 2016-2017, the most categories' KAM are revenue recognition are

151 and 155, impairment are 111 and 113, and valuation of asset are 94 and 102 respectively.

Descriptive analysis of Cumulative Abnormal Return (CAR)

The results of the study, the statistics of Cumulative Abnormal Return before and after the audit report can be summarized as follows:

Table 6: Descriptive statistic of cumulative abnormal return

	Mean	Median	Maximum	Minimum	Std.Deviation
CAR_3B	0.5941	0.0743	6.5224	-0.7587	1.8645
CAR_3A	0.1641	-0.0245	19.0470	-8.3534	1.9542
CAR_5B	0.1333	0.1656	7.3956	-12.9314	2.2204
CAR_5A	0.1139	-0.0509	10.2482	-14.2140	1.9810
CAR_7B	0.0753	0.1567	8.0189	-20.9091	2.8296
CAR_7A	0.1479	0.0001	11.9009	-16.4338	2.3174

Table 6 demonstrates the descriptive statistics including the means, median, maximum, minimum, and standard deviation of cumulative abnormal returns. Based on Table 6, the range of mean scores of CAR 3 days (-1, +1) before ISA 701 announcement is 0.5941 and after adopt ISA 701 is 0.1641. The range of mean scores of CAR 5 days (-1, +3) before ISA 701 announcement is 0.1333 and after ISA 701 announcement is 0.1139. The last range of mean scores of CAR 7 days (-1, +5) before adopt ISA 701 is 0.0753 and after adopt ISA 701 is 0.1479.

The results of correlation analysis, hypotheses testing.

The result of one way repeated ANOVA

Follow by Hypothesis 1, this research study trend of KAM between pre and post ISA 701 adoption. The researcher has counted the amount of disclosure of risks in the emphasized paragraphs in audit report in 2014 and 2015 and counted the amount of disclosure of information of KAM in 2016 and 2017, the total number of disclosures from 256 listed companies have separated into 8 categories and analyzed the trend from all 8 categories (see in Table 5), how each category tended to increase or decrease. The researcher tested results using one way repeated ANOVA.

Table 7: The result of compare mean amount of KAM 2014 – 2017

Year	mean	SD	t	p-Value
2014	9.75	10.740	2.568	0.037*
2015	12.00	14.263	2.380	0.049*
2016	70.38	48.586	4.097	0.005**
2017	72.25	51.297	3.984	0.005**

Table 8: Repeated Measures ANOVA on trend of KAM 2014 – 2017

Variable	SS	df	MS	F	P
KAM	29255.844	1.005	29109.674	9.037[a]	0.020
Error	22661.906	7.035	3221.240		

[a] Greenhouse's Geisser

SS= sum square; df= degree of freedom; MS = mean square

The results of Table 7 found that the mean of amount KAM 2014 – 2017 separated by category, the results found that KAM in 2014 – 2015 have mean 9.75 (t = 2.568, p = 0.037) and 12.00 (t = 2.380, p = 0.0049), and KAM in 2016 – 2017 have mean 70.38 (t = 4.097, p = 0.0005), and 72.25 (t = 3.984, p = 0.0005).

The results of means in Table 7 shows that the amount of disclosure and information of KAM before and after ISA 701 announcement have different to disclosure about risk of company, when consider to mean of amount KAM 2014 – 2017 have tends to increase.

Table 8 is a test of the trend of information content of KAM before and after ISA 701 announcement. The results found that the average score trend of KAM is significant (p= 0.020). It shows that tendency of KAM for four years is different for at least one pairs. Therefore, it shows that there is a tendency to disclose increase information as there is differences between comparisons since 2014 to 2017.

Table 9: The result of pairwise comparisons of KAM 2014 – 2017

(I) year	(J) year	Mean Difference (I-J)	Std.Error	Sig.	95% Confidence Interval for Difference	
					Lower Bound	Upper Bound
1	2	-2.250	1.424	0.158	-5.616	1.116
	3	-60.625*	19.167	0.016	-105.949	-15.301
	4	-62.500*	20.080	0.017	-109.982	-15.018
2	1	2.250	1.424	0.158	-1.116	5.616
	3	-58.375*	20.078	0.023	-105.853	-10.897
	4	-60.250*	21.006	0.024	-109.921	-10.579
3	1	60.625*	19.167	0.016	15.301	105.949
	2	58.375*	20.078	0.023	10.897	105.853
	4	-1.875	1.302	0.193	-4.953	1.203
4	1	62.500*	20.080	0.017	15.018	109.982
	2	60.250*	21.006	0.024	10.579	109.921
	3	1.875	1.302	0.193	-1.203	4.953

1 = 2014, 2 = 2015, 3 = 2016, 4 = 2017
* The mean difference is significant at the 0.05 level.

In Table 9, the results of the comparison of mean differences in pairs were found that the results of Repeated measurements of 1, 3 (2014, 2016; p = 0.016), 1, 4 (2014, 2017; p=0.017), 2, 3 (2015, 2016; p= 0.023), and 2, 4 (2015, 2017; p=0.024) were statistic significant. These results show that in the year 2104 was the year before the ISA 701 announcement, compared with 2016, the trend of increasing disclosure,

as well as 2014 and 2017, is likely to increase as well. In the same results between 2015 and 2016 to 2017, it found that the trend of increasing disclosure, which corresponds to the hypothesis set. Thus, ***Hypothesis 1 is supported***.

From the result, it is found that the trend of disclosure about information content of KAM has increased significantly in each year since 2014 -2016, especially when comparing before and after of the ISA 701 announcement, the result shows that disclosure about information content of KAM has increased significantly according to the results obtained in Table 7-9.

As a result, it can be understood that the auditor have the importance of disclosure about information content of KAM. Auditors to be used as a communication to investors and users of financial statements that is consistent with the information asymmetry theory in order for users of financial statements to be able to receive information as much as data of internal users. Which corresponds to the objective of ISA 701, this standard has objective to reduce the gap of information as well; it is also a signal for investors to realize the importance of this information which may affect investors' decisions.

The result of market model

Follow by Hypothesis 2, this research test information of KAM that is different when information announcements are given between pre and post - adoption of ISA 701. The researcher tested the difference of stock returns, there by computed cumulative abnormal return by t-test analysis.

Table 10: Results of mean the cumulative abnormal return pre and post – adoption (N=512)

Variable	Mean	Std.Dev.	t	Sig
CAR_3B	0.0594	2.5941	0.518	0.605
CAR_3A	0.1641	2.7967	1.328	0.185
CAR_5B	0.1333	3.2574	0.926	0.355
CAR_5A	0.1139	3.0885	0.835	0.404
CAR_7B	0.0753	4.1189	0.414	0.679
CAR_7A	0.1479	3.6059	0.928	0.354

The statistics obtained from Table 10 are summarized as follow: Cumulative abnormal return (CAR) in 3 days period before ISA 701 announcement, with an average of 0.0594 or 5.94%, and CAR in 3 days period after ISA 701 announcement, with an average 0.1641 or 16.41%.

CAR in 5 days period before ISA 701 announcement are an average 0.1333 or 13.33% and after ISA 701 announcement are average 0.1139 or 11.39%. The Last period in 7 days ISA 701 announcement are an average 0.0753 or 7.53% and after ISA 701 announcement are average 0.1479 or 14.79%. The result shows that all of period (3 days, 5 days, and 7 days) are not found significant differences of stock returns when information in audit report announcement.

Table 11: Results of statistic compare the cumulative abnormal return before and after ISA 701 announcement.

Variable	Mean	Std.Dev.	Std. Err. Of Mean	Probability t-test
CAR_3B&CAR_3A	0.1047	3.7450	0.1655	0.527
CAR_5B&CAR_5A	-0.0193	4.4518	0.1967	0.922
CAR_7B&CAR_7A	0.0726	5.4595	0.2413	0.764

The hypothesis 2 is testing, Table 11 show the analyzed comparing information before and after ISA 701 announcement by pair sample test and found that the results of comparing the cumulative abnormal return over a period are not statistically significant. The comparison of CAR between 3days (-1, +1) are before and after ISA 701 announcement, the result found that during that time it has mean 0.1047 and does not have significant difference (p=0.527). In the same result of CAR between 5 days (-1, +3) are before and after ISA 701 announcement, the result found that during that time it has mean -0.0193 and does not have significant difference (p=0.922). The last period is CAR 7 days (-1, +5) are before and after ISA 701 announcement, the result found that during that time it has mean 0.0726 and does not have significant difference (p=0.764). The difference in means for the two variables from before and after ISA 701 announcement is insignificant at the ten-percent level, indicating that the auditor's report does not provide more informative to investors following the regulatory changes. This finding is in keeping with the prior study of Gutierrez et al., (2016) and Czernkowski, R., Green, W. & Wang (2010) does not find evidence that information content of audit report about audit opinion has significant information with value to investors for the regular change. Hence, ***Hypothesis 2 is rejected***.

Base on EMH theory suggests that when market received new information, the reaction of market to that information. But the result of this Hypothesis shows that information content of KAM between before and after ISA 701 announcement is not different when annual report announcement about information content of KAM. It may be that the information in the auditor's report is also new information resulting from the modification of the auditor's report format, which may cause investors to not realize the importance of this information that may affect the use of investment decisions. Another reason for not found the difference between before and after ISA 701 announcement is the communication information for this section of KAM does not affect the auditor's opinion. That may cause investors to be unaware of and as important as they should be.

