Does Audit Committee Member's Accounting Experience associate with Key Audit Matter types?

Ahmed Aboud[1]
Zayed University, UAE & Faculty of Commerce, Beni-Suef University, Egypt
Ahmed.aboud@zu.ac.ae

Hany Elbardan
Bournemouth University Business School, UK &
Faculty of Business, Alexandria University, Egypt
helbardan@bournemouth.ac.uk

Moataz El-Helaly
American University in Cairo, Egypt
m.elhelaly@aucegypt.edu

Amr Kotb
Zayed University, UAE
kotb.amr@gmail.com

[1] Corresponding Author. Email: ahmed.aboud@zu.ac.ae

Abstract:

Using a narrow view of accounting experience, this study examines the relationship between accounting experience on audit committees (ACs) and key audit matters (KAMs) in the UK. In contrast to extant research, this study distinguishes between different types of accounting experience on AC and how this relates to different types of KAMs. We also address the effects of the interplay between accounting and supervisory experiences on KAMs. Using a sample from FTSE 350, we provide robust evidence that accounting experience on ACs is an important driver of extended audit reporting quality. Moreover, we find evidence that different types of accounting experience have mostly similar effects on different types of KAMs. Further, we show that AC members with prior supervisory experience complement the role of accounting experience. Nevertheless, this complementary relationship varies between types of KAMs. Overall, our study offers important insights regarding how accounting and supervisory experience on ACs is associated with the quality of KAMs reported in the extended reports. Our results are robust to alternative sampling, model specifications, and endogeneity concerns.

Keywords: Audit Committee, Accounting Experience, Key Audit Matters, Extended Audit Reporting.

1. Introduction

The audit report, historically, has been described as a boilerplate that consists of mostly standardized wording and as uninformative, not identifying the key risks in clients' financial statements. Perceiving a gap between the information provided in the audit report and the expected information, the global society has increasingly questioned the auditing profession's credibility (Minutti-Meza, 2021). To restore this credibility, regulators and standard setters around the globe issued standards requiring auditors to report these risks in their reports. In response to society's demand to get new insights from the discussion between the auditor and the audit committee (AC), audit firms in the UK now offer substantial additional information about risks, areas of audit focus, scope, and materiality in the extended audit reporting (EAR) (Wilson, 2021). The genesis of the EAR came from the financial reporting council (FRC, 2022) in the UK where such matters required to be reported are named key audit matters (KAMs). Such matters are referred to in the US as critical audit matters (CAMs) (PCAOB, 2017). KAMs are identified as a result of the discussion between the auditor and the audit committee (AC), the main objective of this study is to examine how different types of accounting experience on ACs and their interplay relate to different types of KAMs.

According to ISA 701, KAMs are "*those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period*" (IAASB, 2015a). KAM reporting aims to enhance the audit report's communicative value by offering greater transparency about the audit process (IAASB, 2015a). In the KAM disclosures, auditors are required to describe not only the significant risks of material misstatements and why they are significant but also how they were addressed to be mitigated in the audit process. The revised FRC rules on reporting KAMs became effective for all listed companies on the London Stock Exchange (LSE) in fiscal years beginning on or after June 17, 2016. In January 2015, the international auditing and assurance standards board (IAASB)

issued revised and new standards ISA 701; 700 (IAASB 2015 a, b). The IAASB expanded report requirements became effective for fiscal year-ends on or after December 15, 2016.

KAMs "are selected from matters communicated with those charged with governance" (IAASB, 2015a). According to ISA 260, auditors should communicate with those charged with governance (IAASB, 2015c) to find the subset of significant matters that can qualify as KAMs. For listed companies in large stock markets, ACs are the main bodies assumed to be charged with governance. Therefore, the role of the AC is of relevance when determining the KAMs to be disclosed. Nevertheless, little research has been conducted to address the link between firm-level characteristics and KAMs. Recent empirical research provides evidence on the variations in KAMs between firms and whether these variations are driven by particular attributes. Most studies focused on board of director attributes and other generic determinants. For instance, Sierra-Garcia et al. (2019) found that auditor and client characteristics play an important role in shaping the level of KAMs. Likewise, Pinto and Morais (2019) find that business complexity, audit fees and more precise accounting standards lead to a higher number of reported KAMs.

Prior studies generally suggest that AC expertise tends to have important consequences for auditing and monitoring financial reporting (e.g., Abbott et al., 2003, 2004; Ghafran and O'Sullivan, 2017). However, despite the standards developments regarding the importance of ACs in promoting audit transparency, there has been little research examining its role in the audit report (Zhang and Shailer, 2022). In this study, we argue that accounting experience is broadly defined in the academic literature in a way that does not disentangle the different types of accounting experience. For example, Zhang and Shailer (2022) include both chartered accountants and AC members with practical accounting experience under their definition of AC accounting expertise. However, different types of accounting experience may lead to different outcomes. We argue that the relevant skillset obtained from practising accounting

roles could be significantly different from that obtained from being a qualified or a chartered accountant. Therefore, we separate accounting qualification from accounting experience to test this assumption. Also, this separation is important to test how each type of accounting experience interacts with supervisory experience to develop our understanding of the skillset profile of AC members that could explain variations in KAMs significantly. KAMs can be classified as entity-level KAMs and account-level KAMs. Hence, this segregation of AC members' experience is important to identify which type of expertise is more likely to be associated with each type of KAM. Although the direct link between AC supervisory experience and KAMs seems theoretically clear, the role of interdependency between AC accounting experience and supervisory experience is an interesting question. Indeed, several studies address the role of AC attributes such as diversity or independence, ignoring the potential interdependency between the role of AC attributes and supervisory experience on KAMs. Supporting the importance of addressing AC accounting experience in combination with other factors, our study examines the effect of an important factor, supervisory experience on the relationship between AC accounting experience and KAMs.

Using a five-year dataset of hand-collected KAM disclosure data from annual reports of non-financial UK firms listed in the FTSE 350 index, we examine the association between the presence of chartered accountants and individuals with prior accounting experience in the AC and the number and types of KAMs disclosed in the extended audit reports. To identify chartered accountants and AC members' prior experience we hand-collect data on individual AC members for each sampled firm from annual reports if available or from LinkedIn.

We find that qualified accountants AC members are associated with a lower number of reported KAMs. However, their effect is restricted to accounting-related KAMs that cover accounting-specific risks. Second, AC members with prior supervisory experience complement the role of chartered accountants in reducing the risk factors that potentially lead to the auditor's

disclosure of KAMs. Third, the number of AC members with prior accounting expertise has the same effect on KAMs as chartered accountants. However, when prior accounting experience interacts with prior supervisory experience, the negative effect on KAMs is extended to both accounting-related KAMs and entity-wide KAMs. In additional analysis, we show that audit quality moderate the relationship between our expertise variables and KAMs. Finally, we show that our results are robust when we obtain our estimates using a two-stage Heckman model and propensity score matching (PSM) to control for self-selection and endogeneity biases. Our findings shed light on corporate governance factors that influence the number and the types of KAMs identified and addressed by auditors.

Our paper makes several contributions to the audit and corporate governance literature and has potential implications for policy development. It responds to recent calls to consider corporate governance mechanism attributes that may influence KAMs (Abdelfattah et al., 2021; Lee and Park, 2019; Ma et al., 2024).

First, our paper further expands on the ongoing debate in the AC literature about the value of different types of financial expertise in the AC. We mainly examine the differing effects of accounting and supervisory financial expertise to add to the stream of literature that compares these two types of expertise (e.g., Lee and Park, 2019; Krishnan and Visvanathan, 2008). Furthermore, we disentangle the accounting expertise gained from professional qualifications from that gained from work experience and examine the effect of each one separately. By examining how different types of financial expertise affect the types of reported KAMs, we respond to concerns from regulators that reporting KAMs may quickly turn to be boilerplate communications, reducing the informational value of the EARs (IAASB, 2017).

Second, while most previous studies focus merely on the existence of KAMs or the number of disclosed KAMs (e.g., De Ricquebourg and Maroun, 2023; Zhang and Shailer, 2022;

Moroney et al., 2021; Christensen et al., 2014), we extend the literature to investigate the types of KAMs reported as well, reducing the knowledge gap by revealing how AC expertise affects the types of KAMs disclosed by auditors. The number and types of reported KAMs depend on professional judgment and communication between AC and the auditor. Hence, examining how different types of expertise could affect the types of KAMs disclosed is warranted.

Third, our paper contributes to the growing body of research on the determinants of KAMs. Whereas most of the research explores the consequences of KAM reporting (e.g., Liang et al., 2023; Elliott et al., 2020; Gold et al., 2020; Reid et al., 2019; Gutierrez et al., 2018), we examine the determinants of KAM reporting, particularly the existence of chartered accountants and members with prior accounting in the AC. Moreover, the literature on KAMs mainly used experimental cases, we provide evidence-based archival research on what could contribute to the determination of the reported KAMs.

Fourth, we show that internal and external monitoring are moderating the relationship between AC experience and KAMs. We investigate the abovementioned relationships across subsamples clustered based on audit fees, analyst coverage and board gender diversity. We find that the documented effects of AC experience variables on KAMs are only significant for firms with higher levels of monitoring as measured by external audit quality, analyst coverage and board gender diversity. Our interpretation of this finding is that it sheds light on the role of different monitoring mechanisms and that the positive effect of AC experience on KAM disclosure might be conditional on such monitoring indicators.

Finally, our findings offer relevant insights for standard setters, regulators and auditors about the drivers of audit quality under the new standards, as they give a better understanding of the factors that may influence the number and types of the reported KAMs. This may inform

the regulators when providing further guidance in reconsidering their definition of what constitutes financial expertise.

The remainder of the paper is structured as follows. The next section provides the research background and the hypotheses development from existing theories and previous studies. The third section presents the research methods used to test these hypotheses, the sample selection procedures, as well as the measurement of variables. The empirical results are then presented, followed by the conclusion.

