



# The Key Audit Matter (Kam) Practices: The Review of First Year Experience in Thailand

Asst. Prof. Thanyawee Pratoomsuwan\*

Asst. Prof. Orapan Yorabil, Ph.D.\*\*

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## Abstract

In response to concerns regarding the informativeness of the auditor's report, audit standard setters around the world have developed several changes to the current pass/fail audit reporting model. One of the most significant changes is the inclusion of Key Audit Matter (KAM) in the auditor's report. This new auditing standard is now effective in many countries, Thailand being one of them. The objective of this paper is to explore the extent of KAM analysis and its various elements, and the contents that are being disclosed for the first time in Thailand. The study reported that the auditors utilize KAM as communication channel to convey additional information in the auditor's report. The format and content of KAM vary across firms. Many audit firms have developed different approaches to the reporting of the KAM, for example, reporting audit findings, presentation of KAM, and the length of KAM. The results of this study should provide preliminary insights about the implementation of these changes to both standard setters and users of financial statement.

**Keywords:** Key audit matter, auditor's report, information content, format presentation, content analysis, Thailand

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\* Business Division, Mahidol University International College, Email: thanyawee.pra@mahidol.ac.th

\* Thammasat Business School, Thammasat University, Email: thanyawee-pra56@tbs.tu.ac.th

\*\* Thammasat Business School, Thammasat University, Email: orapan@tbs.tu.ac.th



## การเปิดเผยเรื่องสำคัญในการตรวจสอบในรายงานผู้สอบบัญชี: การศึกษาแนวทางปฏิบัติในปีแรกของการบังคับใช้ในประเทศไทย

ผศ.ฉัญวี ประทุมสุวรรณ\*

ผศ.ดร.อรพรรณ ยลระบิล\*\*

### บทคัดย่อ

เนื่องจากการวิพากษ์ถึงการสื่อสารข้อมูลส่วนเพิ่มที่เป็นประโยชน์ในรายงานผู้สอบบัญชี หน่วยงานกำกับและกำหนดมาตรฐานการสอบบัญชีจึงได้ปรับเปลี่ยนการนำเสนอรายงานของผู้สอบบัญชีในหลากหลายด้าน ซึ่งแตกต่างจากการรายงานของผู้สอบบัญชีที่เคยนำเสนอมาในอดีตที่ระบุเพียงว่างบการเงินนำเสนอฐานะการเงิน ผลการดำเนินงานและกระแสเงินสดของกิจการโดยถูกต้องตามที่ควรหรือไม่ การเปลี่ยนแปลงที่สำคัญอย่างหนึ่งคือการเพิ่มวรรค “เรื่องสำคัญในการตรวจสอบ” ในรายงานผู้สอบบัญชี เพื่อสื่อสารข้อมูลส่วนเพิ่มที่เป็นประโยชน์ที่ผู้สอบบัญชีพบในระหว่างการตรวจสอบงบการเงิน ทั้งนี้รายงานของผู้สอบบัญชีรูปแบบใหม่มีผลบังคับใช้ในหลายประเทศทั่วโลก รวมถึงประเทศไทย ด้วย วัตถุประสงค์ของการศึกษานี้ เพื่อศึกษารูปแบบ องค์ประกอบ และประเด็นที่รายงานในวรรคเรื่องสำคัญในการตรวจสอบของบริษัทจดทะเบียนในตลาดหลักทรัพย์แห่งประเทศไทย ผลการศึกษาพบว่าผู้สอบบัญชีได้ใช้ช่องทางนี้สื่อสารข้อมูลสำคัญที่พบในการตรวจสอบ บริษัทสอบบัญชีมีการนำเสนอข้อมูลในรูปแบบที่มีความแตกต่างและหลากหลาย เช่น จำนวนและรายละเอียดของเรื่องสำคัญในการตรวจสอบที่รายงาน และการนำเสนอผลการตรวจสอบในเรื่องดังกล่าว ผลการศึกษานี้สามารถให้ข้อมูลเบื้องต้นเกี่ยวกับการนำเสนอข้อบังคับใหม่มาถือปฏิบัติและได้ให้ความรู้เกี่ยวกับการเพิ่มวรรคเรื่องสำคัญในการตรวจสอบในรายงานผู้สอบบัญชีด้วย

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\* ภาควิชาบริหารธุรกิจ วิทยาลัยนานาชาติ มหาวิทยาลัยมหิดล, Email: thanyawee.pra@mahidol.ac.th

\* คณะพาณิชยศาสตร์และการบัญชี มหาวิทยาลัยธรรมศาสตร์, Email: thanyawee-pra56@tbs.tu.ac.th

\*\* คณะพาณิชยศาสตร์และการบัญชี มหาวิทยาลัยธรรมศาสตร์, Email: orapan@tbs.tu.ac.th



## 1. Introduction

The audit report appears to be the only public channel that auditors use to communicate their opinions and concerns on the accuracy and completeness of a firm's financial statements and disclosures. Auditors are perceived as serving several roles in capital markets as they are expected to have insightful perspectives about the firms, which they can pass on to the financial statement users (Dodd, Holthausen, & Leftwich, 1984; O'Reilly, Leitz, & Tuttle, 2006). The long standing debate in auditing literature concerns the usefulness of the auditor's report, in particular, whether the auditor's report provides users with information that they can use in the decision making process. The Auditing Standard Committee of the Audit Section of the American Accounting Association noted in their report that the current content of the auditor's report did not provide sufficient information on how auditors use their judgment and professional skepticism in order to form their opinions. Following the global financial crisis, the quality of audits and their credence amongst the audit profession have been placed in the spotlight by the public (IAASB, 2011). Recent discussions, public consultations, and research studies have generated a significant body of information regarding the level of assurance and the usefulness of the information provided in the auditor's report (IAASB, 2011; Gray, Turner, Coram, & Mock, 2011; Asare and Wright, 2012; Mock et al., 2013). The issue of the informativeness of the auditor's report was formerly raised in a study from Healy and Palepu (2001). They suggested that the role of auditors as enhancer of the credibility of financial reports was lacking. Whilst investors valued the auditor's opinion on the financial statement, they appear to ignore the rest of the auditor's report due to its boilerplate (pass/fail) structure (Asare and Wright, 2012). Concern as to whether the auditor's report has the necessary information content remains an on-going policy question to this day.

