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The relationship between Key Audit Matters and Audit Committees

A quantitative study about 310 Swedish companies

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Hope you are enjoying your reading!

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ABSTRACT

Title: The relationship between Key Audit Matters and Audit Committees: A quantitative study on 310 Swedish companies.

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Aim: The purpose of this thesis is to see how the quality of the audit committee relates to the number of key audit matters in the audit report. The quality of the audit committee will be determined through meeting frequency, independence in the audit committee, size of the committee, diversity in the committee, if the members are getting remuneration explicit for being in the audit committee, how many words that describe the work of the audit committee in the annual reports, and if the committee is separated from the board of directors, so-called dedicated.

Method: This is a quantitative study that has been conducted with descriptive statistics, correlation analysis, VIF analysis, multivariate regression, univariate regression, and a Poisson regression to ensure the result in the multivariate analysis.

Results and conclusions: The result of this thesis shows a significant relationship between our dependent variable key audit matters and two of our independent variables, meeting frequency and remuneration. The conclusion is that the institutional structure can have an impact on the audit committee's effect on key audit matters, since Swedish companies already have a lot of corporate governance mechanisms, which can mean that companies get more ineffective in having an audit committee.

Contribution of the thesis: The theoretical contribution is a broad view on the characteristics effect on key audit matters, and a contribution to the research in a strong institutional structure. The practical contribution is that companies can use this study to evaluate if they need an audit committee or not.

Suggestions for future research: Suggestions for future research is to examine more EU countries, to see if EU regulations have a major impact on companies corporate governance, or if the institutional differences in the different countries have a bigger impact.

Key words: Key Audit Matters, Audit Committee, Agency Theory, Audit committee characteristics, Institutional structure

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1. Introduction

Audit is an important investigation that will provide independent assurance to the user and make sure that the accounting information is credible. The value of auditing is then that it provides independent assurance of information, so it is easy to review a company (DeFond & Zhang, 2014). In a company, it is the audit committee that works with all questions regarding audit (De Zoort et al., 2002; Abu & Jaffar, 2020).

Audit committees are separate parts of the board of directors that have different assignments (De Zoort et al., 2002; Abu & Jaffar, 2020). These assignments can assign an external auditor, plan the internal audit, help the auditor with different audit issues related to the company's financial reporting, and make sure that the financial reporting is following the related accounting standards. The audit committee regulates the audit internally in a company, but it is the auditor that handles the audit in general (De Zoort et al., 2002; Abu & Jaffar, 2020). The output of the audit is an audit report where the auditor confirms that the annual reports follow the relevant laws and standards (Bolagsverket, 2019).

Key Audit Matters (KAM) are a part of the audit report and discuss the most critical part of a company, where it communicates risk and misstatements to the users (IAASB, 2015; Vetle, 2018). It was introduced because of the many crises in the business world that appeared. This came to question if the audit reports are qualitative and helpful enough (Abu & Jaffar, 2020). KAMs became a way to increase the trustworthiness of the auditor's report since this part of the auditor's report raises problems in the company that can be significantly important regarding risk areas in a company (Abu & Jaffar, 2020). This can also help the auditors to raise parts in the financial reporting that cause difficulties in auditing the report.

Audit committees have a big part in making sure that the financial reporting is in line with the applicable accounting standards and regulations. The audit committees can therefore have an impact on how high quality a financial report has. There could therefore be a relationship between audit committees and KAMs (Al Lawati & Hussainey, 2022). More precisely, an audit committee with good quality should affect the number of KAMs in the audit report since it will have an impact on the quality of the financial reporting (Abu & Jaffar, 2020). A better-quality financial report should lead to fewer KAMs in the audit report, and therefore there should be a link between high-quality audit committees and fewer KAMs.

This thesis investigates the relationship between audit committees and KAMs in a Swedish institutional context. This kind of investigation in the literature is few, and the ones that are done are often in the Asian/north African region. One example is one that is done in Oman (Al Lawati & Hussainey, 2022). Oman has had several financial scandals in the country, which have depended on the weaknesses in the institutional structure and governance of the country. In Sweden, the institutional structure has been harmonized and standardized with the EU, since Sweden is a member of the European Union (Laegreid et al., 2004). Swedish corporate governance is also strong and has been seen as a role model for how corporate governance should be implemented (Achtenhagen et al. 2018). Since Swedish corporate governance already is strong and creates good-quality financial reporting, the impact of audit committees on KAMs could be lower than in a weaker institutional context, such as Oman (Al Lawati & Hussainey, 2022). Therefore, it is a need for research in a context with a strong institutional and governance structure, to see if audit committees have a different impact on KAMs in this type of context, or if the impact of audit committees is important even in a context with already strong governance mechanisms.

To examine the relationship between audit committees and KAMs in Sweden, the data collection will be done by manually searching for different important characteristics of audit committees in companies' annual reports. We got the annual reports from our examiner who manually collected them from the companies' websites. So, this study is unique since the data is collected manually. In total, we examine 310 publicly listed Swedish companies on Nasdaq OMX Stockholm Stock Exchange. After the data collection, a multivariate analysis was done to see the relationship between these characteristics and the number of KAMs. The analysis will be done on Swedish-listed companies between the years 2016 and 2021. Because of the information above, a purpose and research question has been formed which is presented in the remainder of this chapter.

The purpose of this thesis is to see how the quality of the audit committee relates to the number of key audit matters in the audit report. The quality of the audit committee will be determined through meeting frequency, independence in the audit committee, size of the committee, diversity in the committee, if the members are getting remuneration explicit for being in the audit committee, how many words that describe the work of the audit committee

in the annual reports and if the committee is separated from the board of directors, so-called dedicated. Therefore, the following research question has been developed:

- Do audit committee characteristics have a relationship with the number of key audit matters?