2. Background and Research Hypotheses

2.1.Key Audit Matters:

There is a growing stream of academic research on the consequences of EARs; however, the arguments, theories, and findings of previous studies do not offer the direct consequences of EARs (Minutti-Meza, 2021). Literature has primarily investigated the consequences of the EAR on auditor responses (e.g., Reid et al., 2019), investor and market reactions (e.g., Lennox et al., 2022; Gutierrez et al., 2018; Christensen et al., 2014), on managerial reporting behaviour (Gold et al., 2020), auditor judgment (e.g., Asbahr and Ruhnke, 2019), and auditors' legal liability (e.g., Kachelmeier et al., 2020). KAMs found to be a beneficial mechanism for enhancing financial reporting quality (Gold et al., 2020) and could be used by auditors to credibly communicate information about financial reporting quality to investors (Elliott et al., 2020). In line with this argument, Moroney et al. (2021) suggest that KAM reporting affects investors' perception of the credibility and the value of the audit. Consistent with these findings, Porumb et al. (2021) show that reporting KAMs leads to less stringent loan-contracting terms by offering more information about the borrowers' risk. While Pinto and Morais (2019) found a positive relationship between the number of reported KAMs and audit fees, Reid et al. (2019) found that EARs requirements are associated with a significant

improvement in financial reporting quality without a significant increase in audit fees and Gutierrez et al. (2018) did not find evidence that the EARs are associated with a change in audit fees or quality, indicating that reported KAMs are not incrementally informative to investors. Extending this research stream, Lennox et al. (2022) found no evidence of an investor reaction to the number of reported KAMs; however, when they classified the KAMs by types, found insignificant investor reactions to some types more than others. Moreover, Muñoz-Izquierdo (2023) documents that KAM helps financial statement users to assess the risk of a client firm's financial distress.

Conflicted prior research results could be due to the use of different measures of the reported KAMs and adopting the experimental setting with manipulated reported KAMs rather than collecting actual archival data. Most of the previous studies used the existence of KAMs, the number of the reported KAMs and few classify them into different types. For example, Pinto and Morais (2019) focus on determining the factors affecting the number of disclosed KAMs. Abdelfattah et al. (2021) measured KAM using the number and the length of KAM disclosure. In an experiment, Asbahr and Ruhnke (2019) manipulated the KAM reporting requirement into two options no reporting KAM versus reporting KAM. Gold et al. (2020) manipulated KAMs in an experiment to be absent, KAM with firm-specific content, and KAM with non-firm-specific content. Kohler et al. (2020), in an experiment, classify the reported KAMs into two groups: KAM negative conditions when small changes in the key assumptions lead to a goodwill impairment versus KAM positive conditions when only large changes lead to goodwill impairment.

Very few studies combined the number and the type of KAM disclosed in their analysis. For example, Sierra-García et al. (2019) focus on the number and types of KAMs classifying them into entity-level and account-level KAMs. Recently, Lennox et al. (2022) used the number of KAMs in their analysis and classified KAMs into two categories, more informative

versus less informative KAMs. They classify entity-level rather than account-level risks as more informative to investors. Classifying KAMs allows us to gain a better understanding of the underlying factors of KAM disclosures as opposed to mainly capturing the variations in the number of KAMs. Following Lennox et al. (2022), we classify KAMs into entity-level KAMs that include issues related to client risks, such as litigation provisions, tax, acquisition accounting, controls, and IT. Yet, account-level KAMs include issues that are related to specific items in the financial statement, such as inventories, intangibles, revenues, pension schemes, property, plant and equipment (PPE), financial assets, and asset impairment.

Most previous studies have investigated the consequences of KAMs showing that its disclosure influences stakeholders' decision-making; Nevertheless, less research focuses on studying the factors that might influence the reporting of KAMs by auditors (Pinto and Morais, 2019). Thus, the determinants of KAM disclosure are almost neglected in prior research (Velte, 2020). Therefore, it would be beneficial to enhance our understanding of the determinants of the number and type of the reported KAMs (Sierra-Garcia et al., 2019). We add to this literature stream by concentrating on the determinants of KAMs.

2.2. Key Audit Matters Determinants

Decision-makers, financial markets, and the community at large depend on the audit report. Thus, it is important to understand the determinants of the number and type of reported KAMs (Lennox et al., 2022; Christensen et al., 2014). Few prior research considers the determinants of reporting KAMs including the impact of AC expertise. For example, Velte (2020) reports a positive association between the readability of KAMs and AC expertise and found that combined financial and industry expertise has a stronger effect than either of them alone. Sierra-Garcia et al. (2019) analyze the influence of auditor and client characteristics on the magnitude and type of the reported KAMs and find that the auditor's attributes and client

characteristics affect the number and type of the reported KAMs. Auditors of clients paying higher fees present more entity-level-risk KAM and fewer account-level-risk KAM. In particular, Bepari (2023) reports that auditors tend to provide more detailed information, identify a greater number of company-specific KAMs, and produce KAM reports that are easier to comprehend when female members serve on the audit committee. Similar patterns are observed with respect to the accounting and finance backgrounds, as well as the industry expertise, of audit committee members (Bepari, 2023).

Moreover, Zhang and Shailer (2022) found that AC accounting expertise is negatively associated with the number of reported KAMs. Pinto and Morais (2019) aim to determine the factors influencing the number of KAMs to be reported by auditors in some European countries. They found that business complexity, audit fees and more precise accounting standards lead to a higher number of reported KAMs. Similarly, Bepari et al. (2023) document evidence on which firm-specific, audit-specific and auditor-specific factors affect the number of KAMs, account-level KAMs and entity-level KAMs in a sample of Australian firms. Abdelfattah et al. (2021) investigated how audit-partner gender could influence the reported KAMs and found that female audit partners are more likely than male audit partners to disclose more KAMs with more details.

Auditor's experience is an important element in their judgement of what to include in the reported KAMs. However, auditor expertise alone is not enough, as the KAMs should be discussed with the AC for evaluation. Our study extends this research by moving beyond audit firm characteristics by using instead AC-related characteristics to more fully analyze the drivers that shape audit outcomes in terms of the number and type of reported KAMs. This study contributes to the literature by providing new information about how KAMs relate to the AC characteristics. The EAR richens the documentation and the communication of the conversation between auditors and the AC (Wilson, 2021). Thus, our paper is relevant to

research that examines the association between corporate governance characteristics as determinants of KAMs.

2.3. Accounting Experience and KAMs

Financial expertise in the AC represents one of the main determinants of AC effectiveness in empirical research throughout the last two decades (Cohen *et al*., 2014). A considerable literature examines the possible consequences of various elements of AC expertise. Prior studies found that financial expertise enhances the oversight role of ACs and improves financial reporting quality (e.g., Abernathy et al., 2014; Abbott et al., 2004) and audit quality (Hoitash and Hoitash, 2009). Given the ACs' role in the auditing discussion, it is likely that financial expertise in ACs affects the types and number of reported KAMs. The UK Corporate Governance Code (FRC, 2018) does not define the recent and relevant financial experience required in at least one member of the AC. However, previous studies found that the positive effects of AC financial expertise may be heavily attributed to the accounting expertise (e.g., Dhaliwal et al., 2010; Krishnan and Visvanathan, 2008) this could be because accounting financial expertise may be more important for tasks involve a high degree of accounting sophistication (DeFond et al., 2005).

Prior research finds the type of financial expertise may differentially affect financial reporting quality (e.g., Dhaliwal et al., 2010; Krishnan and Visvanathan, 2008). Most previous research focused on financial expertise, where few differentiate between having accounting and supervisory non-accounting financial expertise that is acquired from supervisory positions (Zhang and Shailer, 2022). This informs our analysis, in which we differentiate between AC members with directly identifiable accounting professional qualifications and expertise and those attributed with financial expertise because of supervisory positions experience. Following prior research that distinguishes between the different types of financial expertise

(e.g., DeFond et al., 2005), we use accounting financial expertise referring to the expertise that is directly related to accounting. Thus, consistent with previous studies (e.g., Zhang and Shailer, 2022; Lee and Park, 2019; Dhaliwal et al., 2010), we classify AC members as having accounting expertise if their biography indicates being qualified as an accountant or holding an accounting related job. However, to have a deeper understanding of the influence of each type of expertise separately, we divide these members into qualified/chartered accountants being certified public accountants and those who currently serve or previously served in accounting positions that are directly connected to accounting such as chief financial officer, auditor, chief accounting officer, accounting officer, controller, head of accounting, head of finance, treasurer, financial executive, or vice president of finance.

Several previous studies found that the existence of AC members with accounting expertise but not supervisory expertise is positively associated with better financial reporting quality measured by different proxies (e.g., Dhaliwal et al., 2010; Krishnan and Visvanathan, 2008), presumably because they are more aware of the auditing process and accounting concepts and thus are better at identifying significant accountancy issues. AC members who have accounting expertise are more likely to promote accounting conservatism (Krishnan and Visvanathan, 2008), engage with auditors and identify risks (Pomeroy, 2010; DeZoort, 1997), understand technical issues facing their companies (DeZoort, 1998), and detect and constrain opportunistic management tone in the management discussion and analysis section of annual reports (Lee and Park, 2019). Accounting expertise on ACs facilitates improved communication with the auditor concerning significant judgments, estimates, assumptions, accounting policies, unusual transactions, and dispute resolutions (Abernathy et al., 2014). This improves communications between the AC and the auditor could potentially lead to reducing reported KAMs and could have a positive effect on the type of the reported KAMs. Since more accounting expertise on

ACs is more likely to enhance financial reporting quality, we expect it to be negatively associated with the number of reported KAMs.