As users' demand further insights into audits beyond the pass/fail evaluation, standard setters around the world (for example, the U.S. Public Company Accounting Oversight Board (PCAOB) in the United States, the Auditing Practices Board (APB) of the UK and Ireland and the European Commission (EC) in the EU, and the International Auditing and Assurance Board (IAASB)) have proposed several changes to the current audit reporting model in an attempt to make the auditor's report more insightful and transparent. As a result, this has led to the introduction of a separate section in the auditor's report designated as "**Key Audit Matter**" (KAM); which aims to communicate matters that auditors perceive to be complex, subjective, and difficult to obtain the evidence and evaluate it effectively. All of which require the auditors to make significant judgments. Aligning itself with the international auditing standard, the Federation of Accounting Professions (FAP) of Thailand utilized the new auditing reporting model, which came into effect for the period ended on or after 15<sup>th</sup> December 2016. Currently, several studies in Thailand have examined different aspects of the



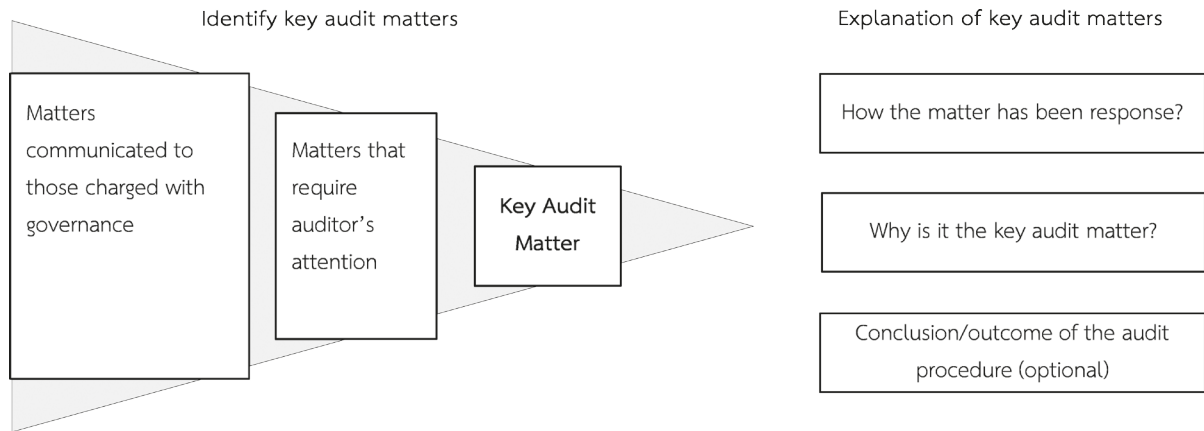
new auditor's report. For example, the survey conducted by the Federal of Accounting Profession of Thailand (FAP) aim to examine the perceptions of the several stakeholders (i.e. auditors, audit committee, accountant, analysts, CFO and CEO) on KAM disclosures. In 2016, the FAP surveyed 107 certified auditors from various business sectors about the KAM. They indicated that the top five KAMs are revenue recognition (not related to fraud), inventory valuation, investment valuation, and asset impairment (not goodwill) respectively. The findings also suggested having KAM disclosures should increase the information content of the auditor's report, but it also creates some concerns on information being disclosed (FAP, 2016). In addition, there were several studies that highlight the auditor's report changes (Tangruengrat, 2015; Srijanpetch, 2014; 2015). The objective of this study is to provide stakeholders the insight of KAM by exploring the extent of the KAM analysis and its characteristics that are currently being disclosed for the first time in the auditor's reports in Thailand. Specifically, it attempts to provide the findings on how the requirement of the new auditing standard has been implemented in practice, which areas have been identified as key audit matters and how they have been addressed. Recently, the FAP published the book to report the KAM practices in Thailand, providing mountain of KAM examples that have been discussed in the auditor's report abroad. The results from this study should further contribute to existing early KAM literature in Thailand. It is worthwhile to note that this is a study of auditor's report snapshot focusing only on the KAM and does not intend to investigate its antecedents nor consequences.

## 2. Literature Review

### 2.1 The new auditor's report

The implementation of new auditor reporting standard has made several significant changes to current auditor's report. The new auditor's report is expected to demonstrate the value and relevance to the audit and build trust in the audits and financial information. Several proposed changes that were introduced besides the provision of the KAM section include improving the clarification of the auditor's responsibility, restructuring the audit opinion placement, disclosure of the auditor's tenure, and revealing the audit partner's names. However, the most powerful aspect of the new audit reporting model is the inclusion of the KAM, which as proposed by the accounting standard bodies. Figure 1 depicts the process of KAM identification and its explanation in the auditor's report. KAMs are those matters that required significant auditor's attention in performing the audit. In general, KAMs are the matters selected from the matters communicated with those charged with governance. Auditors are required to identify the KAMs and explain why they are the KAMs. They also have to address how do they response to the KAMs. The auditing standards, however, are relatively flexible in terms of the length as well as the format of KAM presentation. The outcome of the audit procedures is also voluntary.





**Figure 1** The identification and explanation of key audit matter in the auditor’s report

KAM is expected to prominently increase the information and communication between auditors and users as well as between the users and the business entity (PCAOB, 2016). However, it does not mean that auditors provide piecemeal assurances on particular areas that are the focus of KAM. Also, the identification of KAM should not lead to changes in the auditor’s opinion on the overall financial statements. The new auditing standard, ISA 701 (TAS 701) Communicating Key Audit Matters in the Independent Auditor’s Report, provides the guidelines as to how KAM should be constructed and communicated in the auditor’s report. A standardized introductory message to inform users about KAM should be stated before each of the matters are discussed individually. In many cases, the KAM generally involves an asset’s impairment, the valuation of financial instruments, and other areas in which estimations are difficult to make; for example, revenue recognition relating to long-term contracts and impairment of long-term assets (IAASB, 2015).

