Key Audit Matters: Just Little Informative Value to Investors in Emerging Markets?

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Abstract

The main objective of this study is to investigate whether key audit matters (KAMs) in new audit reports provide informative value to investors. The study employs stock prices as a dependent variable to urge investors' esponsiveness when new evidence (i.e. KAMs mentioned in audit reports) is announced to stock markets. Stock prices cover three periods of analysis: the average seven days before event date (audit report date), at event date, and the average seven days after event date. Independent variables include KAMs and control variables (size, leverage ratio, current assets/current liabilities, EPS). The samples include the common stocks of the top 100 Thai listed com panies (SET 100) in the Stock Exchange of Thailand as a representative of emerging markets. Univariate, correlations, and multivariate regression models are performed. The data analysis results show that KAMs have little informative value to investors. However, financial ratios, especially earnings per share are significantly associated with stock prices in positive manner. The results also suggest that the KAMs relating to a provision for doubtful debt have a positive and significant relationship to stock prices.

Keywords: Audit Report, Stock Price, KAMs, Financial Ratios

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เรื่องสำคัญในการตรวจสอบ: ข้อมูลที่มีคุณค่าเพียงเล็กน้อยของนักลงทุนในตลาดเกิดใหม่?

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บทคัดย่อ

วัตถุประสงค์ของการศึกษาครั้งนี้เพื่อสืบค้นว่าเรื่องสำคัญในการตรวจสอบในรายงานการสอบบัญชีแบบใหม่ให้ข้อมูลที่มีคุณค่าแก่นักลงทุนหรือไม่ การศึกษาใช้ราคาหุ้นในการวัดการตอบสนองของนักลงทุนเมื่อมีข้อมูลใหม่เข้ามาในตลาดหลักทรัพย์ (เรื่องสำคัญในการตรวจสอบในรายงานผู้สอบบัญชี) ราคาหุ้นประกอบด้วย 3 ระยะเวลา คือ ราคาหุ้นถัวเฉลี่ยก่อนวันที่ในรายงานการสอบบัญชี 7 วัน ณ วันที่ในรายงานการสอบบัญชี และราคาหุ้นถัวเฉลี่ยหลังวันที่ในรายงานการสอบบัญชี 7 วัน ตัวแปรอิสระประกอบด้วย เรื่องสำคัญในการตรวจสอบในรายงานผู้สอบบัญชีและตัวแปรควบคุม (ขนาดของกิจการ อัตราส่วนนโยบายทางการเงิน อัตราส่วนสภาพคล่อง และกำไรต่อหุ้น) ข้อมูลที่ใช้ในการวิเคราะห์ ได้แก่ หุ้นสามัญในกลุ่ม SET 100 ของบริษัทจดทะเบียนในตลาดหลักทรัพย์แห่งประเทศไทย ซึ่งถือเป็นตัวแทนของตลาดหลักทรัพย์เกิดใหม่ การวิเคราะห์ทางสถิติ ประกอบด้วย การวิเคราะห์ตัวแปรเดียว สหสัมพันธ์ และพหุตัวแปร ผลการศึกษาพบว่าเรื่องสำคัญในการตรวจสอบในรายงานการสอบบัญชีให้ข้อมูลที่เป็นประโยชน์เพียงเล็กน้อยแก่นักลงทุน อย่างไรก็ตาม อัตราส่วนทางการเงินมีความสัมพันธ์อย่างมีนัยสำคัญกับราคาหุ้นในเชิงบวกโดยเฉพาะอย่างยิ่งกำไรต่อหุ้น การศึกษาครั้งนี้ยังพบอีกว่าเรื่องสำคัญมีการตรวจสอบในรายงานการสอบบัญชีที่เกี่ยวข้องกับการตั้งค่าเผื่อสำรองหนี้สงสัยจะสูญมีความสัมพันธ์อย่างมีนัยสำคัญเชิงบวกกับราคาหุ้น

คำสำคัญ: รายงานผู้สอบบัญชี ราคาหุ้น เรื่องสำคัญในการตรวจสอบ อัตราส่วนทางการเงิน

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1. INTRODUCTION

For many decades, audit reports have been considered as one of most valued pieces of information to investors. However, value relevance is still an issue of audit reports (Bédard, Gonthier-Besacier, and Schatt, 2014., Moradi, Salehi, Rigi, and Moeinizade, 2011, Hussainey, 2009). Auditing standard setters, mainly International Federation of Accountants (IFAC) and American Institute of Certified Public Accountant (AICPA) have developed at least three times to improve quality communication between auditors and financial statements' users. The previous three developments may not have caught investors' understanding. Recently, to increase better communication, a new auditor report has been introduced by adding key audit matters (KAMs). The additional paragraphs are mainly about the risks of companies' financial results. These paragraphs aim to reduce the expectation gap between auditors and financial statement users.

The Federation of Accounting Professions (FAP) of Thailand, as a member of IFAC, has adopted the new audit reports for financial statements issued after December 31, 2016 with the aim of communicating an informative message, especially on companies' risks to investors and to urge management and those charged with governance to pay attention to risk disclosure (FAP, Federation of Accounting Professions 2015). However, only companies listed on the Stock Exchange of Thailand are required to use the new audit reports. After the audit reports of listed companies were announced, one of the Thai listed companies had been mentioned as "talk of the town". Its stock price went down from 69 to 12 Thai Baht (83%). Financial analysts and investors criticized the KAMs issued to that company by one of the Big 4 causing the stock decline. However, there is no academic evidence to prove the issue. In addition, limited studies about KAMs have been carried out to indicate the informative value of the new audit reports. Therefore, the main objective of this study is to investigate the informative value of KAMs in the new audit reports using the Stock Exchange of Thailand to represent an emerging market. This study focuses on key audit matters of the top 100 Thai listed companies. The data set is used because investors are quickly responsive to these companies. Stock prices are used to observe reactions of new information. As a result, the study should provide empirical evidence as to whether the disclosure of KAMs in the audit reports is informative on its own or whether other publicly available information is a more informative value than KAMs.