To probe the notion that the AC plays a role in determining the type and number of the reported KAMs, we explore whether the source of the AC accounting expertise has an influence. Specifically, we conjecture that AC accounting expertise negatively affects the number and types of the reported KAMs. Accounting experts possess extensive knowledge and skills in accounting and finance that enable AC to assess whether audit matters should be considered key or not. Moreover, prior research reports that reputational concerns and potential litigation risks for AC members are much greater for accounting experts because they gain a reputation for a superior capability to meet higher standards in monitoring companies effectively than other nonexpert directors (Krishnan and Visvanathan, 2008). We believe that the concerns of AC members with accounting expertise about their reputation and litigation risk provide a stronger incentive to reduce the reported KAMs, especially the accounting-related matters, more than other members. Therefore, we predict that reported KAMs are impacted by the AC expertise, as expressed in our first two hypotheses:

H1: Qualified/Chartered Accountants on AC is negatively associated with the number of KAM

H2: Prior Accounting experience on AC is negatively associated with the number of KAM

2.4.The interplay between Accounting and Supervisory Experience

While theory and policy suggest that ACs are likely more effective when they possess more accounting expertise, Ghafran and O'Sullivan (2017) found that the level of non-accounting expertise on ACs is important and has a significant impact on enhancing the quality of audits, confirming that audit quality is influenced by the extent of non-accounting rather than accounting expertise.

Consistent with prior studies (e.g., Zhang and Shailer, 2022; Lee and Park, 2019; Ghafran and O'Sullivan, 2017; Dhaliwal et al., 2010), we define AC members as having supervisory expertise if they do not have accounting expertise and their biography indicates that they currently serve or previously served in positions that involve supervision of financial statement preparation, but lack accounting financial expertise, such as chief executive officer, chief operating officer, chair of the board or president of a company.

However, while most prior studies suggest that AC accounting expertise is more important than supervisory expertise in reducing audit concerns and improving accounting quality, we argue that ACs with both accounting and supervisory expertise may perform better than those with only accounting expertise in reducing the reported KAMs and in affecting the types of the reported KAMs.

AC members with supervisory expertise are associated with more effective monitoring of audits and higher financial reporting quality when they have other industry expertise (Cohen et al., 2014). Non-accounting supervisory expertise may encourage a more extensive audit, enhancing the value of the audit (Ghafran and O'Sullivan, 2017). Thus, we expect AC members who have both supervisory and accounting expertise to encourage more extensive auditing affecting the type and number of the reported KAM.

H3: The negative relation between Qualified/Chartered Accountants on AC and KAM is more pronounced for firms with Prior Supervisory Positions on AC

H4: The negative relation between Prior Accounting on AC on AC and KAM is more pronounced for firms with prior Supervisory positions on AC

3. Research Design

3.1.Sample Selection

Our initial sample incorporates data from non-financial UK firms listed in the FTSE 350 index from 2016 to 2020. We limit our sample to firms that maintain their membership in the FTSE350 index during the entire sample period. Thus, our final sample consists of 190 firms with 950 firm-year observations. Further, 220 firm-year observations were dropped as they lacked data for our key variables of interest bringing the final sample to 730 firm-year observations. KAM data are collected manually from the annual reports. The data for AC expertise are collected as follows. First, we hand-collect the names of the AC members from the published annual reports. Next, we develop a database for all AC members in our sampled firms from 2016 2020 and manually search their LinkedIn profiles and/or their profiles in the published annual reports to collect the data related to their education and career experience. Third, we manually identify whether an AC member is a chartered or certified accountant and classify his/her financial experience and/or supervisory experience based on the positions that the AC member has occupied throughout his/her career[2]. All other variables are collected from the Refintiv database.

3.2.Empirical Model

We employ the following two regressions to test the hypotheses of our study. Model 1 investigates the relationship between chartered accountants on AC and KAMs (H1). Model 2 examines the relationship between prior accounting on AC and KAMs (H3). In both models, we test the role of prior supervisory experience in shaping the impact of chartered accountants and prior accounting on KAMs (H2 and H4 respectively)

[2] We follow Lee and Park (2019) and define an audit committee member as having accounting financial expertise if s/he currently serves or previously served in one of the following positions: chief financial officer, principal financial officer, financial executive, president of finance, chief accounting officer, principal accounting officer, accounting officer, certified public accountant, audit partner, controller, head of accounting, head of finance, VP of finance, VP of accounting, or chartered accountant. For the supervisory expertise, the chief executive officer, chief executive, group chief executive, principal executive officer, president, and group president are considered to provide supervision over financial statement preparation.

$$KAM_{,I,t} = \alpha + \beta_1 AC\_CHART_{,t} + \beta_2 AC\_SUPER_{\ i,t} + \beta_3 AC\_CHART^{*}\ AC\_SUPER_{\ i,t} + \beta_4 NONAUDIT_{i,t} + \beta_5 AUDITFEES_{\ i,t} + \beta_6 ANALYST_{\ i,t} + \beta_7 AC\_SIZE_{i,t} + \beta_8 F\_SIZE_{i,t} + \beta_9 CR + \beta_{10} ROA_{i,t} + \beta_{11} LOSS_{,t} + \beta_{12} LEV_{i,t} + \beta_{13} Auditor\ Fixed\ Effect_{i,t} + \beta_{14} Year\ Fixed\ Effect_{t} + \beta_{15} Industry\ Fixed\ Effect_{i} + e_{i,t} \quad (1)$$

$$KAM_{,I,t} = \alpha + \beta_1 AC\_ACC_{,t} + \beta_2 AC\_SUPER_{\ i,t} + \beta_3 AC\_ACC^{*}\ AC\_SUPER_{\ i,t} + \beta_4 NONAUDIT_{i,t} + \beta_5 AUDITFEES_{\ i,t} + \beta_6 ANALYST_{\ i,t} + \beta_7 AC\_SIZE_{i,t} + \beta_8 F\_SIZE_{i,t} + \beta_9 CR\ \beta_{10} ROA_{i,t} + \beta_{11} LOSS_{i,t} + \beta_{12} LEV_{i,t} + \beta_{13} Auditor\ Fixed\ Effect_{i,t} + \beta_{14} Year\ Fixed\ Effect_{t} + \beta_{14} Industry\ Fixed\ Effect_{i} + e_{i,t} \quad (2)$$

Where $KAM_{\ i,t}$ is the proxy of KAM reported in the expanded auditor's report for firm i in year t; AC_CHART is the number of directors with a chartered accountant status serving on the firm's audit committee; AC_ACC is the number of directors with prior accounting experience serving on the firm's audit committee; AC_SUPER is the number of directors with prior supervisory experience serving on the firm's audit committee. All variables are defined in Table 1.

3.3.Variables Measurement

3.3.1. Dependent Variable

The main dependent variable is the key audit matters variable (KAMs). We started by using the total number of matters mentioned in the KAMs section of the audit report as a proxy for KAMs (KAM_TOTAL). Then, following previous literature (e.g., Siera-Garcia et al., 2019), we segregate two categories of KAMs. Firstly, the entity-level-risk KAMs (KAM_ENTITY), which represent the number of KAMs related to client risk. This type incorporates KAMs related to, litigation/regulatory provisions, controls, information technology and other entity-level matters. The second category includes KAMs-related accounting issues in the financial statement such as revenues, intangibles, PPE, pension

schemes, and financial assets, among others. We coded the second category as account-level-risk KAMs (KAM_ACC) (Lennox et al. 2022; Sierra-Garcia et al. 2019).

3.3.2. Independent Variables

Our study aims to investigate the role of accounting-related experience in shaping the KAMs reporting. Since KAMs are related to financial reporting quality, we expect firms with ACs that have accounting experts to have greater effectiveness in their monitoring of financial reporting, and therefore be associated with fewer KAMs. Specifically, we test the effects of chartered accountants' status and prior accountancy experience on the number and type of KAMs. Thus, we construct the following variables: chartered accountants' status (AC_CHART) are chartered accountants serving on the AC, and prior accountancy (AC_ACC) are directors with prior accounting experience on the AC. Our study further explores the role of supervisory experience in the relationships between chartered accountants' status / prior accountancy experience and KAMs. We measure prior supervisory experience as the number of AC members with prior supervisory positions on the AC. Thus, our main variables of interest are AC_PROF and AC_ACC and their interactions with AC_SUPER.

3.3.3. Control variables

We include various control variables that are consistent with those documented in the KAMs literature (Sierra-Garcia et al. 2019; Pinto and Morais 2018). We use the natural log of audit fees to account for audit quality, and the ratio of non-audit fees to total fees to measure auditor independence. Due to the increased reputational risk linked to KAM disclosure, the auditor is expected to execute more procedures (Sierra-Garcia et al., 2019). Furthermore, KAMs represent risky areas that increase client audit risk and therefore auditors are likely to charge higher fees to account for these additional risks (Pinto and Morais 2018; DeFond and Zhang, 2014; Simunic and Stein, 1996; Gul, 2006). We also control for the auditor's

independence using the non-audit fees ratio (Sierra-Garcia et al., 2019), computed as non-audit services fees to total fees paid to the auditor. Extant studies suggest that non-audit services provide companies with beneficial information to alleviate the risks of KAMs and therefore fewer KAMs are likely to be associated with non-audit fees (Sierra-Garcia et al. 2019; Holland and Lane, 2012; Quick and Warming-Rasmussen, 2015). We further control for audit committee size (AC_SIZE) using the total number of audit committee members.

Moreover, we include firm size measured by the natural logarithm of total assets (FSIZE), the number of analysts following (ANALYST), leverage (LEV), and current ratio (CR) to control for client firms' information environment. We further control for performance using two measures; return on assets (ROA) and loss (Loss). We expect firms with larger size, leverage, analyst following, and lower liquidity risk, weaker performance to have more KAMs (Lennox et al. 2022; Pinto and Morais 2019; Sierra-Garcia et al. 2019). We also include fixed and auditor effects to control for time-invariant firm-specific characteristics and mitigate endogeneity problems.