When identifying KAM, auditors are required to lay out the reasons why these matters were critical, and the audit processes they used in order to address those matters. In addition, they also have to highlight the underlying financial statement accounts and their disclosures in the notes (if any) that relate to the specified KAM in the auditor’s report (ISA 701). The auditors also need to communicate to users if there are no KAM; they must explicitly state in the KAM section that no KAM were identified during the audit. KAM could be refrained from the auditor’s report if it is precluded by any law, or the costs of disclosing the KAM outweigh its benefits (ISA 701). Moreover, the KAM description should be fact-based, specific to each company, concise, free of jargon, and detailed enough to be understood (KPMG, 2015). Figure 2 below compares the differences between the old and the new auditor’s report. When comparing the auditor’s report, the new auditor’s report has been restructured to put audit opinion and firms’ specific information at the beginning of the report and standardized wording in the report, such as, auditors and management responsibility, is placed at the end.

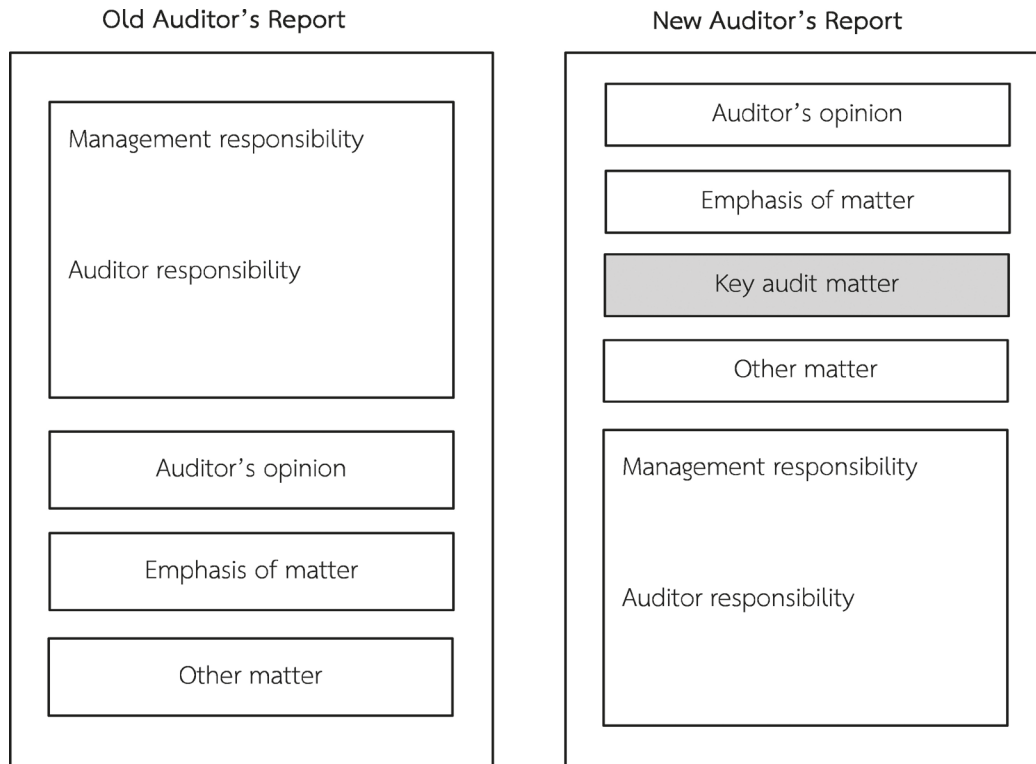


Figure 2 Comparison of information and placement between old and new auditor's report

## 2.2 Format Presentation and Investor's Judgment

Accounting standards are generally flexible in the format of their disclosures. However, the decision to allow different format choices could prevent the standard's objective being achieved. Archival research studies reveal that the format of accounting disclosures influences the investors' interpretation of the information (Koonce and Mercer, 2005). For example, Cotter and Zimmer (2003) suggest that investors value information that is recognized in the financial statements themselves, rather than disclosed in the footnotes, when making their decisions. One of the economic explanations is that the information that is being disclosed in the financial statement, signals its significance. In addition to the economic explanations, psychological theories indicate the importance of the variations of format on the investors' decision making process. Based on psychological research, people often make decisions using heuristics because they have limited cognitive ability to process all of the information. Specifically, psychology suggests that the differences in format influence the ease of which information is processed by the investors, and that a certain format could lead to different cognitive processing and as a result an unconscious biased judgment (Koonce and Mercer, 2005 and Rennekamp, 2012). The format effect has generally been investigated in terms of its information processing fluency, readability, and in its presentation. Information that is fluently processed will make it easier for people to incorporate it into their judgment. For example, Maines



and McDaniel (2000) argue that the way accounting information is presented can greatly ease the processing of that information. They particularly examined the way differences in comprehensive-income formats affected the investor's decision by making the comprehensive income more salient through the use of labeling. Their findings suggest that investors tend to incorporate more salient comprehensive income information in their judgment, because it highlights the significance of information and reduces their cognitive burden by not having to process lengthy information. The effect of presentation salience is also evidenced in terms of placement. People are more likely to recall the information that is located at the beginning, or the end of the document (Hogarth and Einborn, 1992 and Tan and Tan, 2009), or displayed graphically (Dilla, Janvrin and Jeffery, 2013). Furthermore, it is argued that the format effect depends on people's knowledge level and experience (Dilla, Janvrin and Jeffery, 2013). Dilla, Janvrin and Jeffery (2013) argue that less knowledgeable decision makers tend to focus on an overview of data and consider all of the information, but those who are more knowledgeable will search for specific information. Therefore, a tabular presentation that underlines a limited number of specific items, should draw more attention from the less knowledgeable decision makers.

Because the format of KAM disclosure is flexible, there might be variations in format presentation of KAM in the auditor's report. For example, some, some auditors choose to report materiality and provide the conclusion or outcome of the audit procedure in the KAM while others did not. Figure 3 demonstrate how the materiality and KAM are introduced in the auditor's report in comparison to the narrative KAM introductory language. The reform of auditor's report does not only increase its information content but also brings a more innovative way of reporting to catch users' attention as well as highlight what is important for the them.



**My audit approach - overview**

**Materiality**

Overall materiality: USD 16.0 million which represents 5% of Company's profit before tax.

The overall materiality is determined from profit before tax in USD which is the Company's functional currency as described in the accounting policy in Note 2.3 (a).

**Audit scope**

I conduct full scope audit work of the Company which engages the operation of a petroleum refinery in Thailand.