The rest of the paper is structured as follows. The next section examines the theoretical framework for why auditors (i.e. audit reports) should play a good role to provide informative information. This is followed by a literature review of the development and critiques of audit reports. The dataset and research methodology are then discussed. The penultimate section discusses the empirical results. The final section presents the summary and conclusion.

2. LITERATURE REVIEW

Initially, the study briefly discusses the theoretical background of why auditors play a great role of being a 'middle man' between stakeholders and management. Then, the development of audit reports from past to present is described. In addition, a literature review of why audit reports provide information content to financial statements' users is provided.

2.1 Stakeholders and agency theory

The idea of stakeholder theory started around the middle of the 20th century. Freeman (1984) stated that stakeholders should be considered as groups that without them the organization cannot further exist. The latest statement by Crane and Matten (2010) says that the stakeholders are considered *"as the groups that have claims, ownerships, rights or interests in a corporation and its activities.* Therefore, companies should in a way serve their stakeholders and take further action based always on their stakeholders needs. Freeman (1984) explained that business should not only create value in a responsible way, but also create value to stakeholders. Although the CEO acts like a middle man among stakeholders, they are not independent from shareholders. This comes from the concept of "watchdogs" and results in bringing an independent party (i.e. auditor) in. A Stakeholder believes that audit reports are influencing pieces of information sent to them from auditors. Therefore, the role of auditors exists as the idea of a watchdog.

Jensen and Meckeling (1976) proposed the agency theory that managers (agents) interests and desires can conflict with the interests of shareholders of the company. Managers can act opportunistically on behalf of shareholders to increase their own wealth and maximize their own profits. In this situation there exists an information asymmetry problem. Managers can have an advantage over shareholders regarding information from the company (Hayes, 2013). The agency theory is the basis for the auditing profession. For shareholders to verify management's targets and financial information and be able to trust the company, it is necessary to get assurance from an independent third party that managers provide appropriate and sufficient evidence that the company's financial statements represent a true and fair view (Hayes, 2013). Furthermore, auditors should provide their opinion to the public, which is the only available evidence that is disclosed from the auditing process. Auditors communicate with company's shareholders through the audit report. A recent study in The Netherlands underlines that the audit expectation gap is a classic agency problem (Litjens, Buurenn, and Vergoossen, 2015). Therefore, the audit reporting debate, and the need for change in the auditor's model are related to agency theory. The information gap that exists in the current model of the audit report increases the information asymmetry problems (Vanstraelen, Meuwissen, and Hofmann, 2012). When shareholders and stakeholders believe that they do not get enough information from the auditing process through the audit report, they demand a change in the current model to decrease the possibility of information asymmetry with the managers of the company.

In short, this study is supported by both stakeholder and agency theory. Audit reports issued by external auditors should be trusted information for financial statements’ users. Therefore, auditors should be considered as “watchdogs” of companies, as shown in Figure 1.

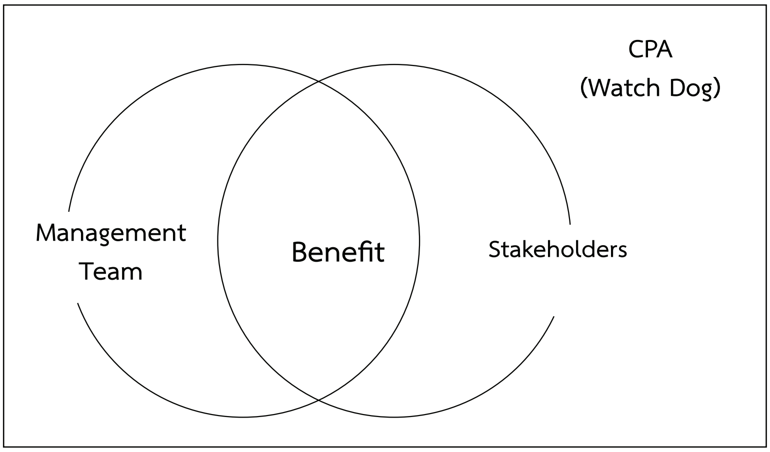

Figure 1 Auditors as watchdogs

2.2 Devel ve been continuously revised since the first official audit reports (Carmichael and Winters, 1982).

Appendix 1 shows the 2-, 3- and 6-paragraph standard wordings. The basic format of the 2-paragraph standard wording consists of two main parts: an introductory and an opinion paragraph. The basic format of the 3-paragraph standard wording consists of three main parts: an introductory, a scope, and an opinion paragraph. An introductory paragraph is mainly to stress that the principal responsibility for financial statements rests with management, regardless of whether an auditor's report is issued. A scope paragraph is to explain what auditors base their work on. If there is disagreement between the auditors and clients, additional paragraphs could be added, following the scope paragraph. Finally, an opinion paragraph is to express a professional opinion rather than a statement of fact. On the other hand, the 2-paragraph standard wording does not mention the responsibility of the company's management and how auditors perform their audit procedures. The 6-paragraph standard wording attempts to develop previous types of audit reports. It consists of six main parts: an introductory, management's responsibility, auditor's responsibility together with an audit scope, and an opinion paragraph.