4. Results

The results of our tests for H1 are presented in Table 3. Like all other models designed for our main tests, we run industry-year fixed effects regression. Column (1) in Table 3 presents the results for the total number of KAMs, Column (2) presents the results for entity-wide KAMs, and Column (3) presents the results for accounting-related KAMs. As Table 3 shows, we find a negative and statistically significant (at the 1% level) relation between the number of directors with a chartered accountant status serving on the firm's AC and the number of total KAMs and accounting-related KAMs. On the other hand, there is no significant association between the number of AC members who are chartered accountants and the number of entity-wide KAMs disclosed by the external auditor.

[Insert Table 3 Here]

Our interpretation of these results is that chartered accountants serving on ACs contribute positively to enhancing the firm's financial reporting quality and reducing the areas of potential risks of misstatements. This extends prior studies that find a positive impact of AC financial expertise on the AC monitoring role and financial reporting quality (Abernathy et al., 2014; Abbott et al., 2018) by providing new evidence on the relevance of having chartered accountants on ACs. However, their contribution is relatively limited to their area of knowledge (accounting). Hence, the impact of the number of chartered accountants on having fewer risks of material misstatements or KAMs to be disclosed is centred on account-level risks and is not observable for entity-level risks. Account-level risks are related to specific items in the financial statements (Sierra-Garcia et al., 2019), and hence, such risks are more likely to decrease in the presence of professional accountants in the AC. By classifying KAMs into accounting and entity levels, we extend extant literature by showing that chartered accountants might be more important for duties with higher levels of accounting sophistication (DeFond et al., 2005). This is in line with similar studies that document better financial reporting quality for firms with professional accountants in the top management team (TMT) (Rashid, 2020).

The coefficients on our control variables are generally consistent with extant theory and evidence. As in Sierra-Garcia et al. (2019), the non-audit fees ratio is not related to the number or type of KAMs disclosed. On the other hand, unlike Sierra-Garcia et al. (2019), we find that audit fees are positively and significantly associated with the total KAMs, accounting-related KAMs entity-wide KAMs disclosed.

The audit fee is a proxy for the audit input and quality (DeFond and Zhang, 2014). The higher number of KAMs represents a higher risk of material misstatements. This implies that auditors are expected to exhibit more effort to complete the audit, and this is expected to lead to higher audit fees (Bell et al., 2001). Another explanation for the positive association between

audit fees and KAMs is the risk premium. Empirical studies on audit fees find strong evidence that auditors higher fees for riskier clients (Pinto and Morais 2018; Simunic and Stein, 1996; Gul, 2006). KAMs represent risky areas that could potentially lead to material misstatements, and hence, the higher the number of KAMs the more likely the auditee exhibits higher levels of client risk.

ANALYSTS is negatively and significantly associated with the total number of KAMs at the 10% level. This indicates that the higher the number of analysts following the company, the less the number of KAMs disclosed by the auditor. This can be attributed to the role of analysts in monitoring firms and the effect of such monitoring on financial reporting quality. Irani and Oesch (2013) find evidence that higher levels of analyst coverage are associated with improvements in financial reporting quality. The remainder of the variables are not significantly associated with KAMs.

Second, we examine the effect of prior accountancy experience (not professional qualifications) on the number of KAMs disclosed and whether such experience has a different effect on accounting-related KAMs (KAM_ ACC) as opposed to entity-wide KAMs (KAM_ENTITY) (H2). The results of this test are presented in Table 4. The results show that the number of AC members with prior experience in accountancy roles is negatively and significantly (at the 5% level) associated with the number of KAMs in column 1 and column 3. Similar to prior findings, the influence of accounting experience on the number of KAMs disclosed in only observable in accounting-related KAMs that include risks associated with specific items or accounts in the financial statements, thus the effects observed here are mainly focused on KAMs directly related to financial reporting quality. Most prior studies document that AC members with accounting experience are associated with higher accruals quality (Dhaliwal et al. 2010), a more favourable stock market reaction upon appointment (DeFond et al. 2005), more conservative accounting policies (Krishnan and Visvanathan, 2008), less

aggressive earnings management (Carcello et al. 2006) and timeliness of financial reporting (Schmidt and Wilkins, 2013).

[Insert Table 4]

Next, we examine whether the negative relationship between chartered accountants and KAMs is more pronounced for firms that have AC members with prior supervisory positions (H3). We run industry-year fixed effects regressions after adding a variable the captures prior supervisory experience of audit committee members (AC_SUPER) as well as the interaction between that variable and the variable (AC_CHART). Our main variable of interest is this interaction term (AC_CHART X AC_SUPER). The results of this test are presented in Table 5. The coefficient of the interaction term (AC_CHARTX AC_SUPER) is negative and statistically significant at the 1% level, as shown in Table 5. This indicates that the contribution of chartered accountants sitting on AC members to the enhancement of financial reporting quality is more pronounced in ACs that also include members with prior supervisory experience. This is in line with prior studies that show that AC members with prior supervisory experience are in some instances associated with higher financial reporting quality (Cohen et al. 2014) and audit quality (Ghafran and O'Sullivan, 2017). Similarly, Kusnadi et al. (2016) find evidence that financial reporting quality is expected to be higher if ACs have mixed expertise in accounting as well as supervisory roles.

It is worth noting that the coefficient of AC_CHART in Table 5 is insignificant. Our interpretation of that is that when supervisory experience is zero, accounting qualifications do not significantly explain the variations in KAMs. This is in line with Ghafran and O'Sullivan (2017) found that the level of non-accounting expertise on ACs is important and has a significant impact on enhancing the quality of audits, confirming that audit quality is influenced by the extent of non-accounting rather than accounting expertise.

As for AC_SUPER, the standalone coefficient captures the impact of supervisory experience on KAM when the number of chartered accountants on the audit committee is zero. This is interpreted that in the absence of directors with accounting qualifications KAMs increase. This is consistent with the notion that financial expertise enhances the oversight role of ACs and improves financial reporting quality (e.g., Abernathy et al., 2014; Abbott et al., 2004) and audit quality (Hoitash and Hoitash, 2009). ***[Insert Table 5]***

Finally, we examine whether the negative association between the number of AC members with prior accounting experience and the number of KAMs disclosed is more, or less, observable for firms with AC members with prior supervisory experience (H4). Like the models reported in Table 5, we include the interaction between the number of AC members with prior accounting experience and the number of AC members with prior supervisory experience. The main variable of interest in this Model is the interaction term (AC_ACC X AC_SUPER). The results of this test are presented in Table 6.

The coefficient of our variable of interest is negative and significant in all three models at a 1% level in columns (1) and (2) and at 5 % in column (3). Our interpretation of this result is two-fold. First, this finding provides evidence that a combination of both accountancy and supervisory experience on the AC is more likely to enhance the overall quality of financial reporting. This is in line with prior studies that document that supervisory experience is expected to matter for financial reporting quality in some cases (Cohen et al., 2014) and that financial reporting quality could be higher in the presence of mixed experience (accounting and supervisory experience). Second, this finding highlights the role of AC members with supervisory experience in reducing the risk of material misstatements or client risk (entity-level risk). Therefore, as opposed to account-level risks, we find that AC members with supervisory experience contribute significantly to the reduction of KAMs, albeit, through entity-level client

risk or risk of material misstatements that are not directly related to specific accounts or items that show up on the reporting entity's financial statement.

Similar to the results reported in Table 5, in the absence of accounting experience KAMs are more likely to increase even when the supervisory experience across the AC members is high. Additionally, the standalone coefficient of AC-ACC is insignificant which indicates that accounting experience is negatively associated with KAMs only when complemented with supervisory experience.

[Insert Table 6]

In summary, our results show that qualified or chartered accountants serving on ACs are associated with a lower number of KAMs disclosed. However, their effect is restricted to accounting-related KAMs that cover accounting-specific risks. Second, AC members with prior supervisory experience complement the role of chartered accountants in reducing the risk factors that potentially lead to the auditor's disclosure of KAMs. Third, the number of AC members with prior accounting expertise has the same effect on KAMs as chartered accountants. However, when prior accounting experience interacts with prior supervisory experience, the negative effect on KAMs is extended to both accounting-related KAMs and entity-wide KAMs.

5. Additional Analysis and Robustness Tests

5.1. The Effect of Audit Fees

Our results show that audit fees are positively associated with KAMs. This is in line with recent related studies (Chen et al., 2022) as well as extant theory that posits that audit fees reflect audit risk and/or effort (DeFond and Zhang, 2014). Therefore, it is important to examine whether the abovementioned relationship between AC's financial background and KAMs is driven by the variations in audit fees across our sampled firms or not. Prior evidence shows

that audit fees area significant predictor of KAMs. Moreover, higher audit fees are usually associated with higher levels of audit quality. Therefore, we expect that the relationship between AC financial expertise and KAMs will be more observable in firms that pay higher audit fees.

To test this assumption, we rerun our tests in Tables 3 and 4 across two subsamples. The first subsample consists of firm-year observations with above-median audit fees and the second subsample consists of firm-year observations with below-median audit fees. The results of this test are presented in Table 7. Table 7, Panel A provides the results of our investigation of whether audit fees moderate the relationship between chartered accountants serving on the AC and KAMs or not. Columns (1), (2) and (3) show the results for the low audit fees subsample, while Columns (3), (4) and (5) show the results for the high audit fees subsample.

As predicted, the negative association between chartered accountants serving on the board and KAMs is only significant if audit fees were higher. Our interpretation of this is that the presence of AC members who are chartered accountants is more likely to reduce the incidence of KAMs only if audit fees and/or audit quality are high. This could be attributed to the fact that the accounting background of AC members is expected to be more beneficial in the presence of higher levels of audit quality. Higher audit quality, on average, is expected to increase the auditor's scrutiny over financial statements and disclosures and therefore, increase the number of KAMs addressed, but AC members with an accounting background are expected to enhance the reporting quality of their firms and hence, the number of KAMs could be less for such firms.