**Key audit matters**

I identified the following key audit matters:

- Revenue recognition
- Related party transactions

**Key Audit Matter**

Key audit matter is the matter that, in my professional judgement, was of most significance in my audit of the financial statements of the current period. This matter was addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on this matter.

I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report, including in relation to this matter. Accordingly, my audit included the performance of procedures designed to respond to my assessment of the risks of material misstatement of the financial statements. The results of my audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements as a whole.

Key audit matter and how audit procedures respond for the matter are described below.

**Figure 3** Example of auditor's report that contained materiality and narrative introductory language  
*Source: Extraction of KAM from the auditor's report of the company from resource industry*

Moreover, some auditors may use a tabular presentation, whilst others may prefer to use narrative, in order to highlight the risks of material misstatement, along with an explanation of how they are addressed during the audit (See appendix 1, 2 and 3). These format differences could have an effect on how people process and evaluate KAM information.



### 3. Methodology and Sample

The review encompasses 640 auditor's reports of the listed companies in the Thai Stock Exchange of Thailand (SET); for both the SET and the Market Alternative Investment (MAI) KAM disclosure is mandatory as of March 2017, the first year of new auditor's report to include the KAM as separated section. 401 of the 640 companies are audited by the four largest auditing companies (i.e. the Big 4). The sample includes a wide range of industries; agro and food industry, consumer products, financials, industrials, property and construction, resources, services, and technology. Table 1 shows the auditor's reports of different markets, auditors, and industries. The classification of sample into SET index, which are 100, NON-SET 100 and MAI is based on the Stock Exchange of Thailand (SET)'s criteria. The SET 100 include the listed companies whose paid-up capital exceeds three-hundred million Baht after the initial public offerings. Their stock prices are among 100 respectively in terms of large market capitalization, high liquidity, and compliance with requirement regarding the distribution of shares to minor shareholders ([www.set.or.th](http://www.set.or.th)). For MAI, these are small- and medium-sized companies with paid-up capital over two-hundred million Baht after the initial public offerings. From the index guideline, these three groups should clearly demonstrate the differences in their firm sizes. Since, firms listed as SET 100 index are subjected to the periodic review by SET, the classification in this study is updated as of March 2017. The data elements in this study include the content (i.e. topic of KAM) and presentation (i.e. format, length and amount) of KAM in which they will be analyzed in section 4.



Table 1 Sample

Panel A: By Audit Firm				
Auditor	SET 100	NON-SET 100	MAI	Total
<b>Big 4</b>				
Deloitte	7	19	3	29
EY	34	140	34	208
KPMG	21	57	8	86
PWC	19	42	17	78
<b>Total Big 4</b>				<b>401</b>
<b>Non-Big 4</b>				<b>239</b>
<b>Total</b>				<b>640</b>

Panel B: By Industry				
Industry	SET 100	NON-SET 100	MAI	Total
Agro and Food Industry	7	39	8	54
Consumer Product	0	35	10	45
Financials	14	42	7	63
Industrials	2	71	30	103
Property and Construction	21	106	16	143
Resources	18	21	12	51
Services	23	75	34	132
Technology	9	29	11	49
<b>Total</b>	<b>94</b>	<b>418</b>	<b>128</b>	<b>640</b>

## 4. Results and Discussion

### 4.1 The Reporting of Key Audit Matter

There are a number of KAMs of material misstatement as disclosed by the auditors. Table 2 below illustrates the analysis of KAM by industry.



**Table 2** Analysis of KAMs by industry

Panel A: Number of KAMs Reported					
Industry	Number of KAMs Reported		Average Number of KAMs/firm	Highest Number of KAMs Reported	Lowest Number of KAMs Reported
	Total	Percent (%)			
Agro and Food Industry	105	8.54	1.94	4	1
Consumer Product	81	6.59	1.80	5	0
Financials	143	11.63	2.27	5	1
Industrials	171	13.90	1.66	4	0
Property and Construction	263	21.38	1.84	5	0
Resources	92	7.48	1.80	4	1
Services	263	21.38	1.99	5	1
Technology	112	9.11	2.29	5	1
<b>Total</b>	<b>1230</b>	<b>100</b>	<b>1.92</b>	<b>5</b>	<b>0</b>

Panel B: Average Number of KAMs Reported by Audit Firms					
Industry	Deloitte	EY	KMPG	PWC	Others
Agro and Food Industry	1.00	2.08	2.20	1.71	1.67
Consumer Product	1.50	2.55	1.75	1.33	1.64
Financials	1.63	2.68	2.75	1.60	1.97
Industrials	1.00	2.00	1.56	1.43	1.75
Property and Construction	2.75	2.15	1.68	1.40	1.74
Resources	2.50	2.00	1.88	1.68	1.68
Services	3.00	2.32	1.82	1.81	1.96
Technology	2.40	2.59	1.40	1.83	2.31
<b>Total</b>	<b>2.07</b>	<b>2.29</b>	<b>1.80</b>	<b>1.63</b>	<b>1.72</b>

Panel C: Analysis of KAM by Audit Firm			
	Mean	Mean Difference	p-value
Big 4	2.04	0.323	<0.001*
Non-Big 4	1.72	0.323	<0.001*



The statistics show that industries that reported high number of reported KAMs include property and constructions, services, industrials and financials. Panel A of table 2 provides the analysis of KAM for each industry. On average, companies that operate in the financial industry disclose highest number of KAMs while the industry with lowest KAMs disclosed is the industrial sector. The interesting finding from the range is that companies operating in the same industry may not always result in the similar number of KAMs reported by the auditors. Within the same industry, the KAM could range from 0 to 5. This indicates that companies which are expected to share the same industry risk could have different number or topic of KAM. This is a positive sign as it could imply that auditors, in fact, use their professional judgment to tailor made the KAM to be not only industry-specific, but also firm-specific.

The result in Panel C show that, amongst the Big 4, Ernst and Young (EY) disclosed the highest number of KAMs, whereas the PriceWaterhouseCooper (PWC) disclosed the lowest, 2.29 and 1.63 respectively. The results of an independent-sample t-test which was conducted to compare the number of KAMs presented in the auditor's report for Big 4 and Non-Big 4 auditors. The findings suggest that Big 4 auditors reported, on average, significantly more KAMs than the Non-Big 4 auditors at a 5 percent confident level. Higher number of KAMs reported, however, has no implication the perceived higher audit quality of Big 4 than non-Big.





