

Management Proficiency, Board Effectiveness and Auditor Quality in Role of Firm Performance

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The main objective of this study is to investigate whether management, boards and auditors relate to firm performance. The study employs earnings before interest and tax (EBIT), representing firm performance as a dependent variable. Three parties, including management, Board of Director (i.e. the executive and audit committee) and auditors, mainly hand on firm performance, are employed as independent variables. Size, leverage ratio and current assets/current liabilities are considered as management proficiency, while percentage of Board of Director meeting attendance and percentage of audit committee meeting attendance are used to measure board effectiveness. Also, key audit matters (KAMs) measure auditor quality. The samples include the common stocks of the top 100 Thai listed companies (SET 100) as a representative of the emerging market. Financial ratios, board information and KAMs incur during 2016 are used in the analysis. Univariate, correlations, and hierarchical multivariate regression models are used in the statistical analysis. When considering which financial ratios influence EBIT, it is found that size is the most positively significant relating to EBIT, followed by leverage ratio. This means that bigger firms are able to generate more EBIT than smaller firms, while firms with higher leverage are more likely to generate EBIT. However, it was found that board effectiveness is not statistically significant with relation to EBIT. In addition, the companies with KAMs mentioning provision for obsolete stock, property plant and equipment impairment, provision for contingent liabilities and provision in insurance businesses also influenced EBIT in a positive manner. This means that once auditors mention the specific KAMs in audit reports, all risks relating to these KAMs have been reduced into investors' acceptable risks. Significantly, this study found that audit quality increases firm performance.

Key words: *Key audit matters, audit report, EBIT, financial ratios, corporate governance.*

Introduction

Prior studies have long discussed whether audit reports add informative value to financial statements. In 2016, ISA 700, a new era of audit reports, introduced new presentation in both format and content. In the new format, opinion paragraphs are presented at the beginning of audit reports rather than at the end, while key audit matters (KAMs) or critical audit matters (CAMs) are newly added content. The new content introduces an opportunity to carry out studies on which areas KAMs contribute to the users of financial statements. One previous study (Boonyanet and Promsen, 2019) found that the new content of audit reports is less likely to add informative value to stock prices. This opened up the opportunity to research which areas KAMs contributes to users of financial statements. This led to the main motivation for this study; to examine whether auditors provide informative value to firm performance.

In addition to KAMs, the process of preparing financial statements involves the participation of three main parties, including management, boards (executive board and audit committee) and auditors. Management is responsible for planning, controlling, decision-making and evaluating performance, while boards set entities' policies and strategies (Garrison, et al. 2018). Auditing standards (i.e. ISA 240 and ISA 315) mention the involvement of auditors in firm performance. Therefore, the present study aims to investigate how all three parties contribute to firm performance.

Earnings before interest and tax (EBIT) is employed to represent firm performance. EBIT is significant information and widely used among financial statements' users. This is because EBIT information provides no concern to various types of capital structures (i.e. no interest expense from sources of funding) and no tax privilege concern. Also, previous research recommended that EBIT provided higher value relevance to the income statement (Barton et al, 2010). In addition, recent studies found that board meeting frequency and attendance added value to firm performance (Chou et al., 2013 and Bric and Chidambaran; 2010). This is because more involvement increased the quality of firm performance. Finally, prior studies (for example, Hussainey, 2009) asserted investors are better able to anticipate future earnings using audit reports. Therefore, all three parties, including management, boards and auditors, influence firm performance.

The remainder of this paper has been organised as follows. The next section reviews related literature. Section 3 describes the problem statement of this study. Section 4 describes the

research method, the process of data collection and its descriptive statistics. Section 4 examines correlations between the proposed word lists and financial indicators. Our conclusions and future research directions are outlined in the final section.