On the other hand, Mr. Pariy, an executive of the Stock Exchange of Thailand, commented that the information of KAM that the auditor had commented would affect the information to be used in future decisions of investors, which will be consistent with the signal theory that the theory will send signal to the investor for use the information carefully before investing.

The result of multiple regression analysis

(1) Test Hypothesis 3a-3i

Next, the results of cumulative abnormal return (CAR) by market model, the research analyzed associated factors between stock return proxies in CAR and information of KAM by multiple regressions. Table 12 to 14 show the descriptive statistics and correlation for the variables used to stock returns. The mean of CAR 3 Days is 0.164, CAR 5 days is 0.113, and CAR 7 days is 0.147. For the mean of independent variables, overall of KAM is 2.195 and separated eight categories of KAM are combined: revenue recognition is 0.592, valuation of assets is 0.359, inventories a 0.354, impairment is 0.432, accounts receivable and allowances are 0.162, transaction of related parties is 0.162, Provision is 0.039, and the other is 0.100.

Tables 12 to 14 show the results of the correlation analysis of all constructs. The bivariate correlation procedure is subject to a two-tailed test of statistical significance at two levels as $p < 0.05$ and $p < 0.1$. Referring to Tables 12 to 14, the results indicate no multicollinearity problems in this research because the result is lower at 0.80 (Hair et al., 2010). Regarding Table 12 to 14 indicates that correlation coefficients of CAR 3 days, CAR 5 days, CAR 7 days, and control variable 6 factor (Big 4, leverage, ROA, liquidity, growth and size) which are ranging from -0.120 to 0.129, $p<0.1$ and ranging from -0.293 to 0.462, $p<0.05$.

The mean and standard deviation of six control variables are audit firm type (Big 4) have mean 0.648 and standard deviation 0.478, leverage have mean 1.219 and standard deviation 1.361, profitability (ROA) have mean 7.215 and standard deviation 8.831, liquidity have mean 2.541 and standard deviation 3.101, growth have mean

18.279 and standard deviation 200.044, and firm size (size) have mean 6.883 and standard deviation 0.645.

Table 15 and 16 demonstrates the results of an OLS regression analysis of the impacts of KAM (revenue recognition, valuation of assets, inventories, impairment, accounts receivable and allowances, transaction of related parties, provision, and others) on stock return are CAR 3 days (-1, +1), CAR 5 days (-1, +3), and CAR 7 days (-1, +5) respectively, which are followed by Hypotheses 3a to 3i.

Table 12: Descriptive Statistics and Correlation Matrix of KAM and CAR 3 days (-1, +1)

VARIABLES	CAR_3	KAM_ALL	KAM_REV	KAM_ASS	KAM_INV	KAM_IMP	KAM_AR	KAM_RP	KAM_PRO	KAM_0TH	BIG4	LEV	ROA	LIQ	GROWTH	SIZE
MEAN	0.164	2.195	0.592	0.359	0.354	0.432	0.162	0.162	0.039	0.100	0.648	1.219	7.215	2.541	18.279	6.883
S.D.	2.797	1.044	0.576	0.597	0.502	0.693	0.389	0.369	0.194	1.043	0.478	1.361	8.831	3.101	200.044	0.645
CAR_3A	1.000															
KAM_ALL	0.002	1.000														
KAM_REV	0.006	0.289**	1.000													
KAM_ASS	0.054	0.239**	-0.187**	1.000												
KAM_INV	-0.008	0.226**	-0.048	-0.216**	1.000											
KAM_IMP	-0.019	0.462**	-0.166**	-0.054	-0.113*	1.000										
KAM_AR	-0.062	0.249**	0.025	-0.184**	0.117**	-0.057	1.000									
KAM_RP	-0.018	0.212**	-0.112*	0.002	-0.120**	0.024	-0.074	1.000								
KAM_PRO	0.080	0.136**	0.038	-0.054	-0.062	-0.009	-0.084	-0.034	1.000							
KAM_0TH	-0.014	0.256**	-0.012	-0.062	-0.047	-0.025	-0.034	0.012	0.120**	1.000						
BIG4	-0.027	0.264**	0.174**	0.101*	-0.019	0.140**	0.054	-0.009	-0.020	-0.001	1.000					
LEV	0.018	-0.045	0.007	0.001	-0.065	-0.093*	-0.003	0.095*	0.021	0.008	-0.024	1.000				
ROA	-0.117**	-0.170**	0.005	-0.061	0.014	-0.157**	-0.038	-0.069	0.045	0.021	-0.001	0.029	1.000			
LIQ	0.097*	-0.119**	-0.031	-0.076	0.064	-0.124**	0.067	-0.115**	0.107*	-0.026	-0.145**	-0.024	0.009	1.000		
GROWTH	0.081	-0.009	-0.058	-0.012	0.048	-0.028	0.063	0.033	-0.018	-0.016	-0.048	0.000	-0.084	0.281**	1.000	
SIZE	-0.012	0.259**	0.009	0.193**	-0.138**	0.289**	-0.126**	0.087*	0.004	0.059	0.377**	0.026	0.032	-0.293**	-0.036	1.000

*** p<0.01, ** p<0.05, * p<0.1

Table 13: Descriptive Statistics and Correlation Matrix of KAM and CAR 5 days (-1, +3)

VARIABLES	CAR_5	KAM_ALL	KAM_REV	KAM_ASS	KAM_INV	KAM_IMP	KAM_AR	KAM_RP	KAM_PRO	KAM_0TH	BIG4	LEV	ROA	LIQ	GROWTH	SIZE
MEAN	0.113	2.195	0.592	0.359	0.354	0.432	0.162	0.162	0.039	0.100	0.648	1.219	7.215	2.541	18.279	6.883
S.D.	3.089	1.044	0.576	0.597	0.502	0.693	0.389	0.369	0.194	1.043	0.478	1.361	8.831	3.101	200.044	0.645
CAR_5A	1.000															
KAM_ALL	0.008	1.000														
KAM_REV	0.087	0.289**	1.000													
KAM_ASS	0.081	0.239**	-0.187**	1.000												
KAM_INV	-0.010	0.226**	-0.048	-0.216**	1.000											
KAM_IMP	-0.052	0.462**	-0.166**	-0.054	-0.113*	1.000										
KAM_AR	-0.071	0.249**	0.025	-0.184**	0.117**	-0.057	1.000									
KAM_RP	-0.093	0.212**	-0.112*	0.002	-0.120**	0.024	-0.074	1.000								
KAM_PRO	0.106	0.136**	0.038	-0.054	-0.062	-0.009	-0.084	-0.034	1.000							
KAM_0TH	-0.038	0.256**	-0.012	-0.062	-0.047	-0.025	-0.034	0.012	0.120**	1.000						
BIG4	-0.027	0.264**	0.174**	0.101*	-0.019	0.140**	0.054	-0.009	-0.020	-0.001	1.000					
LEV	-0.118	-0.045	0.007	0.001	-0.065	-0.093*	-0.003	0.095*	0.021	0.008	-0.024	1.000				
ROA	-0.130*	-0.170**	0.005	-0.061	0.014	-0.157**	-0.038	-0.069	0.045	0.021	-0.001	0.029	1.000			
LIQ	0.086	-0.119**	-0.031	-0.076	0.064	-0.124**	0.067	-0.115**	0.107*	-0.026	-0.145**	-0.024	0.009	1.000		
GROWTH	0.129*	-0.009	-0.058	-0.012	0.048	-0.028	0.063	0.033	-0.018	-0.016	-0.048	0.000	-0.084	0.281**	1.000	
SIZE	-0.014	0.259**	0.009	0.193**	-0.138**	0.289**	-0.126**	0.087*	0.004	0.059	0.377**	0.026	0.032	-0.293**	-0.036	1.000

*** p<0.01, ** p<0.05, * p<0.1

Table 14: Descriptive Statistics and Correlation Matrix of KAM and CAR 7 days (-1, +5)