On January 15, 2015, the International Auditing and Assurance Standards Board (IAASB) proposed a new audit standard reports for financial statements issued on or after December 15, 2016. IAASB stated that the new reports were based on several pieces of research and studies in many countries over many years. One of the weak points of previous audit reports was the communication between auditors and financial statement users, especially investors. Without any changes to the audit process auditing standards, IAASB aimed to convince auditors to report with the new audit report pattern. Firstly, rather than putting in the last paragraph, an opinion paragraph is declared, following by a basis of opinion. The significant change is the paragraph called “key audit matters (KAMs)”. KAMs composes with companies’ risks and risk management and how auditors satisfy themselves with audit evidence. The rest of the audit reports include management responsibility, auditor liability and more details of audit procedures and ongoing concerns and considerations (International Auditing and Assurance Standards Board (IAASB), 2016). The aim of the standards is to provide auditor’s reports that increase the public’s confidence in both the audit process itself and the financial statements of companies. The IAASB also believes that enhancing auditor reporting will improve communications between the auditor and investors, as well as between auditors and those charged with governance. The new and revised Auditor Reporting Standards are effective for audits of financial statements for periods ending on or after 15 December 2016. Appendix 2 shows the new audit report issued by IAASB.

Thailand covers audit report evolutions. The first official audit reports recommended by the Institute Certified Accountants and Auditors of Thailand (ICAAT), now called the Federation of Accounting Professions (FAP) to bare authority about Thai auditing standards were issued in 1975. The first official wording was most likely the 2-paragraph wording standards of the US audit reports. Later, in 1999, the ICAAT introduced new auditing standards with 3-paragraph audit reports for the auditor’s report on financial statements. The new 3-paragraph-audit report is most likely to be used as the audit report issued by the International Auditing and Assurance Standards Board (IAASB), previously known as the International Auditing Practices Committee (IAPC). The change from 2- to 3-paragraph audit reports in Thailand was different. ICAAT gave the reason that Thailand is a member of the International Federation of Accountants (IFAC), so Thai auditing standards should be mainly parallel to the IAASB, which is responsible for issuing international auditing standards. In addition, the new 3-paragraph audit reports are internationally recognised (The Institute of Certified Accountants and Auditors of Thailand (ICAAT), 1998). In 2012, 6-paragraph audit reports were adopted, which are parallel to international audit reports. In 2016, FAP adopted new audit reports recommended by IAASB for the financial statements issues on or after 31 December 2016. This is to help lift Thai accounting to the same international level as in other countries.

2.3 Critiques of audit reports

The difference between 2- and 3- paragraph standard wordings mainly concerns identifying the auditors' and management responsibility. Manson and Zaman (2001) found that 3-paragraph standard wordings were successful in aligning the views of auditors and users. Also, Innes, Brown, and Hatherly, (1997) discovered that the 3-paragraph wording reduced the gap between auditors and users and the reports changed users' perceptions in the sense of not expecting that auditors are responsible to companies.

In addition, it is believed that the reason for the change was to improve the quality of audit reports. Before 3-paragraph audit reports were introduced, the opinion paragraph tended to use certain language such as "subject to", "except for" or "with the exception of" in the paragraph, so as to introduce extra messages. The separate explanatory paragraph tends to state the subject matters of qualifications and should be cited in the opinion paragraph. The following definitions explain what these words mean.

"Subject to" is used when a qualification by auditors states that there was a material but not fundamental uncertainty in the account being audited. The term is adopted when any adjustment that may have been necessarily has a scope of limitation or an outcome with inherent uncertainty. "Subject to" is used in disclaimers of opinions depending on how significant the circumstances are.

"Except for" is used when qualifications by auditors stating that the financial statements give a true and fair view except for the effects of any adjustment that might have been found to be necessary. In addition, scope limitation in the area of evident availability is also under “except for”. Auditors may use the term as well if there is a disagreement with the treatment or disclosure of matter in financial statements. Any case mentioned previously would be expressed using both qualified and adverse opinions depending on the materiality of the matters. Auditors should express a qualification by stating that the financial statements give a true and fair view except for the effects of the matter giving rise to disagreement.

However, after both experimental and empirical studies on “subject to” were conducted in order to test its information content, for examples by Alderman (1977, 1979), scholars recommended that “subject to” was a compromise opinion and reduced the information value of audit reports. Moreover, “subject to” permitted auditors to make a very sketchy examination. Consequently, professional bodies in the UK and US eliminated the compromise opinion from generally accepted auditing standards and acceptable practices (Wallace, 1991, p. 86-87). “Subject to” was deleted and the new 3-paragraph standard audit reports, which do not allow the “subject to” qualification, were used with a new type of audit reports.

Hatherley (1997) saw a future for free-form audit reports. Hatherley gave the reason that users of financial reports paid little attention to the technicalities of the audit and simply wanted to know that financial statements were “OK”. As a result, audit reports were more like a seal of approval rather than useful information. By changing from standard wording to free-form reports, users would be more likely to pay attention to what auditors were trying to say. This would increase user understanding of what is being written in financial statements. Consequently, it may improve communication between auditors and users in respect of their responsibilities. Finally, with free-form audit reports, greater disclosure could provide for market competition and cause greater appreciation of auditors’ judgements (Hatherley, 1997).