Literature Review

Financial Ratios as Representative of Management Proficiency

The implementation of financial reports can be the simple matter of taking some accounting figures from reports to analyse them for specific purposes. For example, to analyse how a company has done well in its operations in recent years, the current and previous years' net profits are a good source of information. However, using accounting figures (sometimes called absolute value) extracted from financial reports might not make full use of the accounting information. For example, firm size is a variable that might affect comparisons of accounting figures across various industries. Financial ratio analysis is created to overcome this constraint. For this reason, ratios are more likely to be representative of financial reports. This is because ratio analysis provides an idea on estimation of empirical relationships between at least two financial variables. Dev (1974) stated that financial ratios gave representative financial reports in both balance sheets and income statements. Ratios can also be thought of as indicators of the status of fundamental relationships within the business. They are barometers of relationships and business conditions within the organisation. In fact, all financial and operating statistics should be read with a view to determining fundamental relationships. Since then, stakeholders have considered financial ratios to be representative of financial statements indicating management proficiency (Dev, 1974).

Many financial accounting text books, for example, Spiceland et, al. (2019) state that financial ratios measure management proficiency. For example, financial analysts are able to use profitability ratios to investigate earnings persistence and earning quality. In addition, solvency risks could be identified using debt to equity ratio. Therefore, financial ratios are representative of management proficiency.

Board Efficiency in Firm Performance

The principle of corporate governance recommended by OECD states that responsibilities of the board are one of the fundamental concepts of business operations. Responsibilities of the board mean that the effective monitoring of management by the board and the board's accountability to the company and to the shareholders is highly important. Together with guiding corporate strategy, the board is chiefly responsible for monitoring managerial performance and achieving an adequate return for shareholders. Normally, companies' boards include executive boards and audit committees. The main responsibility of the executive

board is to set companies' policies, while audit committees have the responsibility of monitoring and controlling companies' management.

Previous studies were successful in finding that increased meeting attendance of the Board of Directors led to an increase in firm performance. For example, Vafeas (1999) examined the association between board activity and corporate performance by measuring the frequency of board meetings. Their results showed that board meeting attendance is positively correlated to corporate governance level, and positively related to firm value. Brick and Chidambaran (2010) looked at the determinants of board monitoring activity and its impact on firm value and found that board activities have a positive impact on firm performance. Balasubramanian et al. (2010) also found that the number of board meetings are positively related to market value. Chou et al. (2013) investigated board meeting attendance and its effect on the performance of Taiwanese-listed corporations and discovered that higher meeting attendance by directors can enhance firm performance.

Previous studies stated that audit committee meeting attendance increased firm performance. For example, Adel and Maissa (2013) found a positive correlation between the frequency of audit committee meetings and firm performance. Alzeban (2015) and Sultana (2015) found the same association.

Audit Reports in Firm Performance Developments of Audit Reports from Past to Present

In the early twentieth century, British accountants recommended standard wording in official audit reports to the US accounting community. Standard wording has been continuously revised since the first official audit reports (Carmichael and Winters, 1982). The initial format of audit reports started with the two-paragraph standard wording consisting of two main parts: an introduction and an opinion paragraph. The basic format of the three-paragraph standard wording consists of three main parts: an introduction, 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. The scope paragraph is to explain what auditors base their work on. If there is disagreement between the auditors and clients, additional paragraphs can be added following the scope paragraph. Finally, an opinion paragraph is there to express a professional opinion, rather than a statement of fact. The two-paragraph standard wording does not mention the responsibility of the company's management and how auditors perform their audit procedures. The six-paragraph standard wording attempts to further develop upon previous types of audit reports. It consists of six main parts: an introduction, management's responsibility, auditor's responsibility together with an audit scope, and an opinion paragraph.



In 2015, the International Auditing and Assurance Standards Board (IAASB) proposed a new audit for standard financial statement reports 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 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 the opinion. The significant change is the paragraph called “key audit matters” (KAMs). KAMs comprises 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 (IAASB, 2016). The aim of the standards is to provide auditor 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.

Thailand covers audit report evolutions. The first official audit reports recommended by the Institute of Certified Accountants and Auditors of Thailand (ICAAT), now called the Federation of Accounting Professions (FAP) to bear authority about Thai auditing standards were issued in 1975. The first official wording was most likely the two-paragraph wording standards of the US audit reports. Later, in 1999, the ICAAT introduced new auditing standards with three-paragraph audit reports on financial statements. The new three-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 two- to three-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 parallel to the IAASB, which is responsible for issuing international auditing standards. In addition, the new three-paragraph audit reports are internationally recognised (ICAAT, 1998). In 2012, six-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 issued on or after 31 December 2016. This is to help lift Thai accounting to the same international level as in other countries.