VARIABLES	CAR_7	KAM_ALL	KAM_REV	KAM_ASS	KAM_INV	KAM_IMP	KAM_AR	KAM_RP	KAM_PRO	KAM_0TH	BIG4	LEV	ROA	LIQ	GROWTH	SIZE
MEAN	0.147	2.195	0.592	0.359	0.354	0.432	0.162	0.162	0.039	0.100	0.648	1.219	7.215	2.541	18.279	6.883
S.D.	3.606	1.044	0.576	0.597	0.502	0.693	0.389	0.369	0.194	1.043	0.478	1.361	8.831	3.101	200.044	0.645
CAR_7A	1.000															
KAM_ALL	0.021	1.000														
KAM_REV	0.107	0.289**	1.000													
KAM_ASS	0.054	0.239**	-0.187**	1.000												
KAM_INV	-0.016	0.226**	-0.048	-0.216**	1.000											
KAM_IMP	-0.027	0.462**	-0.166**	-0.054	-0.113*	1.000										
KAM_AR	-0.056	0.249**	0.025	-0.184**	0.117**	-0.057	1.000									
KAM_RP	-0.069	0.212**	-0.112*	0.002	-0.120**	0.024	-0.074	1.000								
KAM_PRO	0.079	0.136**	0.038	-0.054	-0.062	-0.009	-0.084	-0.034	1.000							
KAM_0TH	-0.053	0.256**	-0.012	-0.062	-0.047	-0.025	-0.034	0.012	0.120**	1.000						
BIG4	-0.010	0.264**	0.174**	0.101*	-0.019	0.140**	0.054	-0.009	-0.020	-0.001	1.000					
LEV	-0.140*	-0.045	0.007	0.001	-0.065	-0.093*	-0.003	0.095*	0.021	0.008	-0.024	1.000				
ROA	-0.141*	-0.170**	0.005	-0.061	0.014	-0.157**	-0.038	-0.069	0.045	0.021	-0.001	0.029	1.000			
LIQ	0.084	-0.119**	-0.031	-0.076	0.064	-0.124**	0.067	-0.115**	0.107*	-0.026	-0.145**	-0.024	0.009	1.000		
GROWTH	0.119	-0.009	-0.058	-0.012	0.048	-0.028	0.063	0.033	-0.018	-0.016	-0.048	0.000	-0.084	0.281**	1.000	
SIZE	0.002	0.259**	0.009	0.193**	-0.138**	0.289**	-0.126**	0.087*	0.004	0.059	0.377**	0.026	0.032	-0.293**	-0.036	1.000

*** p<0.01, ** p<0.05, * p<0.1

Additionally, Tables 15 and 16 present variance inflation factors (VIFs) of CAR and KAM, which are used to test multicollinearity among the eight categories of KAM. In this case, the maximum values of VIF of overall of KAM between CAR 3 days, 5 days, and 7 days period are 1.405 in table 15. In table 16 present variance inflation factors (VIFs) of CAR and KAM, which are used to test multicollinearity among the eight categories of KAM between CAR 3 days, 5 days, and 7 days period are 1.492. The results are well below the cut-off value of 10 (Kutner, M. H., Nachtsheim, C. J. & Neter, 2008) meaning each variable is not correlated with each other. Therefore, there are no significant multicollinearity problems confronted in this research.

Table 15: Results of the Effects on KAM and Stock returns

Independent Variables	**Ho**	**Dependent Variables**		
		CAR_3 Days	**CAR_5 Days**	**CAR_7 Days**
KAM_ALL	H3a	-0.026 (0.133)	-0.015 (0.135)	-0.010 (0.158)
BIG 4		-0.051 (0.281)	-0.022 (0.284)	-0.012 (0.331)
LEV		-0.120* (0.004)	-0.138** (0.004)	-0.161** (0.005)
ROA		-0.144** (0.015)	-0.144** (0.015)	-0.160** (0.018)
LIQ		0.029 (0.049)	0.039 (0.050)	0.049 (0.058)
GROWTH		0.107 (0.001)	0.095 (0.001)	0.080 (0.001)
SIZE		0.019 (0.217)	0.013 (0.220)	0.026 (0.256)
R^2		0.051	0.051	0.059
Adjust R^2		0.024	0.024	0.032
Maximum VIF		1.405	1.405	1.405
F		1.895	1.896	2.216
ANOVA sig		0.071	0.071	0.034

*** p<0.01, ** p<0.05, *p<0.1

[a] Beta coefficients with standard errors in parenthesis

Firstly, the evidence in Table 15 relates to the eight categories of KAM and stock returns (Hypothesis 3a). The regression results show that overall of KAM does not significantly affect stock return in all of 3 periods around financial report announcement; 3 days (-1, +1), 5 days (-1, +3) and 7 days (-1, +5) (H3a: β = -0.026, β = -0.015, β = -0.010) respectively. This finding is in keeping with the prior study of Srijunpeth (2016) and Gutierrez et al., (2016) who found that information of KAM has not any effect in a price. Lennox, Schmidt & Thompson (2015) suggest that the cause of risk information of KAM does not affect stock returns. Hence, Hypothesis ***3a is rejected***.

The results of effects between overall of information content of KAM and stock return (H3a) in Table 15 found that information content of KAM does not affect to stock return. Lennox, Schmidt, & Thompson (2015) suggest that using short-window reactions of market to measure responses of investors to the new risk information disclosures, their results indicate that investors do not find these disclosures incrementally informative. They found that the disclosures in audit report lack incremental information content because most of the risks are disclosed by management in the announcement of income, conference call, or annual report of the previous year. Therefore, investors were already informed about a majority of the risks before the risks were disclosed by auditors in the expanded audit reports. From these reasons, it may be a signal to the regulatory authorities and the board of directors in the dissemination of information before the annual report comes out.

Two control variables are leverage (LEV) (β = -0.120; p = 0.10, β = -0.138; p= 0.05, and β = -0.161; p = 0.05) and return on asset (ROA) (β = -0.144; p = 0.05, β = -0.144; p= 0.05, and β = -0.160; p = 0.05) have negative significant with stock returns; because of stock returns involve profit of company. Therefore, company have high leverage, it effect to low returns. Return of assets are generally higher, indicating the ability of the business to make profit from assets, but the disclosure of the auditor's data shows that the risks of assets related to assets There is a large amount of comments, therefore negatively affecting the stock price returns. The four control variables (liquidity, growth, and firm size) do not significant with stock returns.

Table 16: Results of the Effects on each topic of KAM and Stock returns

Independent Variables	Ho	Dependent Variables		
		CAR_3 Days	CAR_5 Days	CAR_7 Days
KAM_REV	H3b	0.017 (0.214)	0.085 (0.243)	0.108 (0.285)
KAM_ASS	H3c	0.076 (0.228)	0.073 (0.231)	0.043 (0.270)
KAM_INV	H3d	-0.030 (0.269)	-0.007 (0.272)	-0.011 (0.318)
KAM_IMP	H3e	-0.047 (0.202)	**-0.094*** (0.221)	**-0.114**** (0.257)
KAM_AR	H3f	**-0.080*** (0.333)	-0.070 (0.367)	-0.058 (0.428)
KAM_RP	H3g	-0.014 (0.422)	-0.075 (0.426)	-0.042 (0.499)
KAM_PRO	H3h	0.034 (0.657)	0.042 (0.725)	0.038 (0.844)
KAM_OTH	H3i	-0.030 (0.425)	-0.043 (0.429)	-0.061 (0.503)
BIG 4		-0.048 (0.285)	-0.034 (0.288)	-0.030 (0.337)
LEV		-0.118* (0.004)	-0.120* (0.004)	-0.150** (0.005)
ROA		-0.145** (0.015)	-0.151** (0.016)	-0.166** (0.018)
LIQ		0.004 (0.050)	0.010 (0.051)	0.028 (0.059)
GROWTH		0.136* (0.001)	0.136* (0.001)	0.113 (0.001)
SIZE		0.001 (0.228)	0.021 (0.230)	0.036 (0.270)
R^2		0.088	0.095	0.097
Adjust R^2		0.035	0.042	0.045
Maximum VIF		1.492	1.492	1.492
F		1.652	1.791	1.795
ANOVA sig		0.067	0.041	0.040

*** p<0.01, ** p<0.05, *p<0.1

[a] Beta coefficients with standard errors in parenthesis

This research, the researcher analyzes additional data from prior study, thereby separating eight categories of KAM to see more in-depth results. The results in Table 16 show that revenue recognition in KAM does not significantly affect stock returns (H3b: $\beta = 0.017$, $\beta = 0.085$, $\beta = 0.108$) around 3 days (-1, +1), 5 days (-1, +3) and 7 days (-1, +5). The results of second category of KAM show that valuation of assets in KAM does not significantly affect stock returns (H3c: $\beta = 0.076$, $\beta = 0.073$, $\beta = 0.043$) around 3 days (-1, +1), 5 days (-1, +3) and 7 days (-1, +5) when annual report announcement. Next category of KAM is inventory found that it does not significantly affect stock returns (H3d: $\beta = -0.030$, $\beta = -0.007$, $\beta = -0.011$) among event 3 days, 5 days, and 7 days. This result is consistent with the research of Srijunpeth (2016) and Gutierrez et al., (2016) who found that information of KAM has not any effect in a price. Hence, Hypotheses ***3b, 3c and 3d are rejected***

While, the category of impairment does not significantly affect stock return in 3 days period but it found negatively significant effect on stock return between 5 days period and 7 days period (H3e: $\beta = -0.047$, $\beta = -0.094$; $p < 0.10$, $\beta = -0.114$; $p < 0.05$) among event 3 days, 5 days, and 7 days. While, the results of accounts receivable and allowances category show that it has negatively significant effect on stock returns during 3 days event (H3f: $\beta = -0.080$, $p < 0.10$) but 5 days and 7 days event does not significantly (H3f: $\beta = -0.070$, $\beta = -0.058$). This finding is in keeping with the prior study of Ianniello & Galloppo (2015) found that information content in audit report for investment decision has negative effect on stock returns. The result consistence base on signaling theory, when auditor disclose risk information in KAM it effect to decrease confident to investor's decision. Hence, Hypotheses ***3e and 3f are supported***.