As the new audit reports required, KAMs is the issue of greatest concern. EY (2016) says before the report is effective, KAMs are not a form of modified audit reports. They are about the significant risk of companies, which auditors pay special attention to, and are also pertinent to financial statement users to take into consideration. Stakeholders should not get information just in a binary “pass/fail” opinion form. With KAM reporting, the stakeholders might perceive it as a piecemeal qualification on matters determined to be KAMs. The description of auditor's procedures contained in the KAM section of the auditor's report might be misunderstood without the proper context. Other concerns include such questions as: will KAMs make the auditor's report as the primary source of 'red flags' an on-going concern? How will KAMs be interpreted by stakeholders and the market? Will it trigger a negative market response? Will stakeholders perceive matters highlighted as KAMs as areas where management and those charged with governance failed to discharge their responsibilities properly?

One very important message to be conveyed to the stakeholders is that KAMs are not an avenue for the auditor to express qualification on matters highlighted as KAMs. KAMs are addressed in the context of the audit of the financial statements level, and the auditor does not provide a separate opinion on these matters. Therefore, stakeholder education is critical in addressing the potential consequences of misinterpreting KAMs. The entities, the relevant professional bodies and authorities should actively engage and educate the stakeholders so that they understand the objective of KAMs, and how a matter is determined to be a KAM (EY, 2016).

2.4 Literature review on the informative value of audit reports on stock prices

After analyzing users' understanding of audit report information, this next section analyses further how audit reports affect certain events in reality. Scholars have examined whether audit reports provide useful information for several years in two broad areas: market model research and experimental research. Because this study aims to use a market model, the following review mainly focuses on these issues.

It was believed that in efficient capital markets, market prices tended to be influenced by all publicly available information. Consequently, once any new information was released, market prices could react immediately and unbiasedly to it (Fama, 1970). Gonedes (1972) applied market efficiency concepts in the accounting context and concluded that accounting figures, which were produced under alternative sets of accounting procedures, should affect market prices. Baskin (1972) also explained that the theory and research underlying market models came within the concept of efficiency security markets. Security prices responded when economic conditions changed. As a result, if the period when data input occurred could be sufficiently isolated, then changes in prices which resulted from investors' decisions could be assumed from the data input. The concept was then applied to audit qualifications, which were considered the input data and should have the same effects. Since audit qualifications provided bad news to an entity whose financial statements were qualified, market prices would be affected by that information (Baskin, 1972). This concept was extended in subsequent research when attempting to show the information content of audit reports.

Since the study of Baskin (1972), many studies have been continuously carried out to prove the informative value of audit reports. Firth (1978) conducted a study by collecting share price data 20 days before and after qualifications. The research found that for all types of qualifications there were no significant effects on share prices in the 20 days before the annual reports were published. However, immediately after qualifications were published, certain types of qualifications (going concern and assets value qualifications) reflected negative abnormal returns. Ball, Walker, and Whittred (1979) extended Firth (1978) study and suggested that non-depreciation of building qualifications had an upward effect on share prices. The valuation of assets, which had made the most significant effect in Firth (1978) studies, had very little effect on share prices, however. Also, Chow and Rice (1982) investigated whether stock prices were affected when qualified audit reports were received over a period of two months, including the month of financial statement releases. Three types of audit opinions were selected: assets realization, uncertainty qualifications, and other qualifications. The results of the analysis showed that downward changes in stock prices were associated with qualifications. The most significant difference in negative stock prices was associated with asset realization qualifications. Davis (1982) extended Chow and Rice (1982) study in order to observe whether the market reaction was instantaneous. Daily returns of stock price data were collected. The study showed that within a short period (21 days) after qualifications were issued, there was no significant change in stock prices, which suggested a lack of information content of audit reports. However, significant differences were found for a longer time frame (from 224 days prior to the release of the audit qualifications). The study concluded that the information contained in qualifications was impounded by other sources prior to release of audit reports.

Later research focusing on market models took great care to research methodologies, the date of data collection and the influence of the earnings announcement. Dodd, Dopuch, Holthusen, and Leftwich (1984) raised the issue that the actual date of announcement might be one of the several problems that caused audit reports to have no incremental information value. Samples were carefully extracted on the basis that the annual earnings announcement was made at least 5 days prior to filing with a stock market or the release of annual reports. The results showed that "subject to" opinion had little impact on stock prices. Dopuch, Holthusen, and Leftwich (1986) contradicted the conclusion of Dodd et al. (1984) after paying more attention to the date of disclosure of audit qualifications to the media disclosure. The study extended the period under investigation to 300 days prior to the disclosure to 60 days after the disclosure. The study found that significant negative returns were incurred around the announcement date. The results showed that qualifications possessed information content. In addition, the study concluded that media disclosure of qualified opinions resulted in significant abnormal negative returns.

At the beginning of the 21st century, Chen and Schoderbek (2000) extended their research using an emerging market in the Shanghai Stock Exchange. Chen and Schoderbek (2000) believed that modified audit opinions representing bad news about the company were likely to induce a negative impact on stock prices. The study hypothesized that the announcement of modified audit reports was negatively associated with market returns. Audit opinions and announcement dates were collected, as well as returns and financial data. After controlling for effects of accounting earnings and other concurrent announcements, the study found that modified audit reports were associated with negative abnormal market returns. However, Martinez, Martínez and Benau, (2004) explored the reaction of the market to qualified audit reports. They observed the relationship between audit reports and stock prices during the period 1992-1995. The results indicated that there was no relationship between stocks prices and qualified audit opinions; in other words, qualified audit opinions had no information content. Moreover, Moradi et al. (2011) studied the correlation between qualified audit report and share prices and returns in order to test information content of qualified audit report. A market-based study conducted on the qualified audit reports of the shareholding companies in Iran during the period 2005 - 2009. The result of the survey indicated that qualified audit opinion has no significant effect on share prices and returns; in other words, there is no information content in qualified audit opinion in Iran. This conclusion may suggest that the audit report's users' do not understand its meaning or appreciate its value.