[Insert Table 7]

Table 7, Panel B, provides the results of our investigation of whether audit fees moderate the association between the accounting experience of AC members and KAMs. We

allocate our sampled firm-year observations to two subsamples based on audit fees as in Panel A. Also, the columns of Panel B are presented in the same order as Panel A. Unlike chartered accountants, accounting experts serving on the AC are associated with fewer KAMs in the subsample of firms paying less audit fees. Our interpretation of this is that such experts have sufficient experience and this experience either complements the auditor's effort (which seems to be low if measured using audit fees) and hence enhances the reporting quality which leads to less KAMs or their accounting experience is exercised through demanding less monitoring and less assurance and accordingly pay lower audit fees (Luez, Nanda, Wysocki 2003). In that case, the number of KAMs which is usually associated with audit fees will be less.

5.2.Tests for Endogeneity

The test of our hypotheses on the association between the accounting qualification and experience of AC members and KAMs gives rise to a potential methodological issue. A firm's decision to appoint a financial expert on the AC is not exogenously determined (Dhaliwal et al., 2010, Lee and Park, 2019). Therefore, our results might be driven by self-selection bias. For example, firms with lower-quality financial reporting or that exhibit higher levels of entity or accounting risks might be reluctant to hire financial experts on the AC.

As a robustness test, we use a two-stage Heckman model to mitigate the self-selection bias related to firms' decisions to hire financial experts on the AC. The stage-one selection equation is a probit model where the probability of a firm having at least one chartered accountant (AC_CHARTDUM) or at least one director with prior accounting experience (AC_ACCDUM) serving on the audit committee.

We model this probability as a function of corporate governance attributes as well as firm characteristics. We regress our indicator variables on board size, board independence, board gender diversity, CEO duality, internal audit score, AC size, firm size, current ratio, ROA, loss and leverage in the first stage. Those estimates generate an inverse mill ratio

(Lambda), which is then added as an additional regressor in the second-stage to obtain unbiased coefficient estimates. As shown in the stage-two regressions of Table 8, both coefficients AC_CHART and AC_ACC are negative and significant predictors of KAMs and hence the findings of our two-stage Heckman test are in line with our baseline results and confirm that our results are not biased by self-selection.

[Insert Table 8]

Next, following Lee and Park (2019) we re-estimate the results using a propensity score-matched sample. We start by running logistic regressions in which the dependent variables are set to 1 if the company has at least one chartered accountant (AC_CHARTDUM) or at least one director with prior accounting experience (AC_ACCDUM) serving on the audit committee. Consistent with Heckman two-stage method, we include various attributes that may be related to a firm's choice of having AC with a chartered accountant or accounting expertise, such as board size, board independence, board gender diversity, CEO duality, internal audit score, AC size, firm size, current ratio, ROA, loss and leverage. We then match each firm-year having at least one chartered accountant or accounting expert with a firm-year that does not have an accounting expert but has the closest propensity score within a caliper distance of 3%[3]. This matching procedure yields 604 and 665 firm-year observations. The results using the propensity-matched score sample are reported in Table 10. We find a negative and significant coefficient for AC_CHART and AC_ACC at the 1% and 5% levels, respectively. This finding provides evidence that the potential endogenous nature of our main variables of interest does not lead to biased estimates and inferences.

[Insert Table 9]

[3] Following Lee and Park (2019), we apply a caliper distance of 1% or 0.1%. The untabulated results reveal that the findings remain unchanged.

Finally, we rerun our main tests after excluding auditor-fixed effects to increase the sample size and ensure that our results are not affected by the inclusion or exclusion auditor-fixed effects. The sample size without auditor-fixed effects is larger (872 firm-year observations) and the results (untabulated) are the same.

6. Conclusion

We provide evidence on the role of the accounting experience of AC members in explaining the variations in the number and types of KAMs disclosed in EAR. We extend the contributions of prior studies by disentangling the impact of different types of accounting expertise of AC members on KAMs. Moreover, we directly investigate the effect of the synergy between accounting and supervisory experience on ACs using a sample of UK firms listed on the FTSE 350 index during the period between 2016 and 2020.

Our findings can be summarized as follows. First, we find evidence that firms that have AC members who are chartered accountants serving on their ACs are associated with a lower number of total KAMs and accounting-related KAMs but do not exhibit a significant association with entity-wide KAMs. Second, we document a similar effect for prior accounting experience accumulated from holding accounting-related positions that arealso centred in accounting-related KAMs. However, we show that the interaction between accounting experience, whether measured by the number of chartered accountants on the AC or by practical work-life accounting experience, and supervisory experience has a negative and significant association with the total number of KAMs, accounting-related KAMs and entity-wide KAMs. Overall, we conclude that the evidence is consistent with reduced KAMs that are associated with AC members' accounting experience for total KAMs and accounting-related KAMs. The reduction in KAMs extends to entity-wide KAMs when AC members' accounting experience is coupled with supervisory experience. Supervisory experience complements

accounting experience in reducing the risk factors that drive the disclosures of KAMs by the external auditor.

In additional tests, we examine the effect of audit fees, analyst coverage and gender diversity on the relationship between the accounting and supervisory experience of AC members and KAMs. We provide evidence that the relationship between the experience of AC members is negatively associated with KAMs only for firms that pay higher audit fees and are followed by a larger number of analysts. Therefore, we provide evidence that the relationship between AC members' experience and KAMs is conditional on the strength of external monitoring mechanisms such as audit quality/fees and analyst following. We do not find evidence that the gender diversity of the board of directors moderates the relationship between AC experience and KAMs.Our study is subject of the following caveats. First, we are not able to provide causal evidence on the relationship between AC members' experience and KAMs because extended audit reporting (EAR) was not mandated before 2016 and hence there is no data that supports investigating our research questions using a difference-in-differences test that would allow drawing causal inferences. Second, the negative association observed between the accounting experience of AC members and KAMs could be attributed to the actual betterment in accounting quality associated with the accounting experience of AC members or to more efficient communication skills between the AC and the external auditors that constrain the disclosure of KAMs rather than enhance the financial reporting quality delivered. Our additional tests partially address this caveat by showing that the negative relationship between AC members' accounting experience and KAMs is only significant when audit fees are high, indicating that the observed relationship is conditional on financial reporting quality. However, we acknowledge that our findings could be partially explained by unobservable factors like better communication with external auditors for AC members with more accounting knowledge and/or experience. Finally, our sample is restricted to the FTSE 350 index, hence, the results

are not necessarily generalizable to smaller firms. Future research could benefit from studies that investigate similar issues among a broader set of firms that include smaller firms as well.

References:

Abbott, L. J., Parker, S., and Peters, G. F. (2004). Audit committee characteristics and restatements. *Auditing: A Journal of Practice & Theory*, 23(1), 69–87.

Abbott, L. J., Parker, S., Peters, G. F., and Raghunandan, K. (2003). The association between audit committee characteristics and audit fees. Auditing: *A Journal of Practice & Theory*, 22(2), 17–32.

Abdelfattah, T., Elmahgoub, M., and Elamer, A. A. (2021). Female audit partners and extended audit reporting: UK evidence. *Journal of Business Ethics*, 174(1), 177-197.

Abernathy, J. L., Beyer, B., Masli, A., and Stefaniak, C. (2014). The association between characteristics of audit committee accounting experts, audit committee chairs, and financial reporting timeliness. *Advances in Accounting*, 30(2), 283-297.

Asbahr, K., and Ruhnke, K. (2019). Real effects of reporting key audit matters on auditors' judgment and choice of action. *International Journal of Auditing*, 23(2), 165–180.

Bell, T., Landsman, W., and Shackelford, D. (2001). Auditor's perceived business risk and audit fees: Analysis and Evidence. *Journal of Accounting Research*, 39(1), 35-43.

Bepari, M. K. (2023). Audit committee characteristics and key audit matters (KAMs) disclosures. Journal of Corporate Accounting & Finance, 34(1), 152-172.

Carcello, J., Hollingsworth, C. and Neal, T. (2006). Audit committee financial experts: A closer examination using firm designations. *Accounting Horizons*, 20 (4), 351-373.

Chen, J., Ding, R., Hou, W. and Johan, S. (2016). Do financial analysts perform a monitoring role in China? Evidence from modified audit opinions. *Abacus.* 52(3), 473-500.

Chen, J.Z., Elemes, A., Hope, O-K. and Yoon, A. (2022). Audit-Firm Profitability: Determinants and Implications for Audit Outcomes. *Rotman School of Management Working Paper* http://dx.doi.org/10.2139/ssrn.3848871.

Christensen, B. E., S. M. Glover, and C. J. Wolfe, (2014). Do critical audit matter paragraphs in the audit report change nonprofessional investors' decision to invest?, *Auditing: A Journal of Practice and Theory*, 33, 71–93.

Cohen, J. R., Hoitash, U., Krishnamoorthy, G., and Wright, A. M. (2014). The effect of audit committee industry expertise on monitoring the financial reporting process. *The Accounting Review*, 89(1), 243-273.

De Ricquebourg, A. D., & Maroun, W. (2023). How do auditor rotations affect key audit matters? Archival evidence from South African audits. The British Accounting Review, 55(2), 101099.

DeFond, M. L., Hann, R. N., and Hu, X. (2005). Does the market value financial expertise on audit committees of boards of directors? *Journal of Accounting Research*, 43(2), 153–193.

DeFond, M., and Zhang, J. (2014). A review of archival auditing research. *Journal of Accounting and Economics*, 58(2-3), 275-326.

DeZoort, F. T. (1997). An investigation of audit committees' oversight responsibilities. *Abacus*, 33(2), 208–227.

DeZoort, F. T. (1998). An analysis of experience effects on audit committee members' oversight judgments. *Accounting, Organizations and Society*, 23(1), 1–21.