**Table 3** Analysis of KAM by industry and firm size

Panel A: Analysis of KAM by Industry and Firm Size						
Industry	SET 100		NON-SET 100		MAI	
	Number of KAMs	Average KAM/firm	Number of KAMs	Average KAM/firm	Number of KAMs	Average KAM/firm
Agro and Food Industry	13	1.86	77	1.97	15	1.87
Consumer Product	0	0	67	1.91	14	1.40
Financials	30	2.14	97	2.31	16	2.28
Industrials	5	2.50	121	1.70	45	1.50
Property and Construction	48	2.29	187	1.76	28	1.75
Resources	37	2.06	36	1.71	19	1.58
Services	47	2.04	156	2.08	60	1.76
Technology	25	2.78	63	2.17	24	2.18
<b>Total</b>	<b>205</b>	<b>2.18</b>	<b>804</b>	<b>1.92</b>	<b>221</b>	<b>1.72</b>

Panel B: Comparison of KAMs by Different Firm Size			
		Mean Difference	p-value
SET 100	• NON-SET 100	0.253	0.039*
	MAI	0.454	0.001*
NON-SET 100	• SET 100	-0.253	0.039*
	MAI	0.201	0.072
MAI	• SET 100	-0.454	0.001*
	NON-SET 100	-0.201	0.072

Test of significance: \* = Less than 0.05



Table 3 provides the result KAM analysis in each industry partitioned by different firm sizes. The results in panel A of table 3 suggest that number of KAMs reported in each industry is also dependent on size of firm. Overall, the companies which are listed on the SET 100 tend to report the highest average number of KAMs (2.18); followed by NON-SET 100 (1.92) and the MAI listed companies disclosed the minimum number of KAMs (1.72). This is consistent with the findings in the voluntary disclosure literature that larger firms tend to disclose more information in order to reduce political and legal exposure and enhance the level of transparency (Skinner, 1994; Land and Lundholm, 2000). The general higher average number of KAM probably reflects differences in the average size and complexity of larger companies compared to smaller companies.

In some industries, for example, property and construction and industrial, the average number of KAMs reported decrease as firms get smaller. However, the industry especially financials, the average KAMs reported by each firm seem to be quite similar regardless of firm size. The reason for this might be the nature of business risks, which requires significant auditor attention in a particular industry, is consistent for most companies. This suggests that the KAMs disclosed in financial firms are more of industry-specific than firm-specific. Since financials is highly regulated industry as financial firms have to follow the guideline on asset classification and provisioning issued by the Bank of Thailand (Bank of Thailand, 2016), the amount of KAMs could be less dependent on firm size.

#### 4.1.1 Which KAMs are reported?

Figure 5 below illustrates the broad range of KAMs reported. There were 1,230 issues that were discussed as KAM in the auditor's report. As of March 2017, the revenue recognition, inventory, receivable and allowances, property valuation, and asset impairment (not goodwill) are five common KAM disclosures. These made up 66 percent of all KAMs with more than half of audit across all companies contained the KAM on revenue recognition. The 10 highest ranked risks reflect 1,118 risks reported as KAM, or 90 percent of the total risks reported. The most common risks were revenue recognition, inventory, and valuation of assets. Since these issues are concerned with the use of management judgments, which have long been criticized as being very subjective, auditors therefore, unsurprisingly reported them as KAM. However, the risk regarding the valuation of financial instruments was very minimal. The results are consistent with the survey conducted by the Federal of Accounting Profession of Thailand (FAP) in July, prior to the implantation of new auditor's report. The first three KAM topics that auditors thought of were revenue recognition, inventory and investment valuation (FAP, 2016).