This thesis is limited to Swedish publicly listed companies since this type of study has not been done in Sweden. Therefore, all the companies follow the same legislation and standards that exist in Sweden. This thesis is also limited to the years 2016-2021 since KAMs were implemented in the year 2016. The year 2022 is not included since all the companies had not published their annual reports when this study was started.

This thesis starts with an introduction of the topic and continues with the study's purpose, research question, and limitations. The second chapter is the theoretical framework which presents different theories such as audit, audit committee, the institutional framework in Sweden, and the agency theory. This chapter also presents the hypotheses that this study is based on. Then, a chapter about the method is presented which will develop into the result that is presented in chapter 4. It follows a chapter about the analysis of the result. The thesis will end with a chapter about the conclusion of the study and suggestions for future research.

2. Theoretical framework

In this chapter, the theoretical framework regarding agency theory is presented. Then, theory about audit and audit committees is introduced. Further the institutional structure in Sweden, the agency theory and the hypothesis development are presented.

2.1 Agency Theory

Santoso et al. (2022) explains that there are two parties in the agency theory that often have different opinions about a business. The two parties in the theory are the agent and the principal. So, the theory could be concluded that it is a relationship or contract between the agent on one side and the principal and the other side.

Santoso et al. (2022) continues to write that two problems could occur in the agency theory. The first problem is that the two parts could have conflicting objectives since the principal sometimes doesn't know what the agent is doing and if it is the right thing. The second problem is about risk and occurs when the agent and principal have different attitudes to risk (Santoso et al., 2022). Eisenhardt (1989) develops this perspective and claims that the theory assumes that all individuals act within their interests. Therefore, people will optimize the benefits they could get from a specific act and prioritize their interest when they act as an agent or a principal (Eisenhardt, 1989). This will be developed to information asymmetry which is a big characteristic in all agency-principal relationships according to Ahola et al. (2021). Information asymmetry refers to situations where the agent or the principal has information that they did not share with the other party. It is often associated with the increased likelihood of opportunistic behavior (Eisenhardt, 1989).

The relationship between the agent and principal could therefore be summarized as a contract between the two parts. Jensen & Meckling (1976) explains that it is the principal that employs the agent to perform services for the principal's benefit. Further, the theory says that it is the owners (shareholders) that could be seen as the principals, and the management that could be seen as the agent. So, the owners/shareholders hire the management to perform services for the owners, and one example is to manage the company (Jensen & Meckling, 1976).

Borhan & Ahmad (2018) claims that there also exists a third party in the agency theory, which is the debt holders or debt creditors. In this problem, it is a contract between the shareholder/owner as the principal and the debt holders or debt creditors as the agent. These two parties have different opinions when it comes to managing a company. So, there exists an agency problem in two different ways according to the authors. The first is the “regular” conflict of interest between the owners and management and the second one is between the owners and the debt holders or debt creditors (Borhan & Ahmad, 2018).

2.2 Audit

DeFond & Zhang (2014) explains that an audit is an important examination that provides independent assurance of the credibility of the accounting information. The value in audit is therefore to provide independent assurance of information. The authors continue to explain that today’s complexity in accounting standards will increase the potential of auditing to add value for a firm.

The auditor’s duties are to examine a business’s accounting and management. In other words, the auditor will examine how the board manages the business they represent. The purpose of the examination is for the auditor to assess if the financial information that has been audited gives a fair picture of the company when it comes to results and position. The most important purpose of the auditor’s examination is to see if the company complies with relevant laws or not (FAR, n.d.).

An audit is a quality indicator against third parties. Then, the third party such as potential investors, banks, suppliers, and customers that reads the company’s financial reports will know if the company is high quality or not. So, the auditor will create a type of security and credibility since they help the company to find and control possible risks (FAR, n.d.).

Companies that need to have an auditor are regulated in 9 Chapter 1 § Swedish Companies Act (SFS 2005:551). The act says that a limited company needs to have an auditor, but private limited companies could choose to have an auditor. If they meet at least two of the following requirements in the last two fiscal years, they need to have an auditor: (1) the average number of employees in the company has been more than 3, (2) the company’s

reported total assets have been more than 1,5 million SEK, (3) the company's reported turnover has been more than 3 million SEK.

2.2.1 Audit report

Companies that have an auditor and are registered in Sweden need to submit an auditor report. The audit report is written by the company's auditor who confirms that the annual reports follow the relevant laws and standards (Bolagsverket, 2019).

An audit report should include many parts. Some of them are the following: if the annual reports follow laws or standards in the country, the auditor's opinion about the accuracy of the accounting, the auditor's opinion about the annual reports, and what the auditor has audited. If the auditor finds some part that is more critical than others, it should also be mentioned which is called a key audit matter (see *section 2.1.1.1*). The report should also mention the company's name, fiscal year, and organization's number (Bolagsverket, 2019).

IAASB (2015) writes that stakeholders have begun to demand a more informative audit report, which lead to both standard setters and regulators around the world having adopted an expanded audit report. The expanded audit report will develop the traditional pass/fail model and include more information about accounting, risk, or issues that the auditor faced. This expanded format of an auditor report is mandatory for listed entity audits and describes the risks of material misstatements which will have an impact on the audit according to IAASB (2015a).

The US Public Company Accounting Oversight Board (PCAOB, 2016a) explains that the key purpose of the expanded auditor's report is to provide valued information for the investors and insights into the auditor's judgments. Further, IAASB (2015b) claims which parts should be included in the expanded auditor's report. Some examples are key audit matter disclosures, why the matter is significant, the auditor's opinion about the matter, statements about the auditor's independence, etc. (IAASB, 2015b).