In the recent research after KAMs have been introduced, Bédard, Gonthier-Besacier, and Schatt, (2014) conducted a study relating to KAMs and found that the disclosure of additional information by French auditors has very limited effects. On the one hand, the financial market does not react significantly. On the other hand, the quality of the audit (proxied by a measure of earnings management), the cost of the audit (proxied by audit fees) and the efficiency of the audit (proxied by the audit report lag) are not significantly affected by KAMs. Finally, the results confirm the idea that the disclosure of additional information (i.e. KAMs) by the auditors rather has a symbolic value than an informative value.

In conclusion, there are both pros and cons to the issue of informative value of audit reports. In addition, the previous studies have not been carried out very limited by using KAMs. Therefore, this study intends to carry out whether KAMs provide informative value to financial statements' users using an emerging market.

3. DATA AND RESEARCH DESIGN

3.1 Sample Selection and data

An empirical research method based on secondary data was applied in this study. The population used in the study comprised the top 100 Thai listed companies traded on the Stock Exchange of Thailand (SET) in 2016. This one-year analysis was intended because it is to observe the efficiency of this emerging market when new information is announced. The reason for using the sample of top 100 Thai listed companies is because they are volatile, and investors are more likely to react when new information is publicly announced. Missing data and that for the fiscal year not ended 31 December, totaling two companies were not included in the dataset. Audit reports were manually collected from the Stock Exchange Commission (SEC) website. In addition, the data on stock prices and financial information were retrieved from SETSMART (SET Market Analysis and Reporting Tool).

3.2 Multiple Regression Model Specification

The study specifies the multiple regression model below to examine the relationship between stock price and key audit matters of the top 100 Thai listed companies. To reduce the probability of omitted variable bias, the study includes significant control variables. Bartov, Gul, and Tsuib (2000) state that missing control variables could lead to failure rejecting a hypothesis when in fact it should be accepted. Specifically, the study controls for firms' size (total assets), leverage ratios, liquidity ratio and earnings per share. It is well-known that firm size has an effect to stock price because investors consider bigger firms have investment opportunity and simultaneously generate more profit than smaller firms. Debt to equity ratio focuses on a company's ability to meet its long-term debt obligations. Focusing on the long-term solvency in general, the more leveraged and higher amount of debt financing relative to equity financing, the owner faces then greater is the risk. Liquidity ratio focuses on a firm's ability to meet its short-term debt obligations. In other words, the ratio shows ability to pay its current obligation and expenses. If a company cannot maintain a short-term debt-paying ability, it will not be able to maintain a long-term debt-paying ability, nor will it be able to satisfy its stockholders. Earnings per share assesses the company ability to earn profits also gives users a good understanding of how well the company utilized its resources(assets) in generating profit and shareholder value. All of these ratios potentially influenced stock prices (Arkan, 2016). In addition, control variables have been identified based on prior studies. In the equation below, left-hand side, the dependent variable is stock prices in three periods. On the right-hand side, the independent variables are control variables (SIZE, LEV, LIQ and EPS) and the interesting variables, KAMs that may relate to stock prices. The equation is as follows:

$$\begin{aligned} \textit{Stock prices}_{it} &= \beta_0 + \beta_1 SIZE_{it} + \beta_2 LEV_{it} + \beta_3 LIQ_{it} + \beta_4 EPS_{it} + \beta_5 KAMs1_{it} \\ &+\beta_6 KAMs2_{it} + \beta_7 KAMs3_{it} + \beta_8 KAMs4_{it} + \beta_8 KAMs5_{it} + \beta_8 KAMs6_{it} + \varepsilon \end{aligned}$$

The definitions of all variables are shown in Table 1.

Table 1 Variable definitions

Variables	Acronym	Measurement
Dependent variables	PRE	Stock price of the average 7 days before event date
	EVENT	Stock price at audit report date (event date)
	POST	Stock price of the average 7 days after event date
Control variables	SIZE	Total asset
	LEV	Debt to Equity
	LIQ	Current assets/current liabilities
	EPS	Earnings per share
Interesting variables	KAMs1	Revenue recognition = 1; otherwise, 0
	KAMs2	Provision for doubtful Debt = 1; otherwise, 0
	KAMs3	Provision for obsolete Stock = 1; otherwise, 0
	KAMs4	PPE and investment = 1; otherwise, 0
	KAMs5	Goodwill impairment = 1; otherwise, 0
	KAMs6	Improper liabilities provisions = 1; otherwise, 0

After data collection was completed, all five assumptions of multiple regression were tested including errors or residuals as to whether they were normally distributed. If the analysis revealed multicollinearity to be an issue, Natural log (ln) was employed to transform the data. After transforming the data, once the correlation ecoefficiency does not exceed 0.80, the dependent variables would not have any multicollinearity concerns. At that point, multiple regression analysis becomes valid (Field, 2005).