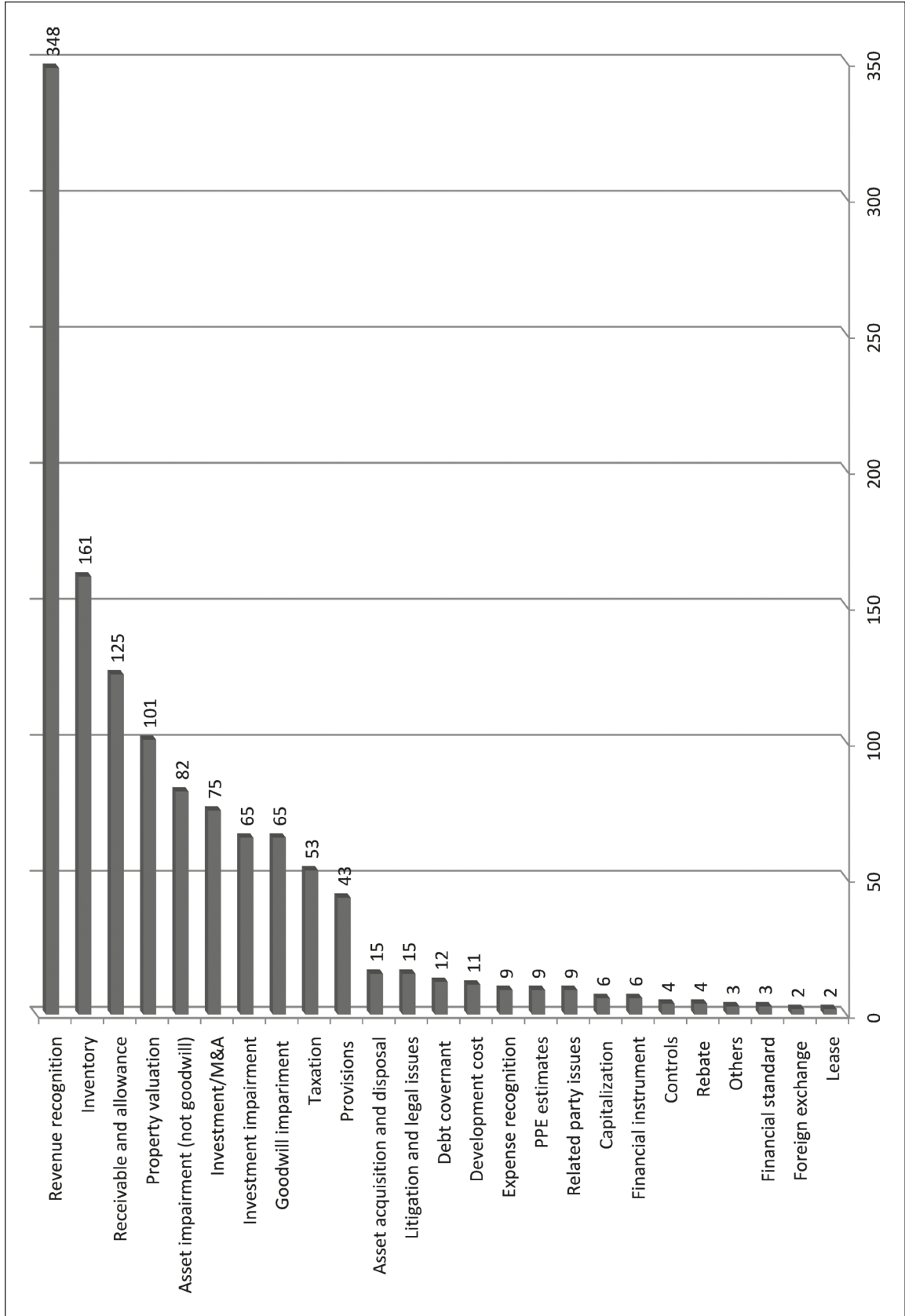


Figure 5 Analysis of KAM reported





Most industries disclosed the issue regarding revenue recognition as KAM. From a preliminary analysis of the KAM being disclosed, revenue recognition is the area that most auditors commonly discussed in KAM. Consistent with the report by the Financial Reporting Council (FRC) in the UK, where the new audit reporting model has been partially implemented since 2013, revenue recognition was amongst the top ranking of disclosed KAM (FRC, 2016).

It is worthwhile to note that the presumed risks under the auditing standard in relation to risk of management override of control and the risk of fraud in revenue recognition were not extensively identified. There was only one KAM topic on the risk of management override of control included in the “other” category. But, the revenue recognition was the most frequent KAM reported. Unfortunately, based on authors’ observation, most auditors describe the risk of revenue recognition very generically. However, some auditors were attempting to be more specific by addressing that revenue recognition has complex accounting treatment and use significant management judgment in determining the amount recognized. This pattern is also evidenced in the UK and Ireland which have early adoption of new auditor’s report. Many of the first year report included the management override of control and fraud in revenue recognition. These two matters, however, were significantly dropped in the second year report as they did not really reflect the objective of the audit reporting reform (FRC, 2015; 2016)

**Table 4** The highest three topics of KAM that were disclosed in each industry

Industry	SET 100		NON-SET 100		MAI	
	KAM Topics	Percent (%)	KAM Topics	Percent (%)	KAM Topics	Percent (%)
Agro and Food Industry	Goodwill	30.77	Revenue Recognition	23.76	Revenue Recognition	26.67
	Investment/M&A	23.08	Inventory	16.88	Inventory	13.33
	Revenue Recognition	23.08	Receivable and Allowance	10.38	Provisions	13.33
Consumer Product	N/A*	N/A*	Inventory	26.87	Revenue Recognition	42.86
	N/A*	N/A*	Revenue Recognition	23.88	Inventory	28.57
	N/A*	N/A*	Receivable and Allowance	10.45	N/A**	N/A**
Financials	Receivable and Allowances	50.00	Revenue Recognition	38.14	Revenue Recognition	37.50
	Revenue Recognition	16.67	Receivable and Allowance	24.74	Receivable and Allowance	37.50
	Financial Instrument/Provision	10.00	Provision	16.49	Provision	12.50
Industrials	Goodwill	40.00	Inventory	35.54	Revenue Recognition	37.78
	Asset Impairment	20.00	Revenue Recognition	24.79	Inventory	31.11
	Property Valuation	20.00	Receivable and Allowance	9.09	Receivable and Allowance	6.67
Property and Construction	Revenue Recognition	29.16	Property Valuation	28.87	Revenue Recognition	42.86
	Investment/M&A	10.42	Revenue Recognition	24.59	Inventory	14.28
	Asset Impairment	10.42	Asset Impairment	8.02	Property Valuation	14.28



**Table 4** The highest three topics of KAM that were disclosed in each industry (Continued)

Industry	SET 100		NON-SET 100		MAI	
	KAM Topics	Percent (%)	KAM Topics	Percent (%)	KAM Topics	Percent (%)
Resources	Goodwill	16.22	Revenue Recognition	19.44	Revenue Recognition	21.05
	Asset Impairment	10.81	Goodwill	8.33	Investment/M&A	21.08
	Taxation	10.81	Property Valuation	8.33	Asset Impairment	15.79
Services	Revenue Recognition	31.91	Revenue Recognition	31.41	Revenue Recognition	33.33
	Inventory	14.89	Receivable and Allowance	10.26	Inventory	11.67
	Goodwill	10.63	Asset Impairment	9.61	N/A**	N/A**
Technology	Revenue Recognition	36.00	Revenue Recognition	28.57	Revenue Recognition	12.5
	Goodwill	16.00	Inventory	19.04	Inventory	12.5
	Litigation and Legal/Inventory	12.00	Receivable and Allowance	17.46	Goodwill	12.5

\* No companies in the consumer product industry were listed as SET 100 as of March 2017.

\*\* The third rank has the frequency of 1 in several KAM topics.

Table 4 show the highest three topics of KAM being disclosed in the auditors' report for larger and smaller firms. The results in table 4 confirm the fact that auditors were trying to bespoke the KAMs to be tailored-made for specific firm. The majority of KAM topics in larger and smaller are relatively varied despite the fact they operate in the same industry. Financial industry is the exemption. The KAM topics disclosed across financial companies appear to be similar, which are receivable and allowance, revenue recognition and provisions. This is consistent with the earlier analysis that the KAM topics of financial companies carry the industry specific feature.

In addition to the analysis of risk type, it has been observed that the way the auditors describe the risk also differs. Some auditors use more standardized languages to explain the risks and audit procedures than others. For the benefit of users, auditors should avoid the use of generic or standardized language and should disclose matters that are specific to the company.