2.2.1.1 Key Audit Matters

International Accounting Standard Boards (2015) explains that key audit matters (KAMs) recently have been developed by standard setters and regulators which still enhance the valued information in audit reports. Vetle (2018) explains that the disclosure of KAMs is

considered the most significant risk matter of important misstatements that are communicated to the users. This could lead to an improvement in the audit report quality since it increases the communicative and informative value. It will therefore help the users to better understand the roles and responsibilities that the auditors have (Christensen et al. 2014; Sirois et al. 2018; Gutierrez et al. 2018; Bédard et al. 2019).

Christensen et al. (2014) claim that the level of KAMs disclosure could affect an investor's investment decisions, especially when the KAM is about a material and complex issue that requires subjective auditor judgments. Kipp & Gaynor (2020) share this view about the investors but also find that how detailed the KAM disclosures are, will affect investors' perceptions of the financial reporting quality.

Unlike Christensen et al. (2014) and Kipp & Gaynor (2020), some authors say that certain investors use KAM disclosures as a measurement when it comes to misstatement risk. This will lead to some investors perceiving less audit assurance when it comes to KAMs in an audit report since a KAM is something risky (Kachelmeier et al., 2020; Rapley et al., 2021). Therefore, for instance, Reid et al. (2019) claim that KAM disclosures are value relevant and useful for investors. The biggest argument behind that statement is that the authors find that the expanded audit report is associated with improved financial reporting quality.

KAM disclosures could also have an impact on the market in different ways. One example is that Klevak et al. (2020) find that companies with more detailed KAM disclosures have lower market returns and higher volatility of stock returns. Therefore, they claim that the users use the KAM disclosures as an indicator of uncertainty. Another example is that Goh et al. (2020) suggest that after the requirement of an expanded audit report, they find higher abnormal trading volume and lower stock price synchronicity.

2.3 Audit Committee

A limited company needs to have a board of directors according to Bolagsverket (2020). They continue to explain that the board of directors manages the company on behalf of the shareholders. The board members are elected by the shareholders at the annual or general meeting. The board of directors has many different responsibilities, some examples are that

they need to manage the management, attend general meetings and they are personally liable for the company's debts (Bolagetsverket, 2020).

The board of directors is a key mechanism in a corporate governance system and the biggest purpose is to ensure good firm performance (Post et al., 2011; Mallin et al., 2013; Amran et al., 2014; Fuente et al., 2017). One of their roles is to balance the shareholders' interests since they contribute to the company's current and future success according to Freeman (1984) and Rajan & Zingales (1998). So, the board of directors needs to take the shareholders, other stakeholders' interests, and the firm's financial performance into consideration.

The board of directors could have different committees in their board. One part is the audit committee that works with the company's financial reporting (Bepari, 2023). Their assignment is to oversee the creation of the financial report, work with the internal audit, and assign and have contact with the external auditor regarding the financial report. Audit committees and their characteristics have a big impact on the quality of the financial report, and these characteristics will be introduced in the following parts of this thesis.

Sultana et al. (2015) claim that an audit committee has an important role when it comes to overseeing the audit process, communicating with both the external auditors and the board of directors, and being an intermediary between the internal and external auditors. The authors explain that different audit committee characteristics are associated with the quality of the financial statements. Some examples of characteristics are the number of members, diversity, independence, and number of members with accounting and finance backgrounds.

Another duty that an audit committee has is to oversee how firms comply with different regulations, how they work with risk, and monitor the internal audit functions (Goodwin, 2003). The overall monitoring function that the audit committee has is to improve the quality of the financial reporting. This function is dependent on the different audit committee characteristics according to Klein (2002).

2.4 Institutional Structure in Sweden

The Scandinavian country Sweden is a part of the European Union (EU) and is therefore affected by the rules and standards of the EU. The Swedish institutional structure is stabilized

and harmonized with the other EU countries (Laegreid et al., 2004). Swedish corporate governance is also seen as strong by many, and the comply-or-explain principle has been seen as an effective tool for creating strong corporate governance (Achtenhagen et al. 2018). Moreover, Swedish corporate governance is proven effective in creating more high-quality and legitimate financial reporting. Achtenhagen et al. (2018) explain that most Swedish companies explain their financial reporting process and corporate governance process in detail, to make outsiders feel more comfortable with the company's work.

One thing that is separating the Swedish institutional structure from other structures where KAMs and audit committees have been examined is the stabilized regulations regarding financial reporting. One study done in Oman showed that audit committees minimize the number of KAMs (Al Lawati & Hussainey, 2022). Al Lawati & Hussainey (2022) explains that the effect of audit committees can depend on the weaknesses in the institutional structure, and in the governance structure. Since the Swedish institutional structure is more stable, and corporate governance is one of the most effective in the world, the effect of audit committees could be lower in Sweden than in Oman (Achtenhagen et al. 2018).

Due to the overall strong governance in Sweden, both institutional and in companies, the financial reporting quality is highly monitored already. The specific effect of audit committees on financial quality in Sweden can therefore be smaller than in other contexts, which also can make the impact on KAMs smaller, compared to other contexts such as Oman (Al Lawati & Hussainey, 2022).

2.5 Hypothesis development

This part presents the hypotheses. It starts with different sections, each of the characteristics gets one section where literature is presented. Then, it develops into different hypotheses.

2.6.1 Audit committee size

The size of the audit committees has had a big impact on the financial reporting quality (De Zoort et al., 2002). The number of audit committee members has been correlated with higher financial quality. The literature has been different on the number of members in the audit committee, but a span between three and six members is something that the literature lifts (DeZoort et al., 2002). Since a bigger audit committee is correlated with higher financial

reporting quality, a bigger audit committee should also be correlated with fewer KAMs in the audit report. So, the following hypothesis is developed:

H1: The size of the audit committee is negatively related to the number of key audit matters.