The sixth category is transaction of related parties found that it does not significant in all events 3 days, 5 days, and 7 days (H3g: $\beta = -0.014$, $\beta = -0.075$, $\beta = -0.042$). The next category is provision found that it has significantly affected all 3 days ,5 days and 7 days event (H3h: $\beta = 0.034$, $\beta = 0.042$, $\beta = 0.038$). The last category is other, it does not significantly affect all events 3 days, 5 days, and 7 days (H3i: $\beta = -0.030$, $\beta = -0.043$, $\beta = -0.061$). This result is consistent with the research of Srijunpeth (2016)and Gutierrez et al., (2016) who found that information of KAM

does not any effect in a stock returns. Lennox, Schmidt, & Thompson (2015) suggest that the cause of information of KAM does not affect stock returns. Hence, Hypotheses ***3g, 3h, and 3i are rejected***.

In part of category of information content of KAM (H3b – H3i). This research finds surprising evidence on accounts receivable and allowances category that is negatively significant with CAR 3 days event and impairment category is negatively significant with CAR 5 days and CAR 7 days. This result is consistent with the research of Ianniello & Galloppo (2015) suggested that information content in audit reports provide to investors, strongly in their longer event windows. Impairment category is the second most disclosure in KAM by auditor, while accounts receivable and allowances category is the fifth level. It shows that the category with the highest amount of information disclosure does not necessarily affect the stock returns, but depends on the nature and importance of the items in each category as the main factor. Therefore, the auditor needs to use judgment in expressing an opinion on the risks that are considered significant, because the results of the disclosure have an impact on the investor's decisions.

Table 17: Descriptive Statistics and Correlation Matrix of impact of factor on KAM

	KAM_ ALL	KAM_ REV	KAM_ ASS	KAM_ INV	KAM_ IMP	KAM_ AR	KAM_ RP	KAM_ PRO	KAM_ OTH	BIG4	UNQOP	FEE	SIZE	INV/AS	ROE	LIQ
MEAN	2.195	0.592	0.359	0.354	0.432	0.162	0.162	0.039	0.100	0.648	0.043	6.440	6.883	0.185	8.558	2.541
S.D.	1.044	0.576	0.597	0.502	0.693	0.389	0.369	0.194	1.043	0.478	0.203	0.368	0.645	0.197	17.754	3.101
KAM_ ALL	1.000															
KAM_REV	0.289**	1.000														
KAM_ ASS	0.239**	-0.187**	1.000													
KAM_INV	0.226**	-0.048	-0.216**	1.000												
KAM_IMP	0.462**	-0.166**	-0.054	-0.113*	1.000											
KAM_AR	0.249**	0.025	-0.184**	0.117**	-0.057	1.000										
KAM_ RP	0.212**	-0.112*	0.002	-0.120**	0.024	-0.074	1.000									
KAM_ PRO	0.136**	0.038	-0.054	-0.062	-0.009	-0.084	-0.034	1.000								
KAM_ OTH	0.256**	-0.012	-0.062	-0.047	-0.025	-0.034	0.012	0.120**	1.000							
BIG4	0.264**	0.174**	0.101*	-0.019	0.140**	0.054	-0.009	-0.020	-0.001	1.000						
UNQOP	-0.058	-0.051	0.034	-0.034	-0.049	0.011	0.011	-0.043	-0.005	-0.207**	1.000					
FEE	0.364**	0.007	0.159**	-0.182**	0.337**	-0.027	0.257**	0.058	0.105*	0.351**	-0.052	1.000				
SIZE	0.259**	0.009	0.193**	-0.138**	0.289**	-0.126**	0.087*	0.004	0.059	0.377**	-0.080	0.694**	1.000			
IV/AS	-0.098*	-0.065	0.023	0.185**	-0.175**	-0.059	-0.161**	-0.016	0.107*	-0.043	-0.051	-0.107*	0.018	1.000		
ROE	-0.184**	-0.004	-0.027	-0.056	-0.139**	-0.082	-0.079	0.020	0.015	0.064	-0.025	0.041	0.175**	0.069	1.000	
LIQ	-0.119**	-0.031	-0.076	0.064	-0.124**	0.067	-0.115**	0.107*	-0.026	-0.145**	0.100*	-0.259**	-0.293**	0.121**	-0.013	1.000

*** p<0.01, ** p<0.05, * p<0.1

(2) Test Hypothesis 4 – 10

Table 17 shows the descriptive statistics and correlation for the variables used in model. The mean of independent variable, audit firm (Big 4) is 0.648, audit opinion (UNQOP) is 0.043, audit fee (FEE) is 6.440, firm size (SIZE) is 6.883, firm complexity (INV/AS) is 0.185, firm complexity (ROE) is 8.558, and liquidity (LIQ) is 2.541. For the mean of dependent variables, overall of KAM is 2.195 and separate eight categories of KAM are combined: revenue recognition is 0.592, valuation of assets is 0.359, inventories are 0.354, impairment is 0.432, accounts receivable and allowances are 0.162, transaction of related parties is 0.162, Provision is 0.039, and other is 0.100.

Additional results of Tables 17 demonstrate the correlations among the impacts of factors and each category of KAM. Referring to Table 17, the results indicate no multicollinearity problems in this research because the result is lower at 0.80 (Hair et al., 2010). Regarding to Table 17, correlation coefficients of variables from samples are ranging from -0.113 to 0.107, $p < 0.1$ and -0.293 to 0.694, $p<0.05$.

Table 18 demonstrates the results of an OLS regression analysis of the impacts of factors on KAM, which are followed by Hypotheses 4 to 10. In this model, the researcher studies two groups of factors that are audit characteristic (audit firm type, audit opinion, and audit fee) and firm characteristics (firm size, firm complexity, profitability, and liquidity). First evidence of audit characteristics in Table 18 about the effects of audit firm type and information content of KAM found that in part of overall of KAM and audit firm type has positive significance (H4a: $\beta = 0.158$, $p < 0.05$). The result is consistent with prior research (De Angelo, 1981; Khurana & Raman, 2004; Behn, Choi & Rang, 2008; Choi, Kim, Kim & Zang, 2010; Lawrence, Minutti-Meza, & Zhang, 2011) found that Big 4 auditors provide higher-quality audits than non-Big 4 auditors. In part of eight categories of KAM, this study found that there are three significant categories; revenue recognition (H4b: $\beta = 0.197$, $p < 0.01$), accounts receivable and allowances (H4f: $\beta = 0.113$, $p < 0.5$), and transaction of related parties (H4g: $\beta = 0.095$, $p < 0.05$) because the information of KAM was caused the judgment of auditor. Thus, it is believed that Big 4 auditor have more

experience and specialize industry than Non-big 4 auditor. Hence, Hypotheses ***4a, 4b, 4f and 4g are supported***.

The five categories of KAM do not significant with audit firm type: valuation of assets (H4c: β = 0.042), inventories (H4d: β = 0.058), impairment (H4e: β = -0.001), provision (H4h: β = -0.048), and other (H4h: β = -0.037). Based on the findings, it is possible for a number of companies to find that Non-big 4 can be as competent as Big 4 due to the same regulatory. The consistence of Louis (2005) and Lawrence et al., (2011) is arguments as to why Big 4 and non-Big 4 firms could provide comparable audit quality. First, Big 4 and non-Big 4 firms are use the same regulatory and professional standards, and therefore both types of audit firms must set to a reasonable level of quality. Second, as non-Big 4 auditors have superior knowledge of local markets and better relation with their clients. Hence, Hypotheses ***4c, 4d, 4e, and 4h are rejected***.

In overall of information of KAM and audit characteristic factors found that Big 4 firm had more emphasis on disclosure information than Non – big 4. This research found that many listed companies of this study chose to use audit service from Big 4, thus resulting in the possibility that Big 4 would focus on communication about KAM more than Non-big 4.