#### 4.2 The Presentation of KAM

As the auditing standard has not specifically addressed how the KAM should be presented in the auditor's report, the presentation of KAM is relatively flexible. The two notable techniques, the tabular and the narrative presentation, have been used to describe the risks and explain how they were addressed during the audit. Table 5 below summarizes the different techniques used in the auditor's report.

**Table 5** The presentation of Key Audit Matter

Audit Firm	Presentation	
	Tabular	Narrative
DELOITTE	29	0
EY	0	208
KPMG	84	2
PWC	78	0
Others	27	212
<b>Total</b>	<b>218</b>	<b>422</b>



Approximately 66 percent of auditor’s reports present KAM using the narrative technique; most of them are prepared by the non-Big 4. Three of the Big 4 (EY being the exception) use the tabular presentation to describe KAM. Besides the differences in the presentation format, the heading used is also different. Each of the Big 4 has its own standard heading, whilst the heading used by the non-Big 4 varies. Examples of the headings used by Big 4 are illustrated below.

**Table 6** Example of heading used in KAM section

Auditors	Heading
DELOITTE	<ul style="list-style-type: none"> <li>• Key audit matters</li> <li>• Audit response</li> </ul>
EY	<ul style="list-style-type: none"> <li>• Key audit matters and how audit procedures respond for each matter are described below</li> </ul>
KPMG	<ul style="list-style-type: none"> <li>• The key audit matters</li> <li>• How the matters are addressed in the audit</li> </ul>
PWC	<ul style="list-style-type: none"> <li>• Key audit matters</li> <li>• How my audit addressed the key audit matters</li> </ul>

#### 4.2.1 Materiality and Audit Conclusion

The auditor’s report is required to address how the KAM was addressed. However, it is not mandated to provide the audit outcome. Some auditors voluntarily provide more detail of their audit response to the KAM by including the outcome of the audit procedures. As for the conclusion of the KAM section, only PWC includes the sentence indicating that *“there are no material issues arising from our work”*. For others, no conclusion or outcome of the audit procedures were provided. In particular, only 15 percent of auditors’ reports provide the audit conclusion in the KAM section. Notably, the reports issued by PWC always make the audit conclusion at the end of the KAM. However, providing this sort of audit conclusion may create confusion to users, especially when the conclusion contradicts the opinion (i.e. a qualified opinion is given with a conclusion of no material issues in the KAM) because the opinion is for the overall financial statements, not the individual parts. Moreover, there were few auditors’ reports that also provide the materiality and scope of the audit. These voluntary disclosures were also implemented by the PWC only.





#### 4.2.2 Conciseness

Investors may also find KAM to be much more valuable when it is presented in a concise manner. However, this could be challenging for auditors because it is generally difficult to explain the complex and technical matter in a way that is concise and easy to understand. A review of the KAM disclosure volume is presented in table 7 below.

**Table 7** Average word count in the KAM section

	Total	DELOITTE	EY	KPMG	PWC	Others
Average Word Count – ALL	594	540	708	506	699	500
Average Word Count – SET 100	724	585	761	569	902	690
Average Word Count – NON-SET 100	584	512	724	487	608	500
Average Word Count – MAI	534	616	596	472	697	461

As seen in table 7, the average word count of the KAM description is 594 words. The SET 100 companies’ audit reports describe the risk in more detail than those in the NON-SET 100 and MAI. The risk description is also longer when the auditor’s reports are prepared by the Big 4 as compared to the non-Big 4 auditors. Amongst the four largest auditors, EY tends to provide the longest KAM section. The independent-sample t-test was performed to provide statistical support regarding the conciseness of the KAM section, categorized into different auditors and the firm size. Table 8 reports the statistical findings. The results in panel A of table 8 confirm a significant difference in the length of the KAM section between Big 4 and Non-Big 4 auditors. Within the Big 4 group, EY provides a similar length of KAM with PWC, but, is longer than DELOITTE, and KPMG. The lengthy KAM section may reflect the transparency as the details of the risk are clearly explained. But, this could become a great challenge for auditors as users generally have limited cognitive ability to process extensive information. With regards to firm size, panel B shows that the auditor’s reports of 100 of the largest firms have the longest KAM description. The possible explanation is that large firms are usually complex businesses, and therefore require a longer risk description. For smaller size firms, the length of the KAM section is indifferent.





**Table 8** Analysis of word count in the KAM section

Panel A: By Auditor				
		Mean	Mean Difference	p-value
<b>Between Group</b>				
Big 4		651	151	0.000*
Non-Big 4		500	151	0.000*
<b>Within Group</b>				
	• DELOITTE		169	0.009*
	KPMG		204	<0.00*
	PWC		18	0.983
	Others		207	0.000*
Panel B: By Firm Size				
SET 100	• NON-SET 100		138	<0.00*
	MAI		190	0.000*
NON-SET 100	• SET 100		-138	<0.00*
	MAI		52	0.137
MAI	• SET 100		-190	<0.001*
	NON-SET 100		-52	0.137

Test of significance: \* = Less than 0.05

## 5. Conclusion

This study provides preliminary findings of different elements and the scope of KAM reporting in Thailand from the review of 640 auditor’s reports that disclose the KAM for the first time in Thailand. With the innovation of this new audit reporting model, users of financial statements are expected to gain valuable insights that are specific to an entity, in which there are very few sources of information. The review shows that the new auditor’s reports are specific to each firm being audited, which is the positive sign. Results indicated that there is less consistency between auditor’s reports. This is to mean that companies that operate in the same industry could disclose different KAM topics. In contrast, the findings suggest that the KAM topics tend to be similar in most companies in the financial industry, indicating that the KAMs disclosed in the financial companies are more likely to be industry-specific



risk. In regard to the presentation of KAM, KAMs were presented using both narrative and tabular with different lengths. Some auditor's reports include the information about materiality, the scope of the audit and the outcome of the audit (only those prepared by PWC). Both audit conclusion and materiality report are not required by auditing standard. This suggests that the auditors do not only provide the report that meets the new requirement, but have been quite innovative to report different elements of the KAM. In particular, each audit firm has developed different approaches to the reporting of KAM in areas such as the reporting of audit findings, the presentation of KAM, and the length of KAM. For standard setter, the findings of this study should be used as the basis to further analyze the evolution of KAM, specifically, whether the topic of KAM changes over time or how to improve the KAM report to achieve objective of the reporting reform. For users, the findings make them aware of the new information contained in the auditors' report so that they could incorporate this information in their decision making process.