2.6.2 Audit committee independence

Independence in the audit committee has an impact on the objectivity of the decision-making. Abu & Jaffar (2020) explains that a company that has a majority of independent members in the audit committee is more effective since they are more objective in the work with the preparation of the financial reporting, the accounting practices, and the evaluation of the internal controls. An independent board member is someone that doesn't have a material relationship with the company, which means that they don't have anything to do with the overall operations of the company (Abu & Jaffar, 2020). Information asymmetry is a big part of the agency problem and refers to situations where one party has more information than the other according to Ahola et al. (2021) and Eisenhardt (1989). Independence is measured if a majority in the audit committee is independent of the company and management. Higher independence in the audit committee will therefore reduce the information asymmetry since no parties want to act within their interest. Being more independent also has an impact on the number of KAMs. An independent audit committee increases the quality of the financial reporting, and a more high-quality financial report decreases the number of KAMs in the audit report. With this as a base, the following hypothesis is formed:

H2: Higher independence in the audit committee is negatively related to the number of key audit matters.

2.6.3 Meeting frequency

The number of meetings in the audit committee increases the amount of work with financial reporting matters within the audit committee. This can increase the quality of financial reporting since they have more meetings with the auditor and can handle different problems and difficulties with the financial report (Abbott et al. 2004). Ahola et al. (2021) and Eisenhardt (1989) explain that information asymmetry is a big part of the agency theory and occurs in situations where one party has more information than the other. Meeting frequency is measured by how many meetings the audit committee has. Higher meeting frequency will mean more meetings where they discuss different situations, and they also write a report to

the board of directors about their meetings. Therefore, the information asymmetry will be reduced with a higher meeting frequency. The increased quality because of higher meeting frequency can lead to fewer KAMs since higher quality leads to fewer wrongdoings in the financial report, which will decrease the number of KAMs in the audit report (Abu & Jaffar, 2020) so we developed the following hypothesis:

H3: Higher meeting frequency of the audit committee is negatively related to the number of key audit matters.

2.6.4 Diversity

Having more women on the board, the higher the quality of the financial reporting. The number of KAMs also decreases when there are more women on the board (Velte, 2018). The reason is that more women on the board are associated with stricter monitoring activities, and cooperation with the external auditor to a greater extent. This helps the company to solve complications in financial reporting (Velte, 2018). The only study that was found, explicitly examining the relationship between women in the audit committees and KAMs has been done in the United Kingdom (Velte, 2018). This will therefore be applied in the Swedish context, and see how this relationship looks like in Sweden which led us to develop the following hypothesis:

H4: Higher diversity in the audit committee is negatively related to the number of key audit matters.

2.6.5 Remuneration

Remuneration means that the members of the audit committee get separate compensation for being on the audit committee. Park (2019) examines the relationship between higher pay for members of the audit committee and higher financial reporting quality. The findings were that higher compensation, which is not included in the pay for being part of the board of directors, for audit committee members is positively correlated with higher financial reporting quality.

Motivational factors are processes that determine the choices that people make according to Cox et al. (2006). One example of a motivational factor is rewards, which could be seen as money or in other words remuneration. This thesis measures remuneration as a separate

compensation for the work in the audit committee, which means that a separate remuneration for the work will be a motivation for the audit committee and affect the number of KAMs. Since higher financial reporting quality can be associated with fewer KAMs, a higher remuneration for being on the audit committee should also be associated with fewer KAMs. Because of this, the following hypothesis was developed:

H5: Separate compensation to audit committee members is negatively related to the number of key audit matters.

2.6.6 Diligence

The prioritization of audit committees in companies can be valued in different ways. One is to see how many words the companies use in their annual reports to describe the work of the audit committee. By doing this, the companies show what kind of work the audit committees are doing. The number of words can therefore be seen as a part of diligence, which has been shown as an important part of creating high-quality financial reports (Abbott et al., 2004; Al-Shaer & Zaman, 2018). Another way of viewing diligence is to see if the audit committee is dedicated. Dedicated means that the audit committee is a separate part of the board of directors. This could also relate to diligence (Abbott et al., 2004; Al-Shaer & Zaman, 2018).

Information asymmetry does often occur in the agency theory according to Ahola et al. (2021) and Eisenhardt (1989). They explain that it occurs in situations where one part has more information than the other part. A dedicated audit committee means that there are fewer people than on the board, this will therefore reduce the information asymmetry since it is easier to communicate in a smaller group. The dedicated audit committee will also report to the whole board and reduce the information asymmetry from that perspective as well. Diligence, as mentioned before, relates to financial reporting quality. Since financial reporting quality relates to the number of KAMs, the following hypotheses are developed:

H6: The number of words about audit committees work in the companies' annual reports are negatively related to the number of key audit matters.

H7: Dedicated audit committees are negatively related to the number of key audit matters.

3. Methodology

The following chapter intends to present the methodology of this thesis. The chapter is divided in research design, empirical method, data analysis and quality criteria.

3.1 Research design

The research design constitutes a framework for the collection and analysis of data according to Bryman & Bell (2017). Further, they explain that the choice of research design shows which positions the researcher takes. It could be what opinion they have about questions about the casual relationship between variables, generalization and understanding of different behaviors.

This thesis has a longitudinal design. Bryman & Bell (2017) claims that a longitudinal design constitutes a clear delimited design category that is used to show changes over time, this study has collected data for the period 2016 to 2021. The authors argue that a longitudinal design facilitates the work of making conclusions about the correlation between the variables for these years. A negative part of this type of design is that it is time-consuming which also was the case in this thesis since the data was collected manually from the annual reports. The statistics program *SPSS - Statistical Package for the Social Science* was used when the data collection was done. The use of this program reduced the time usage which is an argument for why this design was used. Another argument for why this type of design was used is that the purpose of this study was to get a reliable result where it doesn't depend on coincidences, and not make comparisons over time.