Table 18: Results of the Effects on Key Audit Matters

Independent Variables (sign)	HO	Dependent Variables								
		KAM_ ALL	KAM_ REV	KAM_ ASS	KAM_ INV	KAM_ IMP	KAM_ AR	KAM_ RP	KAM_ PRO	KAM_ OTH
		Eq.16	Eq.17	Eq.18	Eq.19	Eq.20	Eq.21	Eq.22	Eq.23	Eq.24
BIG4 (+)	H4(a-i)	**0.158****	**0.197*****	0.042	0.058	-0.001	**0.113****	**0.095****	-0.048	-0.037
		(0.097)	(0.059)	(0.060)	(0.050)	(0.065)	(0.040)	(0.036)	(0.020)	(0.034)
UNQOP (+)	H5(a-i)	-0.015	-0.017	0.060	-0.027	-0.036	0.014	-0.001	-0.063	0.000
		(0.211)	(0.127)	(0.131)	(0.109)	(0.142)	(0.086)	(0.078)	(0.043)	(0.075)
FEE (+)	H6(a-i)	**0.284*****	-0.049	0.038	**0.145****	**0.204*****	0.084	**0.355*****	**0.128****	**0.159****
		(0.162)	(0.098)	(0.101)	(0.084)	(0.109)	(0.066)	(0.060)	(0.033)	(0.057)
SIZE (+)	H7(a-i)	0.036	-0.036	**0.158****	-0.055	**0.178*****	**0.201*****	**0.130****	-0.038	-0.047
		(0.095)	(0.058)	(0.059)	(0.049)	(0.064)	(0.039)	(0.037)	(0.020)	(0.034)
INV/AS (+)	H8(a-i)	0.047	-0.060	0.036	**0.175*****	**0.147*****	-0.044	**0.113*****	-0.025	**0.125*****
		(0.216)	(0.131)	(0.135)	(0.112)	(0.146)	(0.088)	(0.080)	(0.044)	(0.077)
ROE (-)	H9 (a-i)	**-0.209*****	-0.005	-0.060	-0.057	**-0.169*****	-0.054	-0.058	0.027	0.010
		(0.002)	(0.003)	(0.001)	(0.001)	(0.002)	(0.001)	(0.001)	(0.000)	(0.001)
LIQ (+)	H10 (a-i)	-0.007	-0.017	-0.025	-0.001	0.000	0.050	-0.062	**0.131*****	-0.019
		(0.014)	(0.009)	(0.009)	(0.007)	(0.010)	(0.006)	(0.005)	(0.003)	(0.005)
R^2		0.199	0.039	0.047	0.069	0.171	0.040	0.111	0.026	0.028
Adj R^2		0.188	0.026	0.034	0.056	0.159	0.026	0.099	0.012	0.015
Maximum VIF		1.324	1.324	1.324	1.324	1.324	1.324	1.324	1.324	1.324
F		17.875	2.913	3.562	5.360	14.841	2.975	8.980	1.912	2.084
ANOVA sig		0.000	0.005	0.001	0.000	0.000	0.005	0.000	0.066	0.044

*** p<0.01, ** p<0.05, *p<0.1

[a] Beta coefficients with standard errors in parenthesis

In part of Category of KAM, the result shows that revenue category have a significant level of 0.01 to KAM, it is consistent with the amount of disclosure by auditors whose communication are most for this category. While the other two groups (accounts receivable and allowances and transaction of related parties) have a small number of disclosure but it has influenced the information of KAM, probably because the auditors foresaw the importance and complexity of those transaction which may

affect the decision of investors. While five categories emphasize the importance of disclosing information between Big 4 and Non – big 4 are not different.

Second evidence of Table 18 about the effect of audit opinion and all of KAM found that audit opinion is not significant with all categories of KAM: overall of KAM (H5a: β = -0.015), revenue recognition (H5b: β = -0.017), valuation of assets (H5c: β = 0.060), inventories (H5d: β = -0.027), impairment (H5e: β = -0.036), accounts receivable and allowances (H5f: β = 0.014), transaction of related parties (H5g: β = -0.001) , provision (H5h: β = -0.063), and other (H5i: β = 0.000). It is consistent with the comment of Pariya Techawaiwit suggests that KAM will help clarify the additional details that the auditor has detected. What is the most important thing related to financial statements? And how to check and collect evidence until satisfied. The auditor has already communicated with the management and the Audit Committee (AC). Therefore, the auditor's KAM report does not affect the auditor's opinion. Hence, Hypotheses ***5a – 5i are rejected***.

Third evidence of Table 18 about the effect of audit fee and all of KAM found that audit fee has positive significance with overall of KAM (H6a: β = 0.284,<0.01), inventories (H6d: β = 0.145,<0.05), impairment (H6e: β = 0.204,<0.01), transaction of related parties (H6g: β = 0.355,<0.01) , provision (H6h: β = 0.128,<0.05), and other (H6i: β = 0.159,<0.05).The result is consistent with prior research (Huang, Raghunandan & Rama, 2009; Eldridge & Kealey, 2005), they suggest that during the new auditing standards such as SOX announcement found that audit fee increases, because the auditor must consider more information of company about transparency and internal control. It affects to increase audit fee. Thus, based on the result found that audit fee has positive significant maybe it's the same result when regulatory authority announcement new regulatory such as SOX. Hence, Hypothesis ***6a, 6d, 6e, 6g, 6h, and 6i are supported***.

While three categories of KAM do not found the significant: revenue recognition (H6b: β = -0.049), valuation of assets (H6c: β = 0.038), accounts receivable and allowances (H6f: β = 0.084). Hence, Hypotheses ***6b, 6c, and 6f are rejected***.

For the results of audit characteristic factors (audit firm type, audit opinion, and audit fee), There are sent signals to investors, audit firms, committees of firm, and regulators to quality of audit report on disclosure about information of KAM. First, the signal to audit firm for this research shows that Big 4 or Non – big 4 pay attention to the disclosure of information in KAM paragraph that is a slightly difference, as well as the qualifications of auditors, whether they are in Big 4 or Non – big 4 varying expertise and use of judgment in disclosing similar information. Therefore, the auditors must develop their potential, whether in Big 4 or Non – big 4 in order to be able to use their judgment in disclosing information and expressing opinions that are beneficial to investors.

Second, the signal to regulators and investors from the results of the research indicates that the auditor gives importance to the disclosure of important information, even though the disclosure does not affect the opinion, but in order to reduce the gap of information and show transparency in the audit followed by regulator setting up the objective of using this standard and is beneficial to investors in considering data to use decision making. The last is the signal to committees of firm, who must accept the increase of audit fee from changing the format of this standard for the benefit of users of financial statements to gain more information.

Next a variable of auditee characteristics is firm size. The result shows that overall of information content of KAM does not significant; overall of KAM (H7a: $\beta = 0.036$). It is consistent with previous research of Mock et al., (2013) suggest that opinion of auditor is not significant with firm size of good news or bad news of firm. Hence, Hypothesis ***7a is rejected***. While, in this study is expanding into eight categories of KAM and the researcher expects that categories are involved to assets transaction may be the effect of information of KAM. The researcher expects five categories that may be affected KAM; valuation of assets, inventories, impairment, accounts receivable and allowances, and transaction of related parties.

The results found that four categories have positive significance; valuation of assets (H7c: β = 0.158, <0.05), impairment (H7e: β = 0.178, <0.05), accounts receivable and allowances (H7f: β = 0.201, <0.001), and transaction of related parties (H7g: β = 0.130, <0.05). It is consistent with Chen and Church, (1992) suggest that firm size affects to audit opinion, because smaller firms size may be more sensitive to factors that affect a firm's good corporate status (K. C. W. Chen & Church, 1992), while larger companies have more resources to employ towards avoiding bankruptcy. In this category auditor comment about impairment of non-current asset, investment and goodwill, there are the relationship with firm size. Hence, Hypothesis ***7c, 7e, 7f, and 7g are supported***. But, the inventory's category is not significant to firm size (H7d: β = -0.055).Hence, Hypothesis ***7d is rejected***.

The three categories (revenue recognition, provision, and other) have not significant; revenue recognition (H7b: β = -0.036), provision (H7h: β = -0.038), and other (H7i: β = -0.047). This study expects that three categories have not effect of KAM, because of those are not involved to assets transaction of firm. Hence, Hypotheses ***7b, 7h and 7i are supported***.

In this hypothesis, the researcher using assets of company that is proxy, the result found that firm size did not affect to overall of KAM, because overall of KAM is a combination transaction of all items. Therefore, the study considers category related to assets and finds that category involved about assets (valuation of assets, impairment, accounts receivable and allowances, and transaction of related parties) have affect information of KAM, except for inventory's category is not affected to information of KAM, which is a very surprising result, because the inventory is one of the assets transaction but does not find any impact or it may be that the inventory is a more complex item than other item assets, therefore showing different results. In part of another category is not involved assets, there are no effects to KAM, because those categories are transaction about revenue, provision, and other.

Next variable is firm complexity. In this study uses proxy of firm complexity that is inventory divided by total assets (INV/AS). The results in table 18 show that overall of information content of KAM does not significant; overall of KAM (H8a: β = 0.047). Thus, Hypothesis ***8a is rejected.***

This study expects that five categories involved about inventory and assets of firm (valuation of assets, inventories, impairment, accounts receivable and allowances, and transaction of related parties) may be the effect of information of KAM. The results found that three of five categories have positive significance; inventories (H8d: β = 0.175, <0.001), impairment (H8e: β = 0.147, <0.001), transaction of related parties (H8g: β = 0.113, <0.001). The previous empirical studies (Simunic, 1980; Willingham & Wright, 1985; Ham, J., Losell, D., & Smieliauskas, 1985; Francis & Simon, 1987; Kreutzfeldt & Wallace, 1986; and Simon & Francis, 1988) suggest that inventory requires subjective judgment in determining their values, and accordingly are difficult and risky to audit. Thus, Hypotheses ***8d, 8e, and 8g are supported***.

While, two of categories expect that it is the effect of KAM but the result does not have significance; valuation of assets (H8c: β = 0.036) and accounts receivable and allowances (H8f: β = -0.044). And three categories (revenue recognition, provision, and other) are not involved about inventory and assets. In this study found that two in three categories have not significant revenue recognition (H8b: β = -0.060), and provision (H8h: β = -0.038), and a category has a positive significance on other categories (H8i: β = 0.125, <0.001). Hence, Hypotheses ***8b and 8h are supported, and*** Hypotheses ***8c, 8f, and 8i are rejected.***

For this Hypothesis is firm complexity, this research uses inventory divided by asset is proxy. In the same result firm size in part of overall of KAM, it does not find any effect between complexity and information of KAM, because overall of KAM is a combination transaction of all items, it has transaction involved and is not involved inventory and assets. This study found that three of five categories predict involved about inventory and assets (inventories, impairment, and transaction of related parties) is effect to information in this factor.