Critiques of Audit Reports

The difference between two- and three-paragraph standard wordings mainly concerns identifying auditor and management responsibility. Manson and Zaman (2001) found that three-paragraph standard wordings were successful in aligning the views of auditors and

users. Innes et al. (1997) discovered that the three-paragraph wording reduced the gap between auditors and users by changing users' perceptions so that they did not expect auditors to be responsible for companies. In addition, it is believed that the reason for the change was to improve the quality of audit reports. Before three-paragraph audit reports were introduced, the opinion paragraph tended to use 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.

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 eliminated the compromise opinion from generally accepted auditing standards and acceptable practices (Walance, 1991, p. 86-87). "Subject to" was deleted and the new three-paragraph standard audit reports, which do not allow a "subject to" qualification, were used.

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 pertinent for financial statement users to take into consideration. Stakeholders should not get information in the form of only a binary "pass/fail" opinion. 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. One very important message 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 statement, 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 stakeholders so that they understand the objective of KAMs, and how a matter is determined to be a KAM (EY, 2016).

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 to their responsibilities. Finally, with free-form audit reports, greater disclosure could provide for market competition and cause greater appreciation of auditors' judgements (Hatherley, 1997).

Literature Review on Audit Reports on Firm Performance

It was believed that in efficient capital markets, market prices tend to be influenced by all publicly available information. Consequently, once any new information is released, market prices should react immediately and unbiasedly (Fama, 1970). The research exploring the informative value on stock prices has been carried out over many years (Baskin; 1972, Alderman; 1977 and 1979, Dopuch et al.;1986, Choi and Jeter; 1992, Frost; 1997, Chen et al.; 2000).

After introducing KAMs, studies have been carried out worldwide, with researchers focused on the information content of KAMs. Starting by the study tested the effect of KAMs disclosure of assessment on financial market reactions. The study reveals that there was no effect of the disclosure of assessment on investor decisions. Similarly, Carver et.al, (2017) investigated whether the disclosure of critical audit matters (CAMs) affected the readability of the auditor's report as experienced by non-professional investors, and the information content of disclosing CAMs. The results revealed that the disclosure of CAMs negatively affect the readability of the audit report, and have a limited effect on the informational content for investors.

For markets affected by KAMs, Li (2017) examined the expected benefits of disclosing KAMs. The results showed that the disclosure of KAMs had little impact and the additional information added to the auditor's report is symbolic in nature rather than informative. Lennox et al. (2018) investigated the impact of the disclosure of the material misstatement risk (i.e. KAMs) that had the highest effect in formulating the audit strategy. The study revealed that the disclosure of material misstatement risk does not have informative value to investors. Examined the impact of KAMs on audit effort, audit quality and investors decisions. The results revealed that the disclosure of KAMs has no incremental impact on prices. However, recent research by Altawalbeh and Alhajaya (2019) revealed that the disclosure of KAMs has significantly affected investors' decisions, measured by the abnormal trading volume, which suggests that the mandating of KAM's disclosure has informational value to the investors.

When analysing details of KAMs, the communicative value of the disclosure of KAMs was examined. The study found that if goodwill impairment is led by small changes in key assumptions then the professional investors perceived this situation to be significantly better compared to goodwill impairment led by large changes in key assumptions. On the other

hand, the results revealed that for non-professional investors, KAM does not have communicative value.

In the area of audit reports and firm performance, Banks and Kinney (1982) attempted to discover whether qualifications on audit reports affected firm performance. First, the study compared the earnings of loss contingency qualifications and loss contingency without qualifications. Secondly, the study compared earnings of companies whose accounts were qualified and were disclosed prior to the issuance of the opinions against companies whose accounts were qualified and were not disclosed prior to the issuance of the opinions. The first experimental group had no significant difference in earnings. On the other hand, the second experimental group revealed a marginally significant difference.