3.1.1 Quantitative method

A quantitative method focuses on four areas. Bryman & Bell (2017) means that the areas are measurement, causality, generalization, and replication. This type of method focuses on measurement which means that something will indirectly be measured. This thesis will measure if different characteristics have an impact on the number of KAMs. The second area is causality since quantitative researchers don't want to describe how things are. Instead, they want to explain why something is the way it is, which is the case in this thesis when the goal is to examine if these characteristics have an impact on the number of KAMs. Bryman & Bell (2017) explains that researchers want to generalize the results in a quantitative method and see if they could apply to other groups or conditions. In this thesis, it is assumed that the

result could be generalized to countries with similar institutional contexts. The last factor is replication which means that the result from an examination should not be affected by special coincidences. This thesis is based on information that is published in previous years which means that the information could not be changed after the publication. Therefore, criteria replication is easy to achieve (Bryman & Bell, 2017).

There are some differences between a quantitative and qualitative method according to Bryman & Bell (2017). The first one focuses on numbers, the researcher's perception, structure, and generalization while the last one focuses on words, the participant's perception, and unstructured and contextual understanding. This thesis examination focuses on numbers since almost every characteristic could be measured in numbers. The collection of data is structured since there are variables that should be measured in every annual report, which means that it is not some information that could be interpreted. There is not some contextual understanding in this thesis, instead, it is the authors that collect the numbers from an objective perspective.

3.2 Empirical method

The following section is about the data. It presents the data and its characteristics. Further, it will motivate why the data have been used.

3.2.1 Data and data collection

The data have been manually collected from the annual reports from 310 publicly listed Swedish companies on Nasdaq OMX Stockholm Stock Exchange. We got the annual reports from our examiner who manually collected them from the companies' websites. The different variables that were manually searched are explained in part 3.1.2 *Operationalization* in this chapter. This gives primary data directly from the primary sources, which makes it more reliable since there isn't any intermediary that may have manipulated the data (Bryman & Bell, 2017). Manually collecting the data makes the study more unique than collecting the data from a secondary source, for example, a database (Bryman & Bell, 2017).

3.2.1.1 Sample description

The sample in this thesis is 1230 annual reports from Swedish-listed companies during the years 2016-2021. The data that is collected are different characteristics that the literature has

highlighted as important regarding audit committees' effect on financial reporting and KAMs. Therefore, before collecting the data, we made an examination of which characteristics would be applied. This prevents the collection of unnecessary data and prevents misses regarding the collection of important data.

After the data collection, we had 1955 observations. After removing foreign companies, we had 1813 observations left. We started to remove the observations that were not complete which means that some type of information was missing. So, we got 1757 observations left. We also removed the companies that had a negative equity, so it didn't affect the result, we got 1739 observations left. Then, we started to look over the control variables and removed the observations that did not have information about them. We did this to make sure that we had the same number of observations for each variable, which gave us 1685 observations left. The last thing that was removed was the outliers since we didn't want them to affect our results. We examined outliers with two standard deviations and removed them that were outside of this span. After this, we ended with our sample of 1230 observations.

Observations that were removed	Number of removed observations	Observations left
		1955
Foreign companies	142	1813
No complete information about characteristic	56	1757
Negative equity	18	1739
No information about control variables	54	1685
Outliers within two std. dev.	455	1230

Table 1: Sample description

3.2.2 Operationalization

The following section presents the operationalization of the method. Bryman & Bell (2017) explains the concept as something that is used to describe the “operations” or course of action that is used in an examination.

3.2.2.1 Measure the dependent variable key audit matters

To measure the effect on key audit matters, it will be measured by using the number of key audit matters. The number of key audit matters will show how many issues and misstatements there are in the financial report. More key audit matters mean more issues in

financial reporting, and fewer key audit matters mean fewer issues in financial reporting. Key audit matters will be shortened to KAM.

KAM: Number of key audit matters

3.2.2.2 Measure the independent variable audit committee size

Audit committee size has been an important part to measure the impact on financial reporting quality. Since there can be a relationship between quality of financial reporting and KAMs, there can also be a relationship between the size of audit committees and the number of KAMs. The audit committee size will be shortened to ACSIZE.

ACSIZE: The number of audit committee members.

3.2.2.3 Measure the independent variable audit committee independence

The independence of the audit committee is seen as important to increase the quality and reliability of financial reporting. Independence in the audit committees is also seen to have an impact on the number of KAMs. The independence will be measured by seeing if the companies have a majority of independent members in the audit committee or not, measured by a Yes if a majority is independent, and No if a majority isn't independent. This data will afterward be coded, where Yes will be coded to 1, and No will be 0. The audit committee independence variable will be shortened to ACIND.

ACIND: A majority of the members is independent

ACIND: Yes = 1, No = 0.

3.2.2.4 Measure the independent variable meeting frequency in the audit committee

The number of meetings in an audit committee has related to fewer KAMs. It will therefore be added in this thesis to see the impact on Swedish listed companies. The meeting frequency will be measured by the number of audit committee meetings during the fiscal year. It will be shortened to ACMEET.

ACMEET: The number of audit committee meetings.

3.2.2.5 Measure the independent variable gender diversity in the audit committee

More women in the audit committee have related to higher financial reporting quality and fewer KAMs and will also be included as a variable in this thesis. The diversity will be measured with the proportion of women on the audit committee. It will afterward be coded to percentage, where it will show the percentage of women in the audit committee. This variable will be shortened ACDIV.

ACDIV: Percentage of women in the audit committee

3.2.2.6 Measure the independent variable remuneration in the audit committee

Remuneration is expressed in this thesis as if the audit committee gets separate compensation for being on the audit committee. Separate compensation for audit committee members has a relationship with higher financial quality (Park, 2019). Since financial quality and KAMs are connected, this thesis will examine the impact of separate remuneration in the audit committee on KAMs. Remuneration will be measured with a Yes if the audit committee members get separate remuneration for being in the audit committee, and No if they don't get a separate remuneration for being in the audit committee. The Yes will be coded to a 1, and the No will be coded to 0. Audit committee remuneration will be shortened to ACREM.