Dhaliwal, D. S., Naiker, V., and Navissi, F. (2010). The association between accruals quality and the characteristics of accounting experts and mix of expertise on audit committees. *Contemporary Accounting Research*, 27(3), 787–827.

Elliott, W.B., Fanning, K., and Peecher, M.E, (2020). Do investors value higher financial reporting quality, and can expanded audit reports unlock this value? *The Accounting Review*, 95 (2), 141–165.

Financial Reporting Council (FRC), (2022). Standard. International Standard on Auditing (UK) 701 (Revised November 2019, Updated May 2022). London, England: The Financial Reporting Council Limited. Available at: https://www.frc.org.uk/getattachment/4af1deff-9145-4758-b033-ff637da24117/ISA-(UK)-701.

Financial Reporting Council. (2018). The UK Corporate Governance Code. https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code

Ghafran, C., and O'Sullivan, N. (2017). The impact of audit committee expertise on audit quality: Evidence from UK audit fees. *The British Accounting Review*, 49(6), 578–593.

Gold, A., M. Heilmann, C. Pott, and J. Rematzki. (2020). Do Key Audit Matters impact financial reporting behavior? *International Journal of Auditing*, 24 (2),232-244.

Gul, F. (2006). Auditors' response to political connections and cronyism in Malaysia, *Journal of Accounting Research*, 44 (5), 931-963

Gul. F., Srindihi, B. and Ng, A. (2011). Does board gender diversity improve the informativeness of stock prices? *Journal of Accounting & Economics*, 51(3), 314-338.

Gutierrez, E., Minutti-Meza, M., Tatum, K., and Vulcheva, M, (2018). Consequences of adopting an expanded auditor's report in the United Kingdom. *Review of Accounting Studies*, 23 (4), 1543–1587.

Hoitash, R. and Hoitash, U. (2009). The role of audit committees in managing relationships with external auditors after SOX: evidence from the USA. *Managerial Auditing Journal*, 2 (4), 368-397.

Holland, K. and Lane, J. (2012). Perceived auditor independence and audit firm fees, *Accounting and Business Research*, 42(2), 115-141.

International Auditing and Assurance Standards Board (IAASB) (2017). A comparison between IAASB and the US PCAOB standards. New York, N.Y.

International Auditing and Assurance Standards Board (IAASB), (2015b). International Standard on Auditing (ISA) 700 *'Forming an Opinion and Reporting on Financial Statements'*. New York, USA: International Federation of Accountants (IFAC). Available at: https://www.iaasb.org/publications/reporting-audited-financial-statements-new-and-revised-auditorreporting-standards-and-related-11..

International Auditing and Assurance Standards Board (IAASB), (2015a). International Standard on Auditing (ISA) 701 *'Communicating Key Audit Matters in the Independent Auditor's Report'*. New York, USA: International Federation of Accountants (IFAC). Available at: https://www.iaasb.org/publications/reporting-audited-financial-statements-new-and-revised-auditorreporting-standards-and-related-11.

International Auditing and Assurance Standards Board (IAASB), (2015c). International Standard on Auditing (ISA) 260 *'Communication with Those Charged with Governance'*. New York, USA: International Federation of Accountants (IFAC). Available at: https://www.iaasb.org/publications/reporting-audited-financial-statements-new-and-revised-auditorreporting-standards-and-related-11.

Irani, R. and Oesch, D. (2013). Monitoring and corporate disclosure: Evidence from a natural experiment. *Journal of Financial Economics*, 109 (2), 398-418.

Kachelmeier, S. J., Rimkus, D., Schmidt, J. J., and Valentine, K. (2020). The forewarning effect of critical audit matter disclosures involving measurement uncertainty. *Contemporary Accounting Research*, 37(4), 2186-2212.

Kohler, A., N. V. S. Ratzinger-Sakel, and J. Theis, (2020). The impact of key audit matters on the auditor's report's communicative value: experimental evidence from investment professionals and non-professional investors, *Accounting in Europe*, 17, 105–128.

Krishnan, G. V., and Visvanathan, G. (2008). Does the SOX definition of an accounting expert matter? The association between audit committee directors' accounting expertise and accounting conservatism. *Contemporary Accounting Research*, 25(3), 827–858.

Kusnadi, Y., Leong, K.S., and Suwardy, T. (2016). Audit Committees and Financial Reporting Quality in Singapore. *Journal of Business Ethics*, 139, 197–214.Lee, J., and Park, J. (2019). The impact of audit committee financial expertise on management discussion and analysis (MD&A) tone. *European Accounting Review*, 28(1), 129-150.

Leuz, C., Nanda, D., & Wysocki, P. D. (2003). Earnings management and investor protection: an international comparison. *Journal of Financial Economics*, 69(3), 505-527.

Lennox, C. S., Schmidt, J. J., and Thompson, A. M. (2022). Why are expanded audit reports not informative to investors? Evidence from the United Kingdom. *Review of Accounting Studies*, 1-36.

Liang, S. H., Hsieh, Y. T., Lin, H. C., & Hsiao, H. Y. (2023). What underlies key audit matters? Evidence from Taiwan. Review of Quantitative Finance and Accounting, 60(3), 1243-1258.

Lim, Y. and Monroe, G. (2020). Analyst coverage and audit fees: International evidence. *Journal of Accounting, Auditing and Finance*, 37(2), 466-492.

Ma, Q., Zhou, J., Wang, Q., & Wang, K. (2024). The impact of key audit matters on goodwill accounting and investment behavior: Evidence from China. International Review of Financial Analysis, 103144.

Minutti-Meza, M. (2021). The art of conversation: the expanded audit report. *Accounting and Business Research*, 51 (5), 548–581.

Moroney, R., S.-Y. Phang, and X. Xiao. (2021). When do investors value Key Audit Matters? *European Accounting Review*, 30(1), 63-82.

Muñoz-Izquierdo, N., Pincus, M., & Wellmeyer, P. (2023). Are key audit matter disclosures useful in assessing the financial distress level of a client firm?. The British Accounting Review, 101200.

Pinto, I., and Morais, A. I. (2019). What matters in disclosures of key audit matters: Evidence from Europe. *Journal of International Financial Management and Accounting*, 30, 145–162.

Pomeroy, B. (2010). Audit committee member investigation of significant accounting decisions. *Auditing: A Journal of Practice & Theory*, 29(1), 173–205.

Porumb, V. A., Zengin-Karaibrahimoglu, Y., Lobo, G. J., Hooghiemstra, R., and De Waard, D. (2021). Expanded Auditor's Report Disclosures and Loan Contracting. *Contemporary Accounting Research*, 38(4), 3214-3253.

Quick, R. and Warming-Rasmussen, B. (2015). An Experimental Analysis of the Effects of Non-audit Services on Auditor Independence in Appearance in the European Union: Evidence from Germany. *Journal of International Financial Management & Accounting*, 26(2), 150-187.

Public Company Accounting Oversight Board (PCAOB), 2017. The auditor's report on an audit of financial statements when the auditor expresses an unqualified opinion and related amendments to PCAOB Standards. PCAOB Release No. 2017-001. Washington, D.C. available at: https://pcaobus.org/Rulemaking/Docket034/2017-001-auditors-report-final-rule.pdf.

Reid, L.C., Carcello, J.V., Li, C., Neal, T.L., and Francis, J.R, (2019). Impact of auditor report changes on financial reporting quality and audit costs: evidence from the United Kingdom. *Contemporary Accounting Research*, 36 (3), 1501–1539.

Sierra-Garcia, L., Gambetta, N., Garcia-Benau, M.A, and Orta-Perez, M. (2019). Understanding the determinants of the magnitude of entity-level risk and account-level risk key audit matters: The case of the United Kingdom. *British Accounting Review*, 51(3), 227-240.

Simunic, D.A. and Stein, M.T. (1996). The impact of litigation risk on audit pricing: A review of the economics and the evidence. *Auditing: A Journal of Practice & Theory*, 15, 119-134.

Schmidt, J. and Wilkins, M. (2013). Bringing darkness to light: The influence of auditor quality and audit committee expertise on the timeliness of financial statement disclosures. *Auditing: A Journal of Practice & Theory*, 32(1), 221-244.

Srindihi, B., Gul, F. and Tsui, J. (2011). Female directors and earnings quality. *Contemporary Accounting Research*, 28(5), 1610-1644.

Velte, P. (2020). Associations between the financial and industry expertise of audit committee members and key audit matters within related audit reports. *Journal of Applied Accounting Research*, 21(1), 185–200.

Wilson, A. (2021). 'The art of conversation: the expanded audit report'–a practitioner view. *Accounting and Business Research*, 51(5), 582-584.

Zhang, P. F., and Shailer, G. (2022). The impact of audit committee expertise on external auditors' disclosures of key audit matters. *International Journal of Auditing*, 26(2), 151-170.