Next variable is profitability. In this study uses proxy of profitability is ROE. The result in table 18 found that overall of KAM has negative significance (H9a: β = -0.209, <0.01). It is consistent with Ahmed & Hossain (2010) who found that in Bangladesh, profitability is among the factors that significantly reduce the time taken to prepare the audit report. Hence, Hypothesis ***9a is supported***.

In this study expects that two categories of information content of KAM (revenue recognition and impairment) involved to ROE. The result found that only category has negative significance on impairment (H9e: β = -0.169, <0.001), and revenue recognition is not significant (H9b: β = -0.005). Hence, Hypothesis ***9e is supported, and 9b is rejected.***

While six categories of KAM (valuation of assets, inventories, accounts receivable and allowances, transaction of related parties, provision, and other) expect those are not involved about ROE. The result found that all six categories do not significance about profitability: valuation of assets (H9c: β = -0.060), inventory (H9d: β = -0.057), accounts receivable and allowances (H9f: β = -0.054), transaction of related parties (H9g: β = -0.058), provision (H9h: β = 0.027), and other (H9i: β = 0.010).Hence, Hypotheses ***9c, 9d, 9f, 9g, 9h and 9i are supported.***

In this results found that ROE has effect to overall of information in KAM. ROE is considered a measure of how effective management is using a company's assets to create profits. It is a measure of financial performance calculated by dividing net income with shareholders' equity because this ratio is the ratio that investors pay attention to the returns that may be received. Therefore, it is possible that the auditor will give importance to the disclosure of information that will be relevant to the decision of the investor. While the category of impairment found that there is an impact on this ratio, which is consistent with the impact between KAM and return on stock returns.

The last results of table 18 are analysis about information of KAM and liquidity. The result shows that overall of KAM does not found significance (H10a: β = -0.007). While, this study expects two categories of KAM (provision and other categories) may be affected to KAM. The result shows that provision category has

positive significance (H10h: β = 0.131, <0.001), but other category is not significant (H10i: β = -0.019). Hence, Hypotheses ***10a and 10i are rejected, while 10h is supported.***

Six categories of KAM (revenue recognition, valuation of assets, inventories, impairment, accounts receivable and allowances, and transaction of related parties) expected that those categories are not involved about liquidity and are not affected to information of KAM. The result shows that all of six categories are not significant on revenue recognition (H10b: β = -0.017), valuation of assets (H10c: β = -0.025), inventories (H10d: β = -0.001), impairment (H10e: β = 0.000), accounts receivable and allowances (H10f: β = 0.050), transaction of related parties (H10g: β = -0.062), and Hence, Hypotheses ***10b – 10g are supported.***

In summary of this model about effect of auditee characteristics factors on information of KAM, the results found that overall of KAM have effect only factor is profitability. While considering the results in a category, it is found that the impact of that auditee characteristics factor is related to each category in KAM when category involved about transaction in each factor.

The results can be sent three signals; First signal is to board of directors in assessing the possibility that the auditor will disclose the risk information in KAM paragraph by looking at the items in the financial statements. Second signal is to investor who is considering to transaction of company in annual report for decision making together with audit report. The Last signal is to regulator, this signal tells the regulators of the auditor's responsibility to try to communicate the information in the auditor's report to reduce the gap of information by describing the organization's risks in important matters in the company for investors and users of financial statements to be careful in using information.

Robustness Test

The research was conducted additional analysis to test the relationship between information of KAM and stock returns. This test uses Tobin's Q as a proxy for performance of company. Tobin's Q ratio has been used in a variety of situations in the financial literature to examine investor's decisions. Prior study (Wernerfelt, B. & Montgomery, 1988; Servaes, 1991; Lang, L. H., Stulz, R. & Walkling, 1989) uses Tobin's Q as a measure performance of company to estimate the relative importance of industry, focuses, and shares effects and examines the relationship between returns to stockholders of bidders and targets and the market valuation of bidders and targets.

Tobin's Q is a stock valuation, which is a factor driving investment decisions in the stock market can be determined by the effects of monetary policy on securities prices. The Tobin's Q ratio is a measure of firm assets in relation to a firm's market value. The formula for Tobin's Q is:

Tobin's Q = Total market value of firm / Total Asset Value of Firm

Table 19: Descriptive Statistics and Correlation Matrix of Tobin's Q and KAM

	Tobin's Q	KAM_ ALL	KAM_ REV	KAM_ ASS	KAM_ INV	KAM_ IMP	KAM_ AR	KAM_ RP	KAM_ PRO	KAM_ OTH	BIG4	ROA	LIQ	GROW TH	SIZE	LEV
MEAN	1.745	2.195	0.592	0.359	0.354	0.432	0.162	0.162	0.039	0.100	0.648	7.215	2.541	18.279	6.883	2.541
S.D.	1.779	1.044	0.576	0.597	0.502	0.693	0.389	0.369	0.194	1.043	0.478	8.831	3.101	200.044	0.645	3.101
	1.000															
KAM_ ALL	-0.164**	1.000														
KAM_REV	-0.006	0.289**	1.000													
KAM_ ASS	-0.082	0.239**	-0.187**	1.000												
KAM_INV	-0.005	0.226**	-0.048	-0.216**	1.000											
KAM_IMP	-0.098*	0.462**	-0.166**	-0.054	-0.113*	1.000										
KAM_AR	-0.0018	0.249**	0.025	-0.184**	0.117**	-0.057	1.000									
KAM_ RP	-0.031	0.212**	-0.112*	0.002	-0.120**	0.024	-0.074	1.000								
KAM_ PRO	0.043	0.136**	0.038	-0.054	-0.062	-0.009	-0.084	-0.034	1.000							
KAM_ OTH	-0.022	0.256**	-0.012	-0.062	-0.047	-0.025	-0.034	0.012	0.120**	1.000						
BIG4	-0.031	0.264**	0.174**	0.101*	-0.019	0.140**	0.054	-0.009	-0.020	-0.001	1.000					
ROA	0.606**	-0.001	0.005	-0.061	0.014	-0.157**	-0.038	-0.069	0.045	0.021	-0.001	1.000				
LIQ	0.012	-0.119**	-0.031	-0.076	0.064	-0.124**	0.067	-0.115**	0.107*	-0.026	-0.145**	0.009	1.000			
GROWTH	-0.010	-0.009	-0.058	-0.012	0.048	-0.028	0.063	0.033	-0.018	-0.016	-0.048	-0.084	0.281**	1.000		
SIZE	-0.080	0.259**	0.009	0.193**	-0.138**	0.289**	-0.126**	0.087*	0.004	0.059	0.377**	0.032	-0.293**	-0.036	1.000	
LEV	-0.097*	0.220**	0.063	0.091*	0.051	0.140**	-0.006	0.021	-0.072	0.035	0.091*	-0.280**	-0.324**	-0.012	0.329**	1.000

*** p<0.01, ** p<0.05, * p<0.1

Table 20: Results of the Effects between Tobin's Q and Key Audit Matters

Independent Variables	Ho	Dependent Variables	
		Tobin's Q	
KAM_ALL	H3a	-0.008 (0.076)	
KAM_REV	H3b		0.067 (0.137)
KAM_ASS	H3c		-0.032 (0.130)
KAM_INV	H3d		-0.083 (0.153)
KAM_IMP	H3e		0.017 (0.115)
KAM_AR	H3f		0.031 (0.191)
KAM_RP	H3g		0.037 (0.238)
KAM_PRO	H3h		0.032 (0.385)
KAM_OTH	H3i		-0.057 (0.242)
BIG 4		0.016 (0.159)	0.003 (0.162)
LEV		0.073 (0.002)	0.066 (0.002)
ROA		0.643*** (0.009)	0.650*** (0.009)
LIQ		-0.057 (0.028)	-0.061 (0.028)
GROWTH		0.076 (0.001)	0.080 (0.001)
SIZE		-0.116** (0.123)	-0.123** (0.130)
R^2		0.406	0.424
Adjust R^2		0.389	0.391
Maximum VIF		1.405	1.493
F		24.224	12.674
ANOVA sig		0.000	0.000

*** p<0.01, ** p<0.05, *p<0.1

[a] Beta coefficients with standard errors in parenthesis

Table 19 shows the descriptive statistics and correlation for the additional test. The mean of independent variable, overall of KAM is 2.195 and separated eight categories of KAM are combined: revenue recognition is 0.592, valuation of assets is 0.359, inventories a 0.354, impairment is 0.432, accounts receivable and allowances are 0.162, transaction of related parties is 0.162, Provision is 0.039, and other is 0.100. For the mean of dependent variables, Tobin's Q is 1.745.