ACREM: If the audit committee members get separate remuneration for being in the audit committee.

ACREM: Yes = 1, No = 0.

3.2.2.7 Measure the independent variable number of words

The number of words in this thesis is expressed as the number of words describing the audit committees' work in the annual reports. Since this relates to diligence, which has related to financial reporting quality, which has been connected with the number of KAMs, it will also apply in this examination. The variable number of words will be shortened to ACWORD.

ACWORD: How many words used in the annual reports to describe the audit committees' work.

3.2.2.8 Measure the dedication regarding the audit committee

A dedicated audit committee is expressed in this thesis as if the audit committee and its work are separated from the board of directors and their assignments. Dedicated audit committees

can be connected to diligence, which is proven to affect financial reporting quality (Al-Shaer & Zaman, 2018; Abbott et al., 2004). Financial reporting quality is connected to the number of KAMs in the audit report, and therefore will this variable be included in this thesis. Dedication will be expressed in a Yes if the audit committee is dedicated, and No if the audit committee isn't dedicated. The Yes will be coded to a 1, and the No will be coded to 0. Dedication will be shortened to ACDED.

ACDED: If the audit committee and its work is separated from the board of directors' work

ACDED: Yes = 1, No = 0.

3.2.2.9 Measuring the control variables

In this study, there are six control variables included. All of them will be described down below. One important note is that we have included fixed effects in our multivariate and Poisson regression to use as a default for causal inference with longitudinal data (Kosuke & Song, 2019).

BOARD: The number of members in the board of directors.

Ind: The different industries that the companies operate in, coded to a number for each specific industry.

N.inc/assets: The companies net income divided with total assets.

Debt/assets: The companies' long-term debts divided with their total assets

Firm no: A fixed variable with a unique number for each company.

Firm year: A fixed variable with the year of each observation

3.3 Data analysis

Bryman & Bell (2017), together with De Veaux et al. (2016), and Djurfeldt & Barmark (2009), present different types of analysis that should be applied in a quantitative analysis. These will be presented down below.

3.3.1 Analysis of Descriptives

The first part in the analysis is the descriptive statistics. Here we will examine the values of the different variables separately, mostly to see if the variables are normally distributed, and

examine the different values for the variables. This analysis will be presented in Table 2 in Chapter 4.

3.3.2 Bivariate analysis

The second part of the analysis is the bivariate analysis. In this part, there will be an analysis of the relationship between the different variables through a correlation analysis with Pearson's r . The values of this analysis will be between the numbers 1 and -1. These values are important since they give an indicator of the strength between the value of the relationship, and what the relationship between the variables is.

To make this analysis, the usage of the statistical program SPSS will be made to simplify the calculations of the relationships between the variables. The level of significance will be set to $p < 0,05$. This is the highest acceptable level of deviation since any significance level under this threshold can be seen as acceptable, with a low deviation from the relationship that will be presented (Bryman & Bell, 2017). This will be presented in Table 3 in Chapter 4.

3.3.3 Multicollinearity

Studies examined with the help of regressions are often affected by error sources (Djurfeldt & Barmark, 2009). Therefore, there must be error sources to be examined to make secure the quality of the study (De Veaux et al. 2016). The reason why it is important to examine these error sources is to make sure that the highly correlated variables are not affected, since these values can affect the different effects of the variables. To prevent this, a collinearity diagnosis will be performed through a VIF (Variation Inflation Factors) in SPSS. This type of diagnosis should be performed to ensure the result of the correlation analysis (Djurfeldt & Barmark, 2009). If any value doesn't exceed 5 there aren't any major problems with multicollinearity, and the result of the correlation analysis can be ensured. The VIF analysis will be presented in Table 4 in Chapter 4.

3.3.4 Univariate regression

To examine the relationship between the different independent variables and our dependent variable, a univariate regression will be performed. The univariate regression is a regression between one independent variable and the dependent variable, where no control variables are included (Wang et al., 2017). This regression is performed to see how the relationship

between the different independent variables and the dependent variable is when no other factor affects the relationship. The univariate regression will be presented in table 5 model 9.

3.3.5 Multivariate analysis

To examine the hypotheses that are stated in this thesis, a multivariate regression will be performed. Multivariate regression is an analysis that includes three or more variables (De Veaux et al. 2016). To make the analysis, a linear regression will be performed and presented in Table 5 in Chapter 4. The following model will be used:

$$KAM = a + \beta_1 ACSIZE + \beta_2 ACIND + \beta_3 ACMEET + \beta_4 ACDIV + \beta_5 ACREM + \beta_6 ACWORD + \beta_7 ACDED + \beta_8 Board + \beta_9 N.inc/asset + \beta_{10} Debt/asset + \beta_{11} IND + \beta_{12} Firmno + \beta_{13} FirmYear$$

KAM = Number of key audit matters.

ACSIZE = The number of audit committee members.

ACIND = A majority of the members is independent, Yes = 1, No = 0.

ACMEET = The number of audit committee meetings.

ACDIV = Percentage of women in the audit committee.

ACREM = If the audit committee members get separate remuneration for being in the audit committee. Yes = 1, No = 0.

ACWORD = How many words are used in the annual reports to describe the audit committee's work.

ACDED = If the audit committee and its work are separated from the board of directors. Yes = 1, No = 0.

BOARD = The number of board of directors.

N.inc/asset = Companies net income divided by their total assets.

Debt/asset = The companies' long-term debt divided with their total assets.

IND = Applicable industries.

Firm No = Fixed variable with a unique number for each company.

Firm year = A fixed variable with the year of each observation.