Table1: Definition of Variables

Variable	Definition	Source
KAMs (Dependent variable)		
KAM_TOTAL	the total number of matters mentioned in the KAM section of the audit report	Annual Report
KAM_ENTITY	the total number of KAM related to client risk as a whole such as litigation/regulatory provisions, controls, IT and other entity-level matters	Annual Report
KAM_ACC	KAM related accounting issues in the financial statement such as revenues, intangibles, property, plant and equipment (PPE), pension schemes, and financial assets, among others	Annual Report
AC Variables (Independent variables)		
AC_CHART	The total number of directors with chartered accountants status serving on the AC	Annual Report

AC_CHARTDUM	An indicator variable that is equal to one if the firm has at least one chartered accountant serving on the AC	
AC_ACC	The total number of directors with prior accounting experience serving on the AC	Annual Report
AC_ACCDUM	An indicator variable that is equal to one if the firm has at least one member with prior accounting experience serving on the AC	
AC_SUPER	The total number of directors with prior supervisory experience serving on the AC	Annual Report
Control variables		
NONAUDIT	the ratio non-audit fees to total fees to measure auditor independence	Refinitiv
AUDITFEES	the natural log of audit fees to account for audit quality	Refinitiv
ANALYST	the number of analysts following the firm.	Refinitiv
		Refinitiv
AC-SIZE	the total number of directors on AC	Refinitiv
FSIZE	the natural logarithm of a firm's total assets.	Refinitiv
CR	the ratio of current assets to current liability	Refinitiv
ROA	the net income of a firm deflated by its total assets.	Refinitiv
LOSS	a binary variable that is equal to 1 if a firm is loss making and zero otherwise	Refinitiv
LEV	the firm's total debt deflated by its total assets.	Refinitiv

Table 2: Descriptive Statistics

Variable	Mean	Median	SD	p25	p75
KAM_TOTAL	3.6	3	1.7	3	5
KAM_ACC	1.1	1	1.1	0	2
KAM_ENTITY	2.6	2	1.3	2	3
AC_CHART	0.73	1	0.74	0	1
AC_ACC	0.88	1	0.75	0	1
AC_SUPER	1.1	1	0.8	1	1
NONAUDIT	0.16	0.083	0.28	0.038	0.15
AUDITFEES	14	14	1.2	14	15
ANALYST	15	15	5.2	12	17
AC_SIZE	4.3	4	1.2	3	5
FSIZE	22	22	1.3	21	23
CR	1.5	1.3	0.99	1	1.5

ROA	0.063	0.056	0.073	0.037	0.082
LOSS	0.069	0	0.25	0	0
LEV	0.25	0.25	0.15	0.18	0.31

This table presents the descriptive statistics for the main variables used in this study.

Table 3: The relationship between Chartered Accountants on AC and KAM

VARIABLES	KAM_TOTAL (1)	KAM_ENTITY (2)	KAM_ACC (3)
AC_CHART	-0.253***	-0.0804	-0.210***
	[-2.875]	[-1.364]	[-3.068]
NONAUDIT	-0.00933	-0.0965	0.084
	[-0.0558]	[-0.864]	[0.649]
AUDITFEES	0.717***	0.242***	0.475***
	[6.897]	[3.481]	[5.901]
ANALYST	-0.0268*	-0.00691	-0.0177
	[-1.809]	[-0.697]	[-1.543]
AC_SIZE	-0.00244	-0.0285	0.0082
	[-0.0488]	[-0.851]	[0.212]
FSIZE	-0.0384	-0.0423	0.014
	[-0.395]	[-0.652]	[0.187]
CR	0.0698	0.0293	0.0498
	[0.899]	[0.564]	[0.829]
ROA	-0.466	-0.0589	-0.574
	[-0.570]	[-0.108]	[-0.908]
LOSS	0.256	0.2	-0.0253
	[1.288]	[1.505]	[-0.165]
LEV	0.115	0.215	-0.154
	[0.268]	[0.746]	[-0.461]
Constant	-5.092***	-1.178	-4.038***
	[-3.653]	[-1.263]	[-3.737]
Observations	730	730	730
R-squared	0.569	0.469	0.581
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Auditor FE	Yes	Yes	Yes

This table presents the results of the fixed-effects regressions to examine the association between chartered accountants serving on the AC and KAMs. Column (1) presents the results for the total number of KAMs, Column (2) presents the results for entity-level KAMs, and Column (3) presents the results for account-level KAMs.
*, **, *** indicate significance at the 1%, 5% and 10%, respectively. t stats are presented in (parentheses)

Table 4: The relationship between Prior Accounting experience on AC and KAM.

VARIABLES	KAM_TOTAL (1)	KAM_ENTITY (2)	KAM_ACC (3)
AC_ACC	-0.155**	-0.066	-0.125**
	[-1.937]	[-1.230]	[-2.011]
NONAUDIT	-0.00813	-0.097	0.0851
	[-0.0485]	[-0.868]	[0.655]
AUDITFEES	0.713***	0.239***	0.472***
	[6.830]	[3.445]	[5.835]
ANALYST	-0.0266*	-0.0066	-0.0176
	[-1.785]	[-0.664]	[-1.522]
AC_SIZE	-0.000591	-0.0268	0.00954
	[-0.0117]	[-0.798]	[0.244]
FSIZE	-0.0342	-0.0407	0.0175
	[-0.350]	[-0.626]	[0.231]
CR	0.066	0.0297	0.0464
	[0.846]	[0.572]	[0.768]
ROA	-0.45	-0.0564	-0.56
	[-0.548]	[-0.103]	[-0.882]
LOSS	0.258	0.2	-0.0231
	[1.296]	[1.508]	[-0.150]
LEV	0.167	0.227	-0.111
	[0.386]	[0.787]	[-0.331]
Constant	-5.213***	-1.2	-4.142***
	[-3.729]	[-1.288]	[-3.820]
Observations	730	730	730
R-squared	0.566	0.468	0.578
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Auditor FE	Yes	Yes	Yes

This table presents the results of the fixed-effects regressions to examine the association between directors with accounting experience serving on the AC and KAMs. Column (1) presents the results for the total number of KAMs, Column (2) presents the results for entity-level KAMs, and Column (3) presents the results for account-level KAMs.

*, **, *** indicate significance at the 1%, 5% and 10%, respectively. t stats are presented in (parentheses)

Table 5: The role of prior supervisory experience in the relationship between Chartered Accountants on AC and KAM

VARIABLES	KAM_TOTAL (1)	KAM_ENTITY (2)	KAM_ACC (3)
AC_CHART	0.0894	0.0321	-0.000468
	[0.504]	[0.268]	[-0.00337]
AC_SUPER	0.481***	0.228**	0.173
	[3.445]	[2.401]	[1.571]
AC_CHART* AC_SUPER	-0.257***	-0.1000*	-0.128**
	[-3.108]	[-1.791]	[-1.981]
NONAUDIT	-0.0159	-0.0994	0.0835
	[-0.0960]	[-0.892]	[0.646]
AUDITFEES	0.693***	0.231***	0.464***
	[6.717]	[3.330]	[5.766]
ANALYST	-0.0262*	-0.00697	-0.0168
	[-1.776]	[-0.703]	[-1.458]
AC_SIZE	-0.0192	-0.0367	0.0037
	[-0.385]	[-1.094]	[0.0951]
FSIZE	-0.0341	-0.0433	0.0189
	[-0.353]	[-0.667]	[0.251]
CR	0.0507	0.0187	0.0444
	[0.655]	[0.359]	[0.736]
ROA	-0.483	-0.0649	-0.579
	[-0.597]	[-0.119]	[-0.917]
LOSS	0.269	0.21	-0.024
	[1.363]	[1.582]	[-0.156]
LEV	0.0384	0.184	-0.185
	[0.0898]	[0.640]	[-0.554]
Constant	-5.305***	-1.199	-4.201***
	[-3.811]	[-1.280]	[-3.865]
Observations	730	730	730
R-squared	0.578	0.474	0.584
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Auditor FE	Yes	Yes	Yes

This table presents the results of the fixed-effects regressions to examine whether the association between chartered accountants serving on the AC and KAMs is more observable for firms with AC members with prior supervisory experience. Column (1) presents the results for the total number of KAMs, Column (2) presents the results for entity-level KAMs, and Column (3) presents the results for account-level KAMs.
*, **, *** indicate significance at the 1%, 5% and 10%, respectively. t stats are presented in (parentheses).

Table 6: The role of prior supervisory experience in the relationship between Prior Accounting experience on AC and KAM.

VARIABLES	KAM_TOTAL (1)	KAM_ENTITY (2)	KAM_ACC (3)
AC_ACC	0.209	0.0778	0.105
	[1.149]	[0.637]	[0.736]
AC_SUPER	0.707***	0.416***	0.208
	[4.111]	[3.595]	[1.535]
AC_ACC* AC_SUPER	-0.310***	-0.155***	-0.137**
	[-3.855]	[-2.884]	[-2.163]
NONAUDIT	-0.0218	-0.105	0.0841
	[-0.132]	[-0.952]	[0.648]
AUDITFEES	0.678***	0.218***	0.462***
	[6.563]	[3.157]	[5.703]
ANALYST	-0.0267*	-0.0068	-0.0172
	[-1.810]	[-0.690]	[-1.494]
AC_SIZE	-0.018	-0.0368	0.00473
	[-0.361]	[-1.102]	[0.121]
FSIZE	-0.0376	-0.0453	0.0192
	[-0.391]	[-0.702]	[0.254]
CR	0.0154	0.00123	0.0282
	[0.198]	[0.0236]	[0.462]
ROA	-0.643	-0.154	-0.639
	[-0.793]	[-0.284]	[-1.007]
LOSS	0.273	0.214	-0.0252
	[1.387]	[1.626]	[-0.163]
LEV	0.0697	0.177	-0.146
	[0.163]	[0.619]	[-0.436]
Constant	-5.233***	-1.122	-4.262***
	[-3.766]	[-1.205]	[-3.908]
Observations	730	730	730
R-squared	0.579	0.479	0.581
R-squared	0.566	0.468	0.578
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Auditor FE	Yes	Yes	Yes

This table presents the results of the fixed-effects regressions to examine whether the association between directors with accounting experience serving on the AC and KAMs is more observable for firms with AC members with prior supervisory experience. Column (1) presents the results for the total number of KAMs, Column (2) presents the results for entity-level KAMs, and Column (3) presents the results for account-level KAMs.
*, **, *** indicate significance at the 1%, 5% and 10%, respectively. t stats are presented in (parentheses).