Chen et al. (2001) conducted different research using the same database as in 2000, i.e. the Shanghai Stock Exchange. The study compared modified audit reports with return on equity (ROE). The hypothesis of this part of the empirical research stated that, all else being equal, the company that frequently received modified audit reports was positively associated with reporting marginal ROE. A logit model was derived in support of the hypothesis. The frequency of modified audit reports had a significantly negative relationship with ROE.

Instead of keeping the same direction as previous studies by selecting audit report data and then finding the effects of audit reports, Choi and Jeter (1992) observed the slope coefficient of earnings after qualifications were issued. The study found that earnings coefficients were altered subsequent to the issuance of qualifications for both consistency qualifications and “subject to” qualifications.

Frost (1997) conducted research to test whether firms voluntarily disclosing the expected receipt of modified audit reports, prior to the annual report release, would affect stock prices. The study selected 81 UK firms whose accounts were modified for the first time during the sample period 1982–1990. For each modified report, the closest size-matched UK firm in the same industry and fiscal year was selected to be the comparison firm. Financial ratios (net income over accounts receivable, total liabilities over total assets and current assets over total liabilities) were also selected in these firms. The study found that UK firms that received first-time modified audit reports were financially weaker than comparison firms that did not receive modified audit reports.

Problem Statement

Prior studies have attempted to investigate whether auditors add informative value to financial statements. In 2016, the auditing standard setters (i.e. IAASB) introduced new content called “key audit matters” (KAMs). Boonyanet and Promsen (2019) stated that the

KAMs were not factors influencing stock prices. The research question comes up what are information contents of KAMs. This study aims to look for information content of KAMs using firm performance as measurement of KAMs.

Method

This study employs multiple hierarchical regressions in the analysis. Hierarchical regression involves theoretically based decisions about how predictors are entered into the analysis. Simultaneous and stepwise regressions are typically used to explore and maximize prediction, whereas hierarchical regression is typically used to examine specific theoretical hypotheses (Aron & Aron, 1999; B. H. Cohen, 2001). B. H. Cohen (2001) and Wampold and Freund (1987) noted that hierarchical regression has been designed to test specific, theory-based hypotheses. In stepwise and simultaneous regression, a common focus is on determining the “optimal” set of predictors by limiting the number of predictors without significantly reducing the R^2 coefficient. These methods may be used to examine the degree of standardised unit change in the criterion for every standardised unit change in the predictor variable, when holding all other predictor variables in the model constant (at their mean), as indicated by the β coefficient (the standardised partial regression coefficient).

However, in hierarchical regression, the focus is on the change in predictability associated with predictor variables entered later in the analysis, over and above that contributed by predictor variables entered earlier in the analysis. For instance, a researcher may want to know the extent to which measures of positive expectations about counselling and the rate of client attendance predict therapy outcomes over and above pre-existing psychopathology variables. In such cases, hierarchical regression analysis would be appropriate, provided that pre-existing psychopathology variables are entered into the analysis first, followed by positive expectations about counselling and then attendance rate (because pre-existing psychopathology and expectancies precede attendance, this is an important consideration in hierarchical regression - discussed later). Substantive theory is also strongly considered in specifying the order of entry. Change in R^2 (ΔR^2) statistics are computed by entering predictor variables into the analysis at different steps. A predetermined, theoretical plan for the order of predictor variable entry, held at the discretion of the researcher, is imposed on the data. Statistics associated with predictor variables entered in later steps are computed with respect to predictor variables entered in earlier steps. Thus, ΔR^2 and its corresponding change in F (ΔF) and p values are the statistics of greatest interest when using hierarchical regression (Wampold and Freund, 1987). The corresponding ΔF value for ΔR^2 would allow a researcher interested in the example described above to determine if the ΔR^2 statistics due to positive expectations about counselling and attendance rate significantly improve the model’s ability to predict therapy outcome over and above that which can be predicted by pre-existing psychopathology variables. With a focus on