3.3.6 Sensitivity analysis

Since our dependent variable, KAMs, is a count variable, we want to make sure that the results of our linear regression are appropriate. We will therefore perform a Poisson regression as well since this kind of regression is suitable for count variables (Coxe et al., 2009). This analysis will be performed in *section 4.5*.

3.4 Quality criteria

In the linear regression, model 8 Table 5, all the independent variables have been included together to see their relationship to KAM. In linear regression, the assumption is that the independent variables do not have a relationship with each other. The independent variables in this linear model are correlated with each other. This must be taken into account since the different variables affect each other's relationship with KAM.

Another thing to consider is that there are different ways of measuring the different independent variables. In this study, there is one interpretation of how to measure the different variables, but there are a lot of different ways to measure some of the independent variables.

Three of the most important criteria when it comes to research about business administration are reliability, validity, and replicability according to Bryman & Bell (2017). They are discussed in the following section.

3.4.1 Reliability

The quality criteria reliability is explained by Bryman & Bell (2017) and Eriksson (2019). The purpose of reliability is to find error variations according to Eriksson (2019). Bryman & Bell (2017) means that there exist three factors that decide if something is reliable or not, these factors are *stability*, *internal reliability*, and *interrater reliability*.

Bryman & Bell (2017) explains that the first factor is *stability*. The quantitative data that is used in this thesis is collected from Swedish companies' annual reports for the years 2016-2021. With this as a base, this thesis has high stability since the annual reports are published so the information could not be changed. A limitation of this is that the companies themselves could influence the variables from year to year which could make them unstable.

The second factor is *internal reliability* according to Bryman & Bell (2017). The internal reliability in this study is achieved through the section 3.1.2 *Operationalization*. This section has the purpose to clarify and illustrate the measurements, which will contribute to a stronger internal reliability.

Bryman & Bell (2017) means that the third and last factor is *interrater reliability*. The subjectivity in this study is affected in the data collection since the authors are collecting the data manually. So, some kind of data is interpreted before it is collected but most of the data is in number or clearly stated which has decreased the risk of misinterpretations. Another thing that increased the interrater reliability is that we had an open dialogue in the data collection and always discussed with each other if there were any uncertainties. Because of this, we collected the data in the same way and interpreted it in the same way. In the future, perhaps this type of data can be retrieved from a database which will increase the study's subjectivity. On the other hand, this study is unique since the data is collected manually.

KAMs are a new phenomenon that was introduced in the year 2016. This probably means many new standards and regulations in the future years. If the standards and regulations is changing, it means that something that was a KAM one year maybe not is a KAM the year after. Therefore, the reliability could decrease since KAMs are changing. Another view is that the auditor could change their interpretation of what is a KAM or not over time. Different areas will be seen as risky over time since the society could affect it and the auditors experience will increase. Therefore, the KAM disclosure practices could be changed over time which will decrease the reliability.

3.4.2 Validity

Validity is described by Bryman & Bell (2017) as a study that has validity if the conclusions in the study have a connection or not. The authors explain that there are four types of validity, conceptual validity, internal validity, external validity, and ecological validity.

The concepts are explained in detail in section *3.1.2 Operationalization*. This section demonstrates that the variables are not lasting or substantial which means that the conceptual validity is achieved. Internal validity is also achieved since several control variables are used in the thesis. It could be interesting in the future to use other control variables than in this thesis. It will be interesting to see if they have an impact on the result or not. External validity is about if results from a study could be generalized. The annual reports that are included in the data are not randomly selected so the result of this thesis could not be generalized to all Swedish-listed companies. For similar studies in the future, it could be interesting to randomly select companies from either one country or several countries to see if the result

could be generalized. The last type is ecological validity which partly is achieved. It is not achieved since the individual companies have written and published their annual reports. From another perspective, it is achieved since an independent auditor has audited the annual reports and approved them. Therefore, ecological validity is partly achieved.

3.4.3 Replicability

Bryman & Bell (2017) explain replicability. This concept is substantial since future research could control the results by doing the investigation again. This thesis has detailed descriptions of the data collection, analysis method, etc. in *chapter 3 Method*. A big part of *chapter 3 Method* is the operationalization which explains concepts and methods that are used in the thesis, which increases the achievement of the replicability. It could be hard to achieve replicability since every author needs to interpret the information, this leaves room for some differences in the result. One argument that replicability is achieved anyway is that it is objective parts that are interpreted. The information is in many cases clearly stated in the annual reports which makes it easier to interpret and collect the data.

4. Empirical result

This chapter presents this thesis's results from the analyzes of the collected data material. The chapter starts with descriptive statistics. It continues with the bivariate analysis which is the correlation analysis and then the control of the error sources. The chapter ends with the multivariate analysis which is the regression analysis and a sensitive analysis.

4.1 Descriptive statistics

Table 2 presents the study's descriptive statistics. The tables have the purpose to show the quality of the study's data material. Measurements such as mean and median will be used to review if there is some skewness in the data. The distribution will be measured through the standard deviation, minimum value, and maximum value. The distribution will expose any outliers which could affect the study's result. The table includes these measurements for all variables that were defined in the methodology.