Table 7: The effect of audit fees on the relationship between accounting experience and KAMs

Panel A: The effect of audit fees on the relationship between chartered accountants on the AC and KAMs

Subsample	Low_AF			High_AF		
VARIABLES	KAM_TOTAL (1)	KAM_ACC (2)	KAM_ENTITY (3)	KAM_TOTAL (4)	KAM_ACC (5)	KAM_ENTITY (6)
AC_CHART	-0.0376	-0.024	-0.0976	-0.328***	-0.186**	-0.163*
	[-0.238]	[-0.215]	[-0.821]	[-2.737]	[-2.562]	[-1.746]
NONAUDIT	-0.915**	-0.580*	-0.344	-0.0645	-0.0953	0.0391
	[-1.998]	[-1.820]	[-1.013]	[-0.355]	[-0.871]	[0.277]
ANALYST	-0.0129	-0.012	0.00269	-0.0362*	-0.0149	-0.0216
	[-0.498]	[-0.665]	[0.141]	[-1.835]	[-1.251]	[-1.407]
AC_SIZE	-0.0338	-0.0728	0.00933	0.015	-0.00311	0.0152
	[-0.375]	[-1.159]	[0.139]	[0.206]	[-0.0709]	[0.269]
FSIZE	0.508***	0.178*	0.357***	0.175	-0.0676	0.248***
	[3.445]	[1.726]	[3.246]	[1.580]	[-1.011]	[2.880]
CR	-0.19	-0.447***	0.28	0.0452	0.0673	-0.0184
	[-0.796]	[-2.686]	[1.580]	[0.532]	[1.313]	[-0.279]
ROA	2.429	1.789	0.0577	-2.115**	-1.403**	-0.73
	[1.102]	[1.165]	[0.0353]	[-2.023]	[-2.223]	[-0.898]
LOSS	0.816**	0.332	0.263	0.131	0.217	-0.0734
	[2.334]	[1.362]	[1.011]	[0.463]	[1.270]	[-0.334]
LEV	0.153	0.864	-0.87	0.0554	-0.0385	0.113
	[0.169]	[1.372]	[-1.297]	[0.106]	[-0.122]	[0.278]
Constant	-6.859**	-1.858	-5.436**	0.0957	2.649*	-2.64
	[-2.051]	[-0.794]	[-2.181]	[0.0419]	[1.920]	[-1.485]
Observations	328	327	327	393	393	393
R-squared	0.598	0.452	0.669	0.473	0.555	0.53
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Auditor FE	Yes	Yes	Yes	Yes	Yes	Yes

This table presents the results of the fixed-effects regressions to examine whether audit fees affect the relationship between chartered accountants on the AC and KAMs. Columns (1), (2) and (3) report the results for observations with below-median audit fees and columns (4), (5) and (6) report the results for the subsample of above-median audit fees. Column (1,4) presents the results for the total number of KAMs, Column (2,5) presents the results for entity-level KAMs, and Column (3,6) presents the results for account-level KAMs.
*, **, *** indicate significance at the 1%, 5% and 10%, respectively. t stats are presented in (parentheses).

Panel B: The effect of audit fees on the relationship between AC members with prior accounting experience and KAMs

Subsample	**Low_AF**			**High_AF**		
VARIABLES	**KAM_TOTAL (1)**	**KAM_ACC (2)**	**KAM_ENTITY (3)**	**KAM_TOTAL (4)**	**KAM_ACC (5)**	**KAM_ENTITY (6)**
AC_ACC	-0.260*	-0.132	-0.218**	0.0523	-0.0124	0.0596
	[-1.768]	[-1.264]	[-1.974]	[0.492]	[-0.194]	[0.726]
NONAUDIT	-0.898**	-0.576*	-0.365	-0.0362	-0.0823	0.0554
	[-1.999]	[-1.837]	[-1.094]	[-0.197]	[-0.744]	[0.391]
ANALYST	-0.00704	-0.00921	0.00714	-0.0403**	-0.0166	-0.0241
	[-0.272]	[-0.510]	[0.372]	[-2.021]	[-1.383]	[-1.566]
AC_SIZE	-0.0157	-0.0647	0.0168	0.0168	-0.00018	0.0146
	[-0.176]	[-1.042]	[0.255]	[0.228]	[-0.00400]	[0.256]
FSIZE	0.471***	0.161	0.323***	0.173	-0.0623	0.242***
	[3.197]	[1.562]	[2.951]	[1.525]	[-0.912]	[2.764]
CR	-0.186	-0.445***	0.281	0.00368	0.0504	-0.0441
	[-0.783]	[-2.683]	[1.596]	[0.0425]	[0.965]	[-0.660]
ROA	2.849	1.99	0.396	-1.994*	-1.326**	-0.677
	[1.293]	[1.293]	[0.242]	[-1.887]	[-2.082]	[-0.830]
LOSS	0.841**	0.343	0.285	0.105	0.207	-0.0903
	[2.419]	[1.410]	[1.105]	[0.366]	[1.200]	[-0.409]
LEV	0.283	0.924	-0.777	0.221	0.0379	0.209
	[0.314]	[1.468]	[-1.162]	[0.420]	[0.119]	[0.513]
Constant	-6.026*	-1.464	-4.663*	-0.132	2.399*	-2.656
	[-1.804]	[-0.627]	[-1.879]	[-0.0565]	[1.710]	[-1.478]
Observations	328	327	327	393	393	393
R-squared	0.602	0.455	0.673	0.461	0.546	0.526
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Auditor FE	Yes	Yes	Yes	Yes	Yes	Yes

This table presents the results of the fixed-effects regressions to examine whether audit fees affect the relationship between the accounting expertise of AC members and KAMs. Columns (1), (2) and (3) report the results for observations with below-median audit fees and columns (4), (5) and (6) report the results for the subsample of above-median audit fees. Column (1,4) presents the results for the total number of KAMs, Column (2,5) presents the results for entity-level KAMs, and Column (3,6) presents the results for account-level KAMs.
*, **, *** indicate significance at the 1%, 5% and 10%, respectively. t stats are presented in (parentheses).

Table 8: Robustness Test: Heckman two-stage Model

	Stage 1	Stage 2	Stage 1	Stage 2
Dependent Variable	**AC_CHARTDUM (1)**	**KAM_TOTAL (2)**	**AC_ACCDUM (3)**	**KAM_TOTAL (4)**
AC_CHART		-0.310***		
		[-3.416]		
AC_ACC				-0.212***
				[-2.609]
NONAUDIT		0.0822		0.0831
		[0.478]		[0.482]
AUDITFEES		0.792***		0.784***
		[7.440]		[7.328]
BSIZE	0.0179		-0.0217	
	[0.543]		[-0.562]	
BIND	-0.00380*		0.000237	
	[-1.711]		[0.0949]	
GENDIV	0.00963*		0.0166***	
	[1.897]		[2.636]	
INT_AUD	-0.0461**		0.0138***	
	[-2.289]		[2.673]	
CEODUALITY	0.729*		2.332***	
	[1.735]		[4.573]	
ANALYST	-0.0181*	-0.0347**	-0.00346	-0.0328**
	[-1.658]	[-2.161]	[-0.302]	[-2.172]
AC_SIZE	0.0397	0.0274	0.173***	0.0202
	[0.896]	[0.527]	[3.014]	[0.379]
FSIZE	-0.0251	-0.0679	-0.155***	-0.0493
	[-0.514]	[-0.679]	[-2.988]	[-0.483]
CR	0.0225	0.0223	0.0254	0.0287
	[0.477]	[0.280]	[0.452]	[0.356]
ROA	-1.02	-0.455	0.429	-0.482
	[-1.361]	[-0.534]	[0.606]	[-0.577]
LOSS	0.161	0.319	0.168	0.292
	[0.822]	[1.557]	[0.806]	[1.431]
LEV	-0.306	0.039	-0.0277	0.0763
	[-1.030]	[0.0882]	[-0.0803]	[0.171]
Lambda		0.11		-0.131
		[0.197]		[-0.424]
Constant	2.919*	-5.434***	0.365	-5.707***
	[1.835]	[-3.827]	[0.316]	[-3.974]
Observations	824	692	824	692
R-squared		0.584		0.58
Pseudo R-Squared	0.137		0.104	
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Auditor FE	YES	YES	YES	YES

This table presents the results of the two-stage Heckman model used to assess the robustness of our results. Columns (1) and (2) present the estimation of the two stages to examine the association between chartered accountants on the AC and KAMs. Columns (3) and (4) present the estimation of the two stages to examine the association between prior accounting experience for directors serving on the AC and KAMs.
*, **, *** indicate significance at the 1%, 5% and 10%, respectively. t stats are presented in (parentheses).

Table 9: Robustness Test: Propensity Score Matching

VARIABLES	PSM KAM_TOTAL (1)	PSM KAM_TOTAL (2)
AC_CHART	-0.259***	
	[-2.724]	
AC_ACC		-0.184**
		[-2.230]
NONAUDIT	0.134	0.00255
	[0.752]	[0.0145]
AUDITFEES	0.797***	0.733***
	[7.269]	[6.845]
ANALYST	-0.0405***	-0.0311**
	[-2.606]	[-2.054]
AC_SIZE	-0.0351	0.0311
	[-0.667]	[0.607]
FSIZE	-0.0841	-0.016
	[-0.825]	[-0.159]
CR	-0.101	-0.0129
	[-1.170]	[-0.157]
ROA	-0.242	-0.261
	[-0.269]	[-0.313]
LOSS	0.259	0.365*
	[1.238]	[1.800]
LEV	-0.413	-0.154
	[-0.852]	[-0.339]
Constant	-4.497***	-5.756***
	[-2.987]	[-4.021]
Observations	604	665
R-squared	0.599	0.587
Year FE	Yes	Yes
Industry FE	Yes	Yes
Auditor FE	Yes	Yes

This table presents the results of the PSM model used to assess the robustness of our results. Column (1) present the results of the PSM model used to examine the association between chartered accountants on the AC and KAMs. Column (2) results of the PSM model used to examine the association between prior accounting experience for directors serving on the AC and KAMs.
*, **, *** indicate significance at the 1%, 5% and 10%, respectively. t stats are presented in (parentheses).