ΔR^2 , rather than on β or structure coefficients (Courville and Thompson, 2001; Thompson and Borrello, 1985), less attention is given to how predictor variables are re-evaluated on the basis of their corresponding β s and structure coefficients when other predictors are added to the analysis, as was often done in stepwise regression. Usually, if a β coefficient associated with a predictor variable is reported in a hierarchical regression study, it is that which was computed for the step in which it was entered. Thus, the reported β of the predictor variable entered in Step 2 is computed while statistically controlling for the variable entered in Step 1; the reported β of the predictor variable entered in Step 1 is not that which is re-evaluated in Step 2. Sometimes, experimenters report all of the coefficients for each variable at each step, including a variable's second, third, or fourth re-evaluated β coefficient. Perhaps this pattern of analysis is evidence of the experimenter's misunderstanding of hierarchical regression or the experimenter's temptation to answer a different question to the one they conducted the analysis for in the first place. In such cases, a simultaneous regression may be more appropriate. However, the choice among methods of multiple regressions depends on the research question being asked, the hypothesis being tested, and the logic behind the research design.

Data Collection

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 to observe the efficiency of management, boards and auditors when KAMs was initially 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, totalling two companies were not included in the dataset .KAMs were manually collected from the Stock Exchange Commission (SEC) website .The data on stock prices and financial information were retrieved from SETSMART (SET Market Analysis and Reporting Tool)

Study Model

The study specifies the multiple regression model (below) to examine the relationship between EBIT and financial ratios, board frequency meeting and key audit matters of the top 100 Thai listed companies .

This study employed financial ratios representing management proficiency including total assets, leverage ratios, and liquidity ratio. It is well-known that firm size has an effect on EBIT because investors consider bigger firms have greater 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 long-term solvency in

general, the more leveraged and higher amount of debt financing relative to equity financing, the greater risk to the owner. Liquidity ratio focuses on a firm's ability to meet its short-term debt obligations. In other words, the ratio shows the ability to pay its current obligations 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. These variables have been identified based on prior studies. The study also employed both executive and audit committee board meeting attendance. Practically, these boards are responsible for setting policy and monitoring entities' operations. Prior studies showed that board meeting attendance is positively related to firm performance. Finally, the study intends to investigate the information content of KAMs which are disclosed by auditors. The multiple regression equation of this study shows below:

$$EBIT_{it} = \beta_0 + \beta_1 SIZE_{it} + \beta_2 LEV_{it} + \beta_3 LIQ_{it} + \beta_4 BDM_{it} + \beta_5 ACM_{it} + \beta_6 KAMs1_{it} + \beta_7 KAMs2_{it} + \beta_8 KAMs3_{it} + \beta_9 KAMs4_{it} + \beta_{10} KAMs5_{it} + \beta_{11} KAMs6_{it} + \beta_{12} KAMs7_{it} + \beta_{13} KAMs8_{it} + \beta_{14} KAMs9_{it} + \varepsilon$$

The definition of variables in this study are shown in Table 1

Table 1: Variable definitions

EBIT	Earnings before interest and tax scaled by market value of common equity
SIZE	Total asset
LEV	Debt to Equity
LIQ	Current Assets/Current Liabilities
BDM	Percentage of Board of Director Meeting Attendance
ACM	Percentage of Audit Committee Meeting Attendance
KAM1	Revenue Recognition =1; otherwise, 0
KAM2	Provision for Doubtful Debt =1; otherwise, 0
KAM3	Provision for Obsolete Stock =1; otherwise, 0
KAM4	Property Plant and Equipment Impairment =1; otherwise, 0
KAM5	Goodwill Impairment = 1; otherwise, 0
KAM6	Intangible Assets = 1; otherwise, 0
KAM7	Investment Impairment = 1; otherwise, 0
KAM8	Provision for Contingent Liabilities =1; otherwise, 0
KAM9	Provision in Insurance Businesses =1; otherwise, 0

Results and Discussion

In Table 2, Panel A, B and C show descriptive statistics of the basic dataset of information in this study. It is noted in Panel A that the top 100 listed companies in the Stock Exchange of Thailand include property and constructions, services and finance companies. The main types of these companies indicate fundamental businesses of developing countries. Also, the businesses indicate potential economic growth in the country.