## 6. Limitation and Future Research

Despite the fact that these results offer further insights of the existing KAM study in Thailand, some limitations in this study must be addressed. First, the analysis is based solely on the observation of the authors. There might be some inconsistencies in KAM topic classification with other studies. Nonetheless, the results should, at least, be useful in understanding nature of KAM being disclosed. Second, the analysis lacks of the users' viewpoints on KAM. Future research should involve more in-depth analysis through interviews or surveys on the usefulness of KAM to gain more qualitative features of KAM from user's point of view. In addition, the scope of KAM study could be studied in relation to audit quality, auditor's liability, and user's decision making. Whether higher number of KAMs reported lead to higher audit quality remains unknown. The study of the presence of KAM should also contribute to the auditor's liability literature; whether the KAM is viewed as the disclaimer for the auditors to reduce their legal liabilities when financial misstatement occurs. Moreover, the fact that the auditing standard is flexible for KAM presentation in terms of its length, format, and amount, warrants the investigation of whether the differences in KAM presentation affect inventors' judgment when they make investment decision.



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## Appendix 1

### Materiality

Overall group materiality: Baht 22 million (1% of Group's total revenue).

### Audit Scope

I considered with audit work of the consolidated financial statements by focusing on the significant components which account for 100% of the Group's total revenue and 97% of the Group's total assets.

### Key Audit Matters

I identify the following key audit matters:

- Acquisition of Alliance Medical Asia Company Limited and its subsidiaries (AMA Group)
- Investments in subsidiaries impairment assessment

### Key Audit Matters

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



Key Audit Matter	How My Audit Addressed The Key Audit Matter
<p data-bbox="217 274 682 350"><b>Acquisition of Alliance Medical Asia Company Limited and its subsidiary</b></p> <p data-bbox="217 411 705 633">Please refer to Note 16 to the financial statement for investment in subsidiaries and Note 31 to the financial statements for business combination under common control</p> <p data-bbox="217 693 705 818">During the year the Company acquired the AMA group which consists of 7 companies:</p> <ol data-bbox="217 838 705 1157" style="list-style-type: none"><li>1) Alliance Medical Asia Company Limited,</li><li>2) Pitsanuloke Medical Co., Ltd.,</li><li>3) Paknampo Hospital Co., Ltd.,</li><li>4) Union Pichit Doctors Co., Ltd.,</li><li>5) Pitsanuvej Uttrradit Hospital Co., Ltd.,</li><li>6) Pisanuvej Pattana Co., Ltd. and</li><li>7) P.N.P Hospital Co., Ltd.</li></ol>	<p data-bbox="765 274 1352 399">I enquired the management to understand the basis used for considering the recognition of the acquisition of the AMA group.</p> <p data-bbox="765 459 1359 923">I evaluated the management’s assessment and the information used when considering the recognition of the acquisition of the AMA Group as a business combination under common control according to the accounting guidance for business combinations under common control published by the Federation of Accounting Professions rather than business combinations according to the guidance under Thai Financial Reporting Standard, TFRS 3 (revised 2016)</p>

*Source: Extraction of KAM from the annual report of the company listed in the Stock Exchange of Thailand (SET)*



## Appendix 2

### Key Audit Matters

Key audit matter is the matter that, in our professional judgment, was of significance in our audit of the consolidated and separated financial statement of the current period. This matter was addressed in the context of our audit of the consolidated and separated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separated opinion on this matter.

Key Audit Matter	Audit Response
<p>Allowance for doubtful account</p> <p>Because allowance for doubtful accounts requires the use of various assumptions and judgment, the recognition of allowance for doubtful accounts in accordance with TFRSs and also the Bank of Thailand’s notification, which includes the consideration of objective evidence indicating an adverse change in the ability of the borrowers to repay the loans, the estimated cash flows from the collateral, the estimated future cash flows to be received from the borrowers, the timing of future cash flows, the potential of additional future loss and the economic conditions that may have an impact on the loan default rate. We focused our audit on the following areas of allowance for doubtful accounts specifically relating to:</p> <ul style="list-style-type: none"> <li>• The classification of quality category of customer which included the qualitative reviews to set up the allowance for doubtful accounts on a customer basis.</li> </ul>	<p>Key audit procedure included</p> <ul style="list-style-type: none"> <li>• Assessing and testing the design and operating effectiveness of the control over allowance for doubtful account data and calculations. These controls testing included the understanding the accounting policies and procedures regarding allowance for doubtful accounts, loan classification, collateral value and loan credit review. We tested the controls over the end to end business process including monitoring process, the validation process and the Board of Executive Director’s and the Board of Director’s approvals.</li> <li>• Performing detailed testing on samples of new and existing customers used to calculate allowance for doubtful accounts. This test was varied by product type, which typically included the re-performance of the calculation of all product types.</li> </ul>

Source: Extraction of KAM from the annual report of the company listed in the Stock Exchange of Thailand (SET)





## Appendix 3

### Key Audit Matter

The key audit matters included audited procedure as follows:

Investment in associated (the consolidated financial statement)

As described in Note 3.5 and 6 to the financial statement, investment in associated is stated at cost less allowance for impairment (if any) in the separated financial statement and is stated under the equity method in the consolidated financial statement. The investment is identified to be quantitatively significant due to the Company's main business is related to investment, therefore, dividend income and share of profit from the investment in associate are recognized in the separated and consolidate financial statement, respectively is significant amount. Therefore, I have identified that the significant matter that requires special attention is the audit is recognition its portion of investment in associate under equity method and dividend income.

My audit produces on such matter

I performed by audit work with the component auditors of the associate and verified the calculation and record of share of profit from the investment in associate including recognition of the dividend income. And I verified increase and decrease in investment occurred during the year, and the amount of share balance. Additionally, in considered the adequacy of information disclosure that related to the investment in associate.

*Source: Extraction of KAM from the annual report of the company listed in the Stock Exchange of Thailand (SET)*