4. DESCRIPTIVE STATISTICS

Table 2 Panel A presents descriptive statistics of all variables used in this study. It is noted that if the analysis found multicollinearity problems, natural log (ln) was employed to solve the problem. The below line of the variables indicated (ln) means that the upper line incurred a multicollinearity problem. In Table 2 Panel A, it is found that the average stock price 7 days before the event date (PRE) is 47.75 (SD = 79.08). The stock price at the event date (EVENT) is 48.42 (S.D = 80.19) and the average stock price 7 days after event date (POST) is 50.78 (S.D = 89.35). Apparently, the stock prices are more likely to be the same in the three periods. This means no significant impacts, including the announcement of audit reports (i.e. KAMs). Table 2 also shows that total assets (SIZE) of the companies are wide ranging from 1,235.97 million Baht to 2,944,229.79 million Baht. The mean of leverage ratio (LEV), current ratio (LIQ) and earnings ratio (EPS) are considered high and reasonable as Thai leading companies. In sum, the descriptive statistics indicate that the top 100 Thai listed companies are considered as a strong fundamental financial position to back up the Thai economy.

Table 2 Panel B shows the KAMs issued in the new audit report of the top 100 Thai listed companies. It is found that auditors focus on KAMs including property, plant and equipment (PPE) and investment impairment (KAM4), improper liability provisions (KAM5) and revenue recognition (KAM1). If considering the overall KAMs issued in the top 100 Thai listed companies, it shows that the auditors pay attention to asset impairment. This impairment includes accounts receivable, inventories, property, plant and equipment, investments and goodwill. This result is as expected and confirms prior studies in the UK and France.

Table 2 Descriptive Statistics

Panel A

	Minimum	Maximum	Mean	S.D
PRE (Baht per share)	1.38	520.33	47.75	79.08
*ln*PRE	0.32	6.25	2.99	1.34
EVENT (Baht per share)	1.34	522	48.42	80.19
*ln*EVENT	0.29	6.26	3.00	1.35
POST (Baht per share)	1.36	518.67	50.78	89.35
*ln*POST	0.30	6.25	3.02	1.33
SIZE (Million Baht)	1,235.97	2,944,229.79	248,819.09	608,210.36
*ln*SIZE	7.12	14.90	10.94	1.66
LEV (Times) 0.12	9.44	2.09	2.29	
*ln*LEV	-2.14	2.25	0.24	1.01
LIQ (Times)	0.18	9.97	1.89	1.62
*ln*LIQ	-1.71	2.30	0.36	0.74
EPS (Baht/share)	-0.23	46.74	3.08	6.51
lnEPS	-4.61	3.84	-0.03	1.69

Panel B

Types	Number of KAMs
Revenue recognition (KAM1)	49
Provision for doubtful Debt (KAM2)	22
Provision for obsolete Stock (KAM3)	24
PPE and investment (KAM4)	61
Goodwill impairment (KAM5)	15
Improper liabilities provisions (KAM6)	55

Remark: KAMs could be mentioned in audit reports more than one time.

Table 3 Panel A, B and C show the Pearson correlation between variables. It is found that a significant and positive relationship exists between all stock prices of 3-period and total assets (SIZE), earnings per share (EPS), and goodwill impairment (KAM5) at 1% level. This means investors are more likely to use the information when making decisions. The overall correlation between the independent variables is below 0.80. This means no multicollinearity is no longer of concern. For example, total assets (SIZE) and leverage ratio (LEV) are significantly related at 1% level at 0.59 Pearson correlation. Total assets (SIZE) and earnings per share (EPS) are significantly related at 1% level at 0.484 Pearson correlation. Leverage ratio (LEV) and current ratio (LIQ) are significantly related at 1% level at 0.394 Pearson correlation and leverage ratio (LEV) and doubtful debt are significantly related at 1% level at 0.481 Pearson correlation.

5. REGRESSION MODEL RESULTS

Table 4 shows the results multiple regressions of financial ratios and KAMs on stock prices in all 3-period timeframes. In Table 4, Panel 1, the analysis starts by analyzing the relationship between financial ratios (i.e. control variables) and stock prices for the top 100 Thai listed companies in 2016. The multiple regression results show that the adjusted R2 of the average seven days before the event date (audit report date), at event date, and the average seven days after event date are 82.1%, 83.3% and 83.2%., respectively. This means the financial ratios associate with stock prices in a significant level. When considering which control variables influence to stock prices, it is found that earnings per share (EPS) significantly relate to stock prices in a positive manner and are the most factors influencing stock prices in all 3-period analysis at 1% level. This confirms and is consistent with previous studies (Hussainey, 2009). The analysis also shows that a negative co-efficiency but not a significant influence of total assets (SIZE) to stock prices. Also, the results do not find that the leverage ratio (LEV) and current ratio (LIQ) significantly relate to stock price but do find a positive association with stock prices.

Table 3 Pearson Correlation of variables

Panel A

	PRE	SIZE	LEV	LIQ	EPS	KAM1	KAM2	KAM3	KAM4	KAM5	KAM6
PRE	1										
SIZE	0.388**	1									
LEV	0.070	0.591**	1								
LIQ	0.000	-0.079	-0.394**	1							
EPS	0.914**	0.484**	0.137	0.003	1						
KAM1	-0.174	-0.110	0.016	-0.24	-0.223*	1					
KAM2	0.150	0.147	0.481**	-0.008	0.106	-0.055	1				
KAM3	0.036	-0.118	-0.194	0.107	-0.003	-0.149	-0.025	1			
KAM4	0.129	0.141	-0.043	-0.088	0.164	0.022	-0.185	-0.139	1		
KAM5	0.263**	0.207*	-0.021	-0.183	0.298**	-0.286**	-0.050	-0.131	-0.095	1	
KAM6	0.098	0.156	-0.027	0.088	0.121	-0.093	-0.263**	-0.209*	0.013	0.121	1