In Table 2, Panel B shows financial ratios employed as independent variables. It is noted that if the analysis found multicollinearity problems, natural log (\ln) was employed to solve the problem. The lower line of the variables indicated (\ln) means that the upper line incurred a multicollinearity problem. It is found that the total assets of the Top 100 Thai listed companies range from 1,236 million – 2,944 billion baht at an average of 248 billion baht. Debt to equity (LEV) ratios range from 0.12 – 9.44 times, at an average of 2.09 times, while current ratios to current liabilities (LIQ) range from 0.18 – 9.97 times, at an average of 1.89 times. These financial ratios indicate reasonable financial status of the top 100 Thai listed companies. For proxies representing board efficiency, it was found that executive board members participate in meetings ranging from 70.45% - 100%, at an average of 92.83% attendance, while audit committee members participate in meetings ranging from 60.61 – 100%, at an average of 94.67%. This level of board participation is considered quite effective.

In Table 2, Panel C shows the KAMs issued in the new audit report of the top 100 Thai listed companies. It is found that auditors mostly focus on risks of revenue recognition and asset impairment including investments, goodwill, provision for obsolete stock, provision for doubtful accounts as well as provision for contingent liabilities.

Table 2: Panel A

Industry	Numbers
Agro and Food Industry	6
Financials	15
Industrial	3
Property and Construction	25
Resources	18
Services	22
Technology	9
Total	98

Table 2: Panel B

	Minimum	Maximum	Mean	S.D
EBIT (Million Baht)	-500.13	181,629	9,217.02	21,547.94
<i>ln</i> EBIT	42.90	12.11	8.16	1.37
SIZE (Million Bath)	1,236	2,944,230	248,819	608,210.36
<i>ln</i> SIZE	7.12	14.90	10.94	1.66
LEV (Times)	0.12	9.44	2.09	2.29
<i>ln</i> LEV	-2.14	2.25	0.24	1.01
LIQ (Times)	0.18	9.97	1.89	1.62
<i>ln</i> LIQ	-1.71	2.30	0.36	0.74
BDM(%)	70.45	100	92.83	7.33
ACM(%)	60.61	100	94.67	8.69

(31 Baht =US\$1)

Table 2: Panel C

Types of Key Audit Matters	Numbers of KAMs
Revenue Recognition (KAM1)	49
Provision for Doubtful Debt (KAM2)	22
Provision for Obsolete Stock (KAM3)	24
Property Plant and Equipment Impairment (KAM4)	17
Goodwill Impairment (KAM5)	26
Intangible Assets (KAM6)	18
Investment Impairment (KAM7)	24
Provision for Contingent Liabilities (KAM8)	12
Provision in Insurance Businesses (KAM9)	9
Remark: KAMs could be mentioned in audit reports more than one of each company	

Table 3 shows the Pearson Correlations among variables of this study. It was found that the dependent variable, EBIT, statistically correlates with financial ratios and key audit matters, but not with board meeting attendance frequency. For financial ratios, total assets (SIZE) and leverage highly correlate to EBIT at a 0.01 significance level, while goodwill Impairment (KAM5) and provision for contingent liabilities (KAM8) highly correlate to EBIT at 0.01 and 0.05 significance level, respectively. The overall conclusion drawn from Table 3 is that there is no indication or concern of multicollinearity because there is low correlation among independent variables.

Table 3: Pearson Correlation of Variables

Variables	EBIT	SIZE	LEV	LIQ	KAM1	KAM2	KAM3	KAM4	KAM5	KAM6	KAM7	KAM8	KAM9	BDM	ACM
EBIT	1														
SIZE	0.549**	1													
LEV	0.333**	0.197	1												
LIQ	0.019	-0.047	-0.580**	1											
KAM1	-0.161	-0.247*	-0.008	0.049	1										
KAM2	0.063	0.208*	0.373*	0.067	-0.055	1									
KAM3	0.025	0.023	-0.165	0.183	0.149	-0.025	1								
KAM4	0.162	-0.120	0.022	-0.003	0.022	0.185	0.139	1							
KAM5	0.207*	0.316**	0.050	-0.161	0.286**	0.050	0.131	0.095	1						
KAM6	0.027	0.050	-0.085	-0.091	-0.058	-0.259*	-0.151	0.129	0.010	1					
KAM7	-0.067	-0.022	-0.117	-0.024	-0.006	0.253*	-0.163	-0.076	0.085	-0.028	1				
KAM8	0.291**	0.057	0.098	0.149	0.247*	-0.129	0.002	-0.008	-0.086	0.018	0.002	1			
KAM9	0.184	0.006	0.112	0.072	0.110	0.166	0.101	0.147	0.033	0.061	0.101	0.012	1		
BDM	-0.162	-0.123	-0.019	0.133	0.021	0.023	0.109	-0.105	0.054	0.119	-0.095	0.011	-0.113	1	
ACM	0.079	0.192	-0.175	0.125	-0.199	-0.045	0.094	-0.127	0.046	0.080	-0.361**	0.035	-0.071	-0.011	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 shows the hierarchical multiple regression results of financial ratios, board meeting frequency and key audit matters on EBIT.