Additional result of Table 19 demonstrates the correlations among impact of Tobin's Q to information of KAM. Referring to Table 19, the results indicate no multicollinearity problems in this research because the result is lower at 0.80 (Hair et al., 2010). Regarding to Table 19, correlation coefficients of variables from samples are ranging from -0.183 to 0.107, $p < 0.1$ and -0.324 to 0.694, $p<0.05$.

Table 20 demonstrates the results of an OLS regression analysis of the impacts of factor on KAM, which are additional test, followed by Hypotheses 3(a) – 3(i). The results show that the effect of Tobin's Q and overall information and each category of KAM do not significant. The results of this section show that the information in KAM does not affect the performance of company, because information of KAM is new information in audit report and just begun auditor disclosure. Investors may not be aware of the importance of new information in the auditor's report.

The summary of all hypotheses testing

Table 21: Summary of all Hypotheses testing

Hypotheses	Description of Hypothesized Relationship	Result
H1	The trend of disclosure about the topic of KAM pre and post ISA 701 has increased.	Supported
H2	Information of KAM that is different when information announcements are given between pre and post - adoption of ISA 701	Rejected
H3a	Information contents overall of KAM about having negative effect on stock returns.	Rejected
H3b	Information contents of KAM about revenue recognition have negative effects on stock returns.	Rejected
H3c	Information contents of KAM about valuation of assets have negative effects on stock returns.	Rejected
H3d	Information contents of KAM about inventories have negative effects on stock returns.	Rejected
H3e	Information contents of KAM about impairment have negative effect on stock returns.	Supported
H3f	Information contents of KAM about accounts receivable and allowances have negative effect on stock returns.	Supported
H3g	Information contents of KAM about transaction of related parties have negative effect on stock returns.	Rejected
H3h	Information contents of KAM about provision have negative effect on stock returns.	Rejected
H3i	Information contents of KAM about others have negative effect on stock returns.	Rejected
H4a	Big 4 have effect more than non – Big 4 on overall of KAM	Supported

Table 21: Summary of all Hypotheses testing (Continued)

Hypotheses	Description of Hypothesized Relationship	Result
H4b	Big 4 have effect more than non – Big 4 on KAM about the revenue recognition.	Supported
H4c	Big 4 have effect more than non – Big 4 on KAM about the valuation of assets.	Rejected
H4d	Big 4 have effect more than non – Big 4 on KAM about the inventories	Rejected
H4e	Big 4 have effect more than non – Big 4 on KAM about the impairment	Rejected
H4f	Big 4 have effect more than non – Big 4 on KAM about the accounts receivable and allowances	Supported
H4g	Big 4 have effect more than non – Big 4 on KAM about the transaction of related parties	Supported
H4h	Big 4 have effect more than non – Big 4 on KAM about the provision	Rejected
H4i	Big 4 have effect more than non – Big 4 on KAM about the others	Rejected
H5a	Qualified opinions have effect more than unqualified opinion on overall of KAM.	Rejected
H5b	Qualified opinions have effect more than unqualified opinion on KAM about revenue recognition	Rejected
H5c	Qualified opinions have effect more than unqualified opinion on KAM about valuation of assets	Rejected
H5d	Qualified opinions have effect more than unqualified opinion on KAM about the inventories	Rejected
H5e	Qualified opinions have effect more than unqualified opinion on KAM about the impairment	Rejected

Table 21: Summary of all Hypotheses testing (Continued)

Hypotheses	Description of Hypothesized Relationship	Result
H5f	Qualified opinions have effect more than unqualified opinion on KAM about the accounts receivable and allowances	Rejected
H5g	Qualified opinions have effect more than unqualified opinion on KAM about the transaction of related parties	Rejected
H5h	Qualified opinions have effect more than unqualified opinion on KAM about the provision	Rejected
H5i	Qualified opinions have effect more than unqualified opinion on KAM about the others	Rejected
H6a	Audit fee has a positive effect on overall of KAM	Supported
H6b	Audit fee has a positive effect on KAM about the revenue recognition	Rejected
H6c	Audit fee has a positive effect on KAM about the valuation of assets	Rejected
H6d	Audit fee has a positive effect on KAM about the inventories	Supported
H6e	Audit fee has a positive effect on KAM about the impairment	Supported
H6f	Audit fee has a positive effect on KAM about the accounts receivable and allowances	Rejected
H6g	Audit fee has a positive effect on KAM about the transaction of related parties	Supported
H6h	Audit fee has a positive effect on KAM about the provision	Supported
H6i	Audit fee has a positive effect on KAM about the others	Supported
H7a	Firm size has a positive effect on overall of KAM	Rejected

Table 21: Summary of all Hypotheses testing (Continued)

Hypotheses	Description of Hypothesized Relationship	Result
H7b	Firm size does not effect on KAM about the revenue recognition	Supported
H7c	Firm size has a positive effect on KAM about the valuation of assets	Supported
H7d	Firm size has a positive effect on KAM about the inventories	Rejected
H7e	Firm size has a positive effect on KAM about the impairment	Supported
H7f	Firm size has a positive effect on KAM about the accounts receivable and allowances	Supported
H7g	Firm size has a positive effect on KAM about the transaction of related parties	Supported
H7h	Firm size does not effect on KAM about the provision	Supported
H7i	Firm size does not effect on KAM about the others	Supported
H8a	Firm complexity has a positive effect on overall of KAM	Rejected
H8b	Firm complexity does not effect on KAM about the revenue recognition	Supported
H8c	Firm complexity has a positive effect on KAM about the valuation of assets	Rejected
H8d	Firm complexity has a positive effect on KAM about the inventories	Supported
H8e	Firm complexity has a positive effect on KAM about the impairment	Supported
H8f	Firm complexity has a positive effect on KAM about the accounts receivable and allowances	Rejected
H8g	Firm complexity has a positive effect on KAM about the transaction of related parties	Supported

Table 21: Summary of all Hypotheses testing (Continued)

Hypotheses	Description of Hypothesized Relationship	Result
H8h	Firm complexity does not effect on KAM about the provision	Supported
H8i	Firm complexity does not effect on KAM about the others	Rejected
H9a	Profitability has a negative effect on overall of KAM	Supported
H9b	Profitability has a negative effect on KAM about the revenue recognition	Rejected
H9c	Profitability does not effect on KAM about the valuation of assets	Supported
H9d	Profitability does not effect on KAM about the inventories	Supported
H9e	Profitability has a negative effect on KAM about the impairment	Supported
H9f	Profitability does not effect on KAM about the transaction of related parties	Supported
H9g	Profitability does not effect on KAM about the provision	Supported
H9h	Profitability does not effect on KAM about the others	Supported
H9i	Liquidity has a positive effect on overall of KAM	Supported
H10a	Liquidity does not effect on KAM about the revenue recognition	Rejected
H10b	Profitability has a negative effect on KAM about the impairment	Supported
H10c	Liquidity does not effect on KAM about the valuation of assets	Supported

Table 21: Summary of all Hypotheses testing (Continued)

Hypotheses	Description of Hypothesized Relationship	Result
H10e	Liquidity does not effect on KAM about the impairment	Supported
H10f	Liquidity does not effect on KAM about the accounts receivable and allowances	Supported
H10g	Liquidity does not effect on KAM about the transaction of related parties	Supported
H10h	Liquidity has a positive effect on KAM about the provision	Supported
H10i	Liquidity has a positive effect on KAM about the others	Rejected
H10e	Liquidity does not effect on KAM about the impairment	Supported

CHAPTER V

CONCLUSION

This research investigates the effect of overall information of KAM and expands scope to separate by category to understand the importance of in-depth information. Thus, this chapter summarizes the overview of study, all findings of hypothesis testing, including the theoretical, practical, and institutional contributions. In addition, conclusions, limitations and directions for future research will also be presented.

KAM is a new topic. The regulators are interested to disclosure information of KAM in audit report for investors and users. Information of KAM is disclosure risk information of organization, thus investors and users are considering information carefully in making decisions. Therefore, the research questions of this research are: How the impact of KAM and stock returns, and other factors can affect KAM. The specific questions are as follows: (1) What is the scope and how to classify topic of KAM of listed companies in Stock Exchange of Thailand? (2) What is trend of information related to KAM comparing before and after IAS 701 was issued? (3) What are different stock returns when information related to KAM before and after IAS 701 announcement? (4) What is the impact of KAM on stock returns? And, (5) What are the factors that impact KAM?

This research has three theoretical perspectives are integrated to support how information content of KAM affects stock returns, and what factor affects to information content of KAM, including the Information Asymmetry theory and Signaling theory. Efficient Market Hypothesis (EMH) use to test the market reaction through stock returns that when new the market has information is available, the market will respond or not. While, information asymmetry and signaling theory use to test trend of risk disclosure of the organization to reduce the information gap and test impact to information of KAM. The sample of this research is the list of companies

established before 2013 with a total to 256 companies exclude financial segment, MAI companies, and under rehabilitation companies.

The results found that trend of KAM have increased every year since 2014 to 2017. It was found that after the announcement of ISA 701 more information was disclosed than before the announcement was made with statistical significance. In part of information of KAM and stock returns found that reaction of stock returns is not different when information related to KAM announcement before and after ISA 701 adoption. It also found that stock returns are not significant to overall information of KAM. This research extends information of KAM analysis by splitting eight categories. The results show that accounts receivable and allowances category has negative significance with CAR 3 days, and impairment categories have negative significance with CAR 5 days and 7 days. In part of the analysis of factors affecting information of KAM found that audit firm type, audit fee, and profitability have effects on KAM.