Panel B

	EVENT	SIZE	LEV	LIQ	EPS	KAM1	KAM2	KAM3	KAM4	KAM5	KAM6
EVENT	1										
SIZE	0.389*	1									
LEV	0.065	0.591**	1								
LIQ	0.001	-0.079	-0.394**	1							
EPS	0.920**	0.484**	0.137	0.003	1						
KAM1	-0.174	-0.110	0.016	-0.24	-0.223*	1					
KAM2	0.149	0.147	0.481**	-0.008	0.106	-0.055	1				
KAM3	0.045	-0.118	-0.194	0.107	-0.003	-0.149	-0.025	1			
KAM4	0.143	0.141	-0.043	-0.088	0.164	0.022	-0.185	-0.139	1		
KAM5	0.259**	0.207*	-0.021	-0.183	0.298**	-0.286**	-0.050	-0.131	-0.095	1	
KAM6	0.087	0.156	-0.027	0.088	0.121	-0.093	-0.263**	-0.209*	0.013	0.121	1

Panel C

	POST	SIZE	LEV	LIQ	EPS	KAM1	KAM2	KAM3	KAM4	KAM5	KAM6
POST	1										
SIZE	0.428**	1									
LEV	0.134	0.591**	1								
EPS	0.011	-0.079	-0.394**	1							
DIV	0.833**	0.484**	0.137	0.003	1						
KAM1	-0.184	-0.110	0.016	-0.24	-0.223*	1					
KAM2	0.183	0.147	0.481**	-0.008	0.106	-0.055	1				
KAM3	0.013	-0.118	-0.194	0.107	-0.003	-0.149	-0.025	1			
KAM4	0.101	0.141	-0.043	-0.088	0.164	0.022	-0.185	-0.139	1		
KAM5	0.282**	0.207*	-0.021	-0.183	0.298**	-0.286**	-0.050	-0.131	-0.095	1	
KAM6	0.127	0.156	-0.027	0.088	0.121	-0.093	-0.263**	-0.209*	0.013	0.121	1

The definition of variables is given in Table 1

* Relationship is significant at the 0.05 level (2-tailed). ** Relationship is significant at the 0.01 (2-tailed).

Table 4 Multiple Regression Results of KAMs on Stock Prices

Dependent Variable	PRE		Event-Date		POST	
	ß	t-stat (p-value)	ß	t-stat (p-value)	ß	t-stat (p-value)
Panel 1						
Constant	38.278	1.167 (0.047)	38.606	1.196 (0.036)	33.964	1.083 (0.082)
SIZE	-2.667	-0.819 0.415)	-2.628	-0.820 (0.415)	-2.249	-0.719 (0.147)
LEV	2.621	0.709 (0.481)	1.658	0.451 (0.653)	2.203	0.618 (0.538)
LIQ	0.576	0.223 (0.824)	0.579	0.227 (0.821)	0.902	0.362 (0.718)
EPS	11.520	17.251 (0.000)	11.514	17.501 (0.000)	11.501	17.866 (0.00)
F-stat, F-stat Sig.	***92.675, 0.000***		***95.596, 0.000***		***100.247, 0.000***	
∆ F-stat, ∆ F-stat Sig,	***92.675, 0.000***		***95.596, 0.000***		***100.247, 0.000***	
R^2, ∆ R^2	***0.830, 0.830***		***0.842, 0.842***		***0.841, 0.841***	
Adj. R^2,	***0.821***		***0.833***		***0.832***	
Panel 2						
Constant	1.918	0.056 (0.055)	3.773	0.112 (0.012)	-0.798	-0.024 (0.081)
SIZE	0.363	0.104 (0.918)	0.215	0.062 (0.951)	0.444	0.132 (0.896)
LEV	1.785	0.482 (0.631)	0.848	0.229 (0.820)	1.505	0.420 (0.676)
LIQ	0.112	0.043 (0.966)	0.239	0.093 (0.926)	0.513	0.205 (0.839)
EPS	11.500	16.526 (0.000)	11.450	16.667 (0.000)	11.526	17.076 (0.000)
KAM1	5.185	0.589 (0.558)	4.920	0.556 (0.580)	7.025	0.848 (0.400)
KAM2	34.960	2.684 (0.009)	33.236	2.565 (0.013)	29.478	2.463 (0.016)
KAM3	1.251	0.124 (0.902)	2.788	0.275 (0.784)	2.746	0.289 (0.773)
KAM4	-7.736	-0.732 (0.467)	-5.068	-0.468 (0.641)	-7.101	-0.696 (0.489)
KAM5	-2.038	-0.197 (0.844)	-0.485	-0.047 (0.962)	-2.809	-0.258 (0.776)
KAM6	2.541	0.301 (0.764)	0.919	0.109 (0.914)	3.799	0.467 (0.642)
F-stat, F-stat Sig.	***39.729, 0.000***		***42.419, 0.000***		***42.329, 0.000***	
∆ F-stat, ∆ F-stat Sig,	***1.584, 0.165***		***1.469, 0.202***		***1.433, 0.214***	
R^2, ∆ R^2	***0.850, 0.020***		***0.860, 0.019***		***0.858, 0.017***	
Adj. R^2,	***0.829***		***0.839***		***0.838***	

In Table 4, Panel 2 shows that when entering KAMs together with control variables, it is found that KAMs add a minor incremental value to the all-3-period analysis - adjusted R2 increasing only 1% - 2% to the models. In addition, the most influencing of independent variables include earnings per share (EPS) and a provision of doubtful debt (KAM2). The analysis still shows earnings per share (EPS) significantly relates to stock prices in a positive manner in all 3-period analysis. This means that EPS have a strong relationship with stock prices. Furthermore, this means when the listed companies announce their earnings per share, investors will play a higher price. The significant and positive of a provision of doubtful debt means once auditors mention KAMs relating to a provision of doubtful debt, stock prices are more likely to increase. In Table 3, Panel 2 also shows a positive and insignificant of revenue recognition (KAM1), provision for obsolete stock (KAM3), improper liability provision (KAM6) to stock prices. Moreover, the analysis shows a negative and insignificant of property, plant and equipment and investments impairment (KAM4) and goodwill impairment (KAM5).