In Table 4, Model 1, the analysis starts by analyzing the relationship between financial ratios and EBIT for the top 100 Thai listed companies. The multiple regression results show that the adjusted R^2 of is 20.5%. When considering which financial ratios influence EBIT, it is found that size significantly relates to EBIT at 0.01, followed by leverage ratio (LEV) at 0.02 and liquidity ratio (LIQ) at 0.122, in a positive manner. This means that bigger firms are able to generate more EBIT than smaller firms, while firms with higher leverage are more likely to generate EBIT. On the other hand, liquidity ratios have no statistical association with EBIT.

In Table 4, Model 2, the analysis added board meeting frequency (i.e. executive board and audit committee) into the analysis. The multiple regression results show that the adjusted R^2 is 22.1%. The adjusted R^2 increase from Model 1 equals 0.016, which is very minor. The analysis shows that financial ratios SIZE and LEV still significantly relate to EBIT at 0.002 and 0.022, respectively. However, it was found that board meeting frequency was not statistically significant in relation to EBIT.

In Table 4, Model 3 shows that, when entering KAMs into the model, it is found that KAMs add almost twice to the adjusted R^2 , increasing it from 22.1% to 43.0 .%SIZE is still most likely to relate to EBIT, while board meeting frequency has no influence on EBIT. Provision for Obsolete Stock (KAM3), Property Plant and Equipment Impairment (KAM4), Provision for Contingent Liabilities (KAM8) and Provision in Insurance Businesses (KAM9) are statistically significant to EBIT, ranging from 0.006 to 0.050 significance levels in a positive manner.

Table 4: Hierarchical multiple regression results

Dependent Variable	EBIT	
	β	t-stat (p-value)
Model 1		
Constant		0.341 (0.734)
SIZE	0.297	3.657 (0.000)
LEV	0.473	2.241 (0.028)
QUICK	0.358	1.567 (0.122)
<i>F-stat, F-stat Sig.</i>	6.293, 0.001	
<i>Durbin-Watson</i>	1.768	
<i>Adj .R²</i>	0.205	
Model 2		
Constant		0.619 (0.538)

SIZE	0.278	3.301 (0.002)
LEV	0.531	2.343 (0.022)
QUICK	0.341	1.474 (0.145)
BDM	-0.018	-1.036 (0.304)
ACM	0.011	0.625 (0.534)
<i>F-stat, F-stat Sig.</i>	4.017, 0.003	
<i>Durbin-Watson</i>	1.768	
<i>Adj .R²</i>	0.221	
Model 3		
Constant		0.322 (0.748)
SIZE	0.271	3.062 (0.003)
LEV	0.234	1.009 (0.317)
QUICK	0.109	0.473 (0.638)
BDM	-0.009	-0.505 (0.616)
ACM	0.004	0.190 (0.850)
KAM1	0.145	0.471 (0.639)
KAM2	-0.653	-1.494 (0.140)
KAM3	0.687	1.976 (0.050)
KAM4	1.026	2.746 (0.008)
KAM5	0.581	1.712 (0.092)
KAM6	0.141	0.402 (0.689)
KAM7	0.095	0.258

		(0.798)
KAM8	1.166	2.714 (0.009)
KAM9	1.051	1.869 (0.006)
<i>F-stat, F-stat Sig.</i>	3.347, 0.001	
<i>Durbin-Watson</i>	1.768	
<i>Adj .R²</i>	0.430	