As described earlier, the summary of all research questions and results are included in Table 22 as below.

Table 22: Summarizing all the results of the hypotheses testing

Research Questions	Hypotheses	Results	Conclusion
(1) What is the scope and how to classify topic of KAM of listed companies in Stock Exchange of Thailand?	-	Based on the literature review, this research found that information content of KAM can be categorized according to the topics that the auditor has commented, and analyzed for in-depth results. It can be divided into eight categories; revenue recognition, valuation of assets, inventories, impairment, accounts receivable and allowances, transaction of related parties, provision and, other.	-
(2) What is trend of information related to KAM comparing before and after IAS 701 was issued?	Hypotheses H1	The disclosure information content of KAM has increased every year since 2014 to 2017. It found that amount disclosure about KAM increase when ISA 701 announcement. The results are also a signal for investors to realize the importance of this information which may affect investors' decisions.	H1 is supported

Table 22: Summarizing all the results of the hypotheses testing (Continued)

Research Questions	Hypotheses	Results	Conclusion
(3) What are different stock returns when information related to KAM announcement before and after IAS 701 was issued?	Hypotheses H2	The difference stock returns from the before and the after period ISA 701 announcement, not significant at the ten-percent level, suggests that the auditor's report does not provide information to investors following the regulatory changes.	H2 is rejected
(4) What is the impact of KAM on stock returns?	Hypotheses H3 (a) – (i)	Overall information of KAM does not effect to stock returns, while impairment, accounts receivable and allowances categories have effects on stock returns. Therefore, the auditor needs to use judgment in expressing an opinion on the risks, because the results of the disclosure have an impact on the investors' decisions.	H3e and H3f are supported, but H3a, H3b, H3c, H3d, H3g, H3h, H3i, H3j are rejected.

Table 22: Summarizing all the results of the hypotheses testing (Continued)

Research Questions	Hypotheses	Results	Conclusion
(5) What are the factors that impact KAM?	Hypotheses H4 (a) – (i) to H10 (a) – (i)	**<u>Audit Characteristic</u>** (audit firm size, audit opinion, and audit fee) - Audit firm size have positive significant with overall, revenue recognition, accounts receivable and allowances, and transaction of related parties categories. - Audit Opinion have not affect all categories - Audit fee have positive significant with overall, inventory, impairment, transaction of related parties, provision, and other categories.	H4a, H4b, H4f, and H4g are supported, but H4c, H4d, H4e, H4h, and H4i are rejected H5b – H5i are rejected H6a,H6d, H6e, H6g, H6h, and H6i are supported, but H6b, H6c, and H6f are rejected

Table 22: Summarizing all the results of the hypotheses testing (Continued)

Research Questions	Hypotheses	Results	Conclusion
		<u>Auditee Characteristic</u> (firm size, firm complexity, profitability, and liquidity) For this group, the result shows that the categories will be affected between factors only if that factor is related to that category. - Firm size have positive significant with valuation of assets, impairment, accounts receivable and allowances, and transaction of related parties categories. - Firm complexity have positive significant with inventory, impairment, transaction of related parties, and other categories. - Profitability has negative significance with overall, and impairment categories. - Liquidity has positive significance with provision category.	H7b, H7c, H7e, H7f, H7g, H7h, H7i, H8b, H8d, H8e, H8g, H8h, H9a, H9c, H9d, H9e, H9f, H9g, H9h, H9i, H10b, H10c, H10d, H10e, H10f, H10g, and H10h are supported, but H7a, H7d, H8a, H8c, H8f, H8i, H9b, H10a, and H10i are rejected

Contributions

Theoretical Contributions

This research attempts to gain a vivid understanding of the effect between information of KAM and stock returns, and the effect between factor and information of KAM by applying three principle theoretical frameworks including the information asymmetry theory, efficient markets, and signaling theory. The theoretical development is based on Efficient Markets Hypothesis that focuses on effect of information of KAM and stock returns. In part of information asymmetry and signaling theory focuses on other factor effects to KAM and trend to disclosure about information risk in KAM between before and after ISA 701 announcement. Additional, research shows deep result about categories' of information of KAM. Moreover, the theoretical contribution is the new category of Key Audit Matters which have empirical and constructional testing of which only occasional research studies.

The first result of this study found that disclosure information of KAM is increase, it consistent to information asymmetry theory. This theory explains that information affects the decision-making processes used by individuals in households, businesses, and governments (Stiglitz, 2004; Ching, H. Y., & Gerab, 2017). The disclosure in the audit report of additional information will reduce the gap of information and also help for user to bring the information to making decisions better. Thus, this research confirms the information asymmetry theory that when ISA 701 announcement, the auditor emphasizes the importance of disclosure about KAM in order that provide important information to investors and users.

The second result, this research attempts to find evidence to test whether providing the information of KAM is a good signal to investors to make an investment decision by test stock returns surrounding audit report announcement. The results show that information of KAM not respond to stock return when information announcement. Thus, the result of this research is not consistent with the efficiency market hypothesis.

This research extends the testing information of KAM by separate into categories. Especially, eight important categories of information of KAM have made this study more noticeable. The last results of this research found that overall information of KAM not effect to stock returns, while accounts receivable and allowances category has negative significance with CAR 3 days, and impairment categories have negative significance with CAR 5 days and 7 days. In additional, it was found that audit and auditee characteristic factor effect to information of KAM. Therefore, the results of the study found that the impact was a good signal for both the investor and the user who used the information to make decisions, it consistent to signaling theory. The signaling theory can explain to relationship of the effect and overall information and each category of KAM. Thus, this research confirms the signaling theory that information of KAM disclosure is a good signal for investors and users to use the information for decision making. Moreover, another contribution is the eight categories of information of KAM for the researches of empirical evidence which have shown categories that are influenced when that factor involved that category.

Managerial Contributions

The study analysis the impact of the KAM disclosure in accordance with the 701 auditing standard on the benefits that users will receive, especially the view of investors, which directly affects the capital market in Thailand. According to the objective of this standard issue, the regulators want to reduce the gap of information so that investors can know more important information for making investment decisions. The results of the research found that the auditor has given importance to the disclosure of risk information of important matters in the audit report increase every year from 2016 to 2017.

The results of the study show that information of KAM has not effects to stock returns, but each category of KAM have weak effect to stock returns, but shows that investors are beginning to realize and pay attention to the information of auditor's disclosure. In addition, the study also shows that auditee characteristic (firm size, firm complexity, profitability, and liquidity) and audit characteristic (audit firm size, audit opinion, and audit fee) also effect to information of KAM from auditor's disclosure.

This result for research helps investors and companies to identify and justify of communication of auditor on KAM. In perspective of investor, the result can help to understand the communication of auditor on KAM, what issues the auditor comment to important matters of company. It can help investor for decision-making because of KAM which the auditor has reviewed and collected the audit evidence satisfactorily and to clarify to the investors.

In perspective of manager, board committee of company, the result will help to identify the factor of company that auditor will be judgment and communication about risk on audit report. Thus, companies may have adjusted to strategy to reduce risk that auditor would communicate and comment on important issues in KAM.

Institutional Contributions

Depend on the results of the study, it is found that the amount of information KAM is increasing, indicating that the auditor has given importance to the disclosure risk information of company to investors and users to the potential risks of the organization. Moreover, the results of this study also show that information of KAM has started effect to stock returns in each category.

Thus, this research may be of a useful guideline to auditors and Thai auditing standard setter for efficiency disclosure about information risk. Specifically, this research can be given benefit to the Securities and Exchange Commission of Thailand (SEC), in use information of audit report and financial report of listed companies. Besides, the results indicate the importance of professional institutional role in giving priority about disclosure information of KAM. Professional institutions and related organizations should manage to educate investors, companies and auditors on the importance of risk information that the auditor has disclosed in accordance with the new standard.

Limitations

This research has some limitations that should be mentioned. Firstly, this research collected data since 2014 – 2017. However, information of KAM is only 2 years from the start of ISA 701; the data that is analyzed has a short time to see the reaction of investors in using this information. Secondly, this research was conducted in the perspective of investors through stock returns reaction in a short event window. Finally, this research use the auditee and audit characteristic factor test effect to the disclosure of KAM, but the factor chosen for this study is only a part of audit characteristic and auditee characteristic. However, at that time, it was obvious that KAM began to affect stock returns and other factors.

Future Research

According to the results of this research found that stock returns reaction and overall information of KAM are not significant, which may start to enforce the disclosure of risks in accordance with this standard still in a short time. In the future research may test the stock returns reaction over long event window for clear result. In addition, this research studies only perspective of investors with empirical study. Thus, the future research should consider perspective of the analyst who uses the information in audit report to analyze and provide information to investors with qualitative study to provide deeper result. Finally, this study investigates the factors that affect KAM. The factors in this research are only a part of the impact, so future research may examine other factors that may affect the information in the auditor's report such as audit tenure may be affected to disclosure information of KAM. It may result in changes communication of risk information of company in the auditor's report in the year that the company changes the auditor.

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