6. SUMMARY AND CONCLUSION

The audit reports have been considered as one of the best forms of communication between an independent party (i.e. auditors) and financial statement users. This is because the audit process and ethics of auditors have shown the capability of auditors. However, the reports have been little known whether their contents affect the decision of financial statement users, especially investors or not. In response to demand for improvements to the communication value of audit reports, recently the IAASB has revised the new audit reports with the hope that the report will provide informative value to financial statement users. Apart from the new format, key audit matters (KAMs) are the significant paragraph added into the new reports. KAMs are considered as a significant risk of companies which auditors pay special attention to and also arise for financial statement users to take into consideration. However, the question remains that KAMs add information content to financial statements. Therefore, the objective of this study is to investigate the informative value of KAMs on stock prices of the top 100 Thai listed companies. The study employs stock prices, as a dependent variable, to measure investors’ responsiveness when new evidence is added to markets. Independent variables include key audit matters among control variables (size, leverage, current assets/current liabilities and EPS). The study finds out that popular financial ratios significantly influence stock prices. This means investors still consider companies' fundamental as having informative value. KAMs are less likely to provide incremental value to stock prices. This result is consistent with previous research in respect to no significant informative value of audit reports. The study also finds that the potential KAMs providing informative value may be in the areas of asset impairment, such as doubtful debt and goodwill.

The study makes an important contribution to existing literature and important implications for emerging markets and policymakers. The study adds to the limitation of empirical evidence using KAMs as factors to prove informative value of audit reports. The study also supports that financial statements are still useful information for decision making for investment. Also, only limited use or a lack of understanding of audit reports are still an issue.

In term of policy implications, the findings of a high adjusted R^2 of the models of financial rations and stock prices cause concern that management of listed companies are still motivated to "cook the books" or manipulate financial statements, especially earning management to increase or decrease its stock prices. Regulators should pay attention to the volatility of stock price closely when financial information is announced. This is to observe the unusual trend of stock prices because the study finds little information content of KAMs to stock prices. This means investors in emerging markets should be well educated and keep informed about the useful content of KAMs. However, it is still inconclusive to state that KAMs have no useful information to investors. This is because it is still at an early stage of adopting the new audit reports. Investors may need some more time to comprehend KAMs, then a better understanding may arise. Further studies should attempt to clarify that KAMs are informative, not just symbolic using longer periods and different research methodology.

The research has limitations. The first limitation is related to the samples (i.e. Top 100 Thai listed companies) used in the analysis. The further study should employ the whole Thai listed companies. This is to observe the efficiency of an emerging market when news is initially announced. In addition, an event date should be another concern when an exact date of new information should be perceived by financial statements' users. Finally, macroeconomic variables in this study were not controlled; therefore, the influence of these variables on the results of this study is far-reaching.

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APPENDIX 1
Standard wording audit reports

Paragraphs	Thailand (past-1998) (2-paragraph audit reports)	Thailand (1999-2011) (International Standards on Auditing) (3-paragraph audit reports)	Thailand (2012-2016) (International Standards on Auditing) (6-paragraph audit reports)
Address	Auditor's report to the shareholders of X Co.	Auditor's report to the shareholders of X Co.	Auditors' report to the shareholders of X Co.
Introductory Scope paragraph	I have examined the balance sheet of ABC Company as of December 31,19X1, and the related statements of income, retained earnings, and changes in financial position for the years then ended. My examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as my considered necessary in the circumstances.	I have audited the accompanying balance sheet of the ABC Company as of December 31, 19x1, and the related statements of income, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing (or refer to relevant national standards or practices). Those Standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial	I have audited the financial statements of ABC Company as at 31 December 20X1, income statement and statement of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. **Management's Responsibility** Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Thai Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
		statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.	**Auditor's Responsibility** My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Thai Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Paragraphs	Thailand (past-1998) (2-paragraph audit reports)	Thailand (1999-2011) (International Standards on Auditing) (3-paragraph audit reports)	Thailand (2012-2016) (International Standards on Auditing)
			An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. I believe that the audit ev idence I have obtained is sufficient and appropriate to provide a basis for my audit opinion
Opinion	In my opinion, the financial statements referred to above present fairly the financial position of ABC Company as of December 31, 19X1, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.	In my opinion, the financial statements give a true and fair view (or present fairly, in all material respects) the financial position of the Company as of December 31, 19x1, and of the results of its operations and its cash flows for the year then ended in accordance with Thai Financial Reporting Standards.	In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ABC Company as at 31 December 20X1 and its financial performance and cash flows for the year then ended in accordance with Thai Financial Reporting Standards.
Signature	Auditor's signature	Auditor's signature	Auditor's signature
Date	End of fieldwork date and address	End of fieldwork date and address	End of field work and address

APPENDIX 2

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company

Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, (or *give a true and fair view of*) the consolidated financial position of the Group as at December 31, 20X1, and *(of)* its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

● Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

● Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

● Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

● Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

● Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

● Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]