The descriptive analysis indicates that the most common disclosure when auditors issue KAMs is revenue recognition. This is consistent with the study in the UK and Ireland (FRC, 2016). Understandably, revenue recognition is one of the earnings management areas of financial statements where management seems to manipulate revenue amounts, as expected by auditors. For this reason, auditors trend to show that they design audit procedures to reduce the risks of revenue recognition into an acceptable level. This is to reduce the expectation gap by paying attention to revenue recognition issues. Apart from the revenue recognition issue, auditors seem to pay attention to impairment of assets, especially goodwill, accounts receivable, inventory and investments. Asset impairment is another issue of earning managements. According to accounting standards, management is allowed to use its own judgement when asset impairment becomes the issue. Therefore, auditors put effort into performing audit procedures that verify those estimations.

The empirical analysis shows that SIZE (total assets) is most likely to relate to EBIT. Some KAMs, such as provision for obsolete stock, property plant and equipment impairment, provision for contingent liabilities and provision in insurance businesses, are statistically significant to EBIT. However, for both executive and audit committee boards, meeting frequency had no influence on EBIT. Consistent with prior studies, SIZE (total assets) is most likely to relate to EBIT. This is because bigger firms always have economies of scale and cost of funds seems to be lower than small firms have.

In addition, KAMs relating to provision for obsolete stock, property plant and equipment impairment, provision for contingent liabilities and provision in insurance businesses were positively statistically significant in relation to EBIT. This study showed that auditors pay attention to assets which are more like to be impaired and highest value by putting more effort in these areas. Simultaneously, financial statements' users in emerging markets focus on asset impairment and off-balance sheet time. Then, auditors attempt to reduce the expectation gap by performing their work on these issues. In addition, the study indicates that when auditors disclose KAMs on these issues, EBIT is more likely to increase. In other words, auditors extend their audit scope to reduce the risk of these issues to acceptable level. In addition, EBIT is clear from these issues. Therefore, KAMs are "good news to financial

statements” users. This result is consistent with the work of Altawalbeh and Alhajaya (2019), who state that KAMs have informative value to financial statements’ users.

However, this study did not find that board meeting frequency increases EBIT, which is consistent with prior studies by Hamdan et al. (2013), Aanu et al. (2014) and Zhou et, al. (2018). Recent research argues against the concept that boards add value to companies, especially in emerging markets and in Far East countries. This is because, in these environments, major shareholders are more likely to promote family members to head executive boards. In addition, executive boards are entitled to approach both the audit committee and the CEO. In other words, major shareholders are able to control business operations at all levels. Within this tradition, no clear responsibility has been delegated. This may therefore be the reason that board meeting frequency has no value to firms.

Conclusion

Previous studies have attempted to find out which factors influence firm performance. This study employed three groups of factors including financial ratios, corporate governance and KAMs mentioned in audit reports. Financial ratios included total assets, debt to equity ratio and liquidity ratio, while board meeting frequency represented good corporate governance of entities. The study mainly focused on KAMs, and whether they added information content to financial statements, as well as which KAMs influenced firm performance. Therefore, the objective of this study was to investigate the informative value of KAMs on firm performance of the top 100 Thai listed companies .The study employed earnings before interest and tax as a dependent variable. It found that popular financial ratios significantly correlate to EBIT .This means investors consider companies ’fundamental as having informative value of EBIT. Unfortunately, board meeting frequency was not found to correlate with a relationship to EBIT. Finally, some KAMs correlated to EBIT, including provision for obsolete stock, property plant and equipment impairment, provision for contingent liabilities and provision in insurance businesses.

The findings of this study make an important contribution to existing literature and have important implications for emerging markets and policymakers .The study adds weight to the limitation of empirical evidence using KAMs as factors to prove informative value of audit reports . The study also supports the view that KAMs should be one source of information in considering firm performance. This is because KAMs are significant risks of companies which auditors put special attention and effort to audit these risks. It is believed that once KAMs have been identified and auditors perform significant audit procedures, identified risks should be changed from “bad news” to “good news”. Therefore, firm performance should increase once risks are identified and auditors have already responded to those risks. KAMs should add informative value to financial reporting quality.



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