	N	Minimum	Maximum	Mean	Median	Std. Dev.	Skewness	Kurtosis
ACDED	1230	0	1	0,774	1	0,41842	-1,312	-0,28
ACREM	1230	0	1	0,648	1	0,4778	-0,62	-1,618
ACMEET	1230	0	17	4,0821	4	2,57368	0,158	0,359
ACWORD	1230	0	821	150,0285	135	92,22477	1,272	3,557
logWORDS	1230	1,61	6,71	4,869	4,9273	0,63617	-0,843	1,557
BOARD	1230	4	15	7,4264	7	2,07956	0,843	0,248
ACSIZE	1230	1	12	3,7789	3	1,61206	1,521	2,389
ACIND	1230	0	1	0,9545	1	0,20854	-4,366	17,086
ACDIV	1230	0	1	0,3997	0,33	0,23151	0,453	0,449
KAM	1230	0	7	2,0512	2	0,95963	0,899	1,73
IND	1230	1	4	2,1927	2	1,21401	0,34	-1,499
N. inc / assets	1230	0	0,51088	0,0665533	0,06	0,05326952	2,312	10,161
log(N.inc / assets)	1230	-2,3	14,7	7,537	7,2167	2,73714	0,241	-0,218
Debt / assets	1230	0	0,68255	0,1924784	0,18	0,14690368	0,565	-0,449
log(Debt / assets)	1230	-16,26	-0,38	-2,4733	-1,7359	2,17596	-2,566	7,479

Table 2: Descriptive Statistics

N is the number of companies for every variable. Minimum represent the smallest registered value of all companies and maximum represent the highest. Mean shows the average value for each variable. Median is the middle number in a sorted, ascending, or descending list of numbers. Std. dev. is the variable's average standard deviation. Skewness is a measure of symmetry and Kurtosis is the grade of outliers in the distribution of variables. ACDED = If the audit committee and its work are separated from the board of directors. 1 = Yes, 0 = No. ACREM = If the audit committee members get separate remuneration for being in the audit committee. 1 = Yes, 0 = No. ACMEET = The number of audit committee meetings. ACWORD = How many words are used in the annual reports to describe the audit committee work. logWORDS = The logarithmic number of words that are used in the annual reports to describe the audit committee work. BOARD = The number of members in the board of directors. ACSIZE = The number of audit committee members. ACIND = A majority of the members is independent. 1 = Yes, 0 = No. ACDIV = Percentage of women in the audit committee. KAM = Number of key audit matters. IND = Variable for different industries (1 = Manufacturing, 2 = Commercial, 3 = Services and 4 = Finance). $\text{Var } N. \text{ inc} / \text{assets}$ = Net income divided by total assets in the company. $\log(N. \text{inc} / \text{assets})$ = Natural logarithmic of net income divided by total assets in the company. $\text{Debt} / \text{assets}$ = Long term debt divided by total assets in the company. $\log(\text{debt} / \text{assets})$ = Natural logarithmic of long-term debt divided by total assets in the company.

4.1.1 Dependent variables

KAM is a count variable and will therefore show the actual number of KAMs in an audit report. The mean is 2,05 and the median is 2 which means that the average issued KAMs is 2. Using mean and median as a measurement is effective since it shows if the data is symmetrical or not, which it is in this case.

4.1.2 Independent variables

The study's independent variables are ACSIZE, ACIND, ACMEET, ACDIV, ACREM, ACWORD, logWORDS, and ACDED. ACSIZE is a count variable that shows the number of members of the audit committee. The mean is 3,78 and the median is 3 which shows that the distribution is normal and that the average members in the audit committee are between 3-4 members. ACIND is a dummy variable where 1 implies that a majority of the members in the audit committee are independent and 0 implies that a majority of the members in the audit committee are not independent. The mean is 0,95 and the median is 1 which shows that 95% of the companies have independent members in the audit committee and that the variable is normally distributed. ACMEET is a count variable that shows the number of meetings in the audit committee. The mean in this variable is 4,08 and the median is 4 which shows this variable is normally distributed and that the average number of meetings during a fiscal year is 4 in the audit committees.

The fourth variable is ACDIV which is a count variable that shows the percentage of women on the audit committee. The mean is 0,40 and the median is 0,33 which shows that 40% of the members of the audit committees are women. Since the median and mean are closely related to their value, which shows that the variable is normally distributed. ACREM is a dummy variable where 1 indicates that the members of the audit committee get separate remuneration for their work in the committee and 0 indicates that they don't get separate remuneration. This variable's mean is 0,65 and the median is 1 which shows that a majority got separate compensation for being on the audit committee. ACWORD is a count variable that shows the number of words that are used in the annual reports to describe the work of the audit committee. The mean is 150,03 and the median is 135 which shows that companies on average use 150 words in their annual reports to express what their audit committees do. The logWORDS variable is a natural logarithmic of the variable words, where the mean is 4,869 and the median is 4,9273, which indicates that the variable is normally distributed. The last variable ACDED is a dummy variable where 1 indicates that the audit committee and its work are separated from the board of directors and 0 indicates that they are the same group of people. The mean is 0,77 and the median is 1 which shows that 77% of the observations have a dedicated audit committee.

4.1.3 Control variables

Regarding the control variables, we can see that BOARD has a median of 7 and a mean of 7,43, which means that the variable is normally distributed. Furthermore, this value shows that companies on average have 7 members on their boards. IND has a mean of 2,19 and a median of two, which shows that this variable is normally distributed. N.Inc / asset has a median of 0,06 and a median of 0,07, which implies that the variable is normally distributed. The logarithmic version of N.inc / assets, $\log(\text{N.inc} / \text{assets})$ are also normally distributed with a mean of 7,54 and a median of 7,22. Debt / assets are normally distributed with a median of 0,18 and a mean of 0,19. In this variable, the logarithmic version who is $\log(\text{Debt} / \text{assets})$ are also normally distributed with a mean of -2,47 and median of -1,74.

4.2 Correlation analysis

To be able to evaluate the relationship between the different variables, we performed a bivariate analysis with Pearson's r. This is a good tool to see this relationship (Bryman & Bell, 2017). How strong the relationship is explained in the table below with the coefficients.

In this part, we will look deeper into the relationship between our dependent variable, KAM, and our independent variables, which are the audit committee characteristics.

KAM and ACDED are positively correlated with a coefficient of 0,124 and a significance $<0,01$. There is therefore a significant moderate relationship between these two variables. The relationship between KAM and ACREM is positively correlated with a significance of $p<0,01$. This means that there is a 99% chance that the relationship between these two variables is valid. The coefficient is 0,196, which shows that there is a moderate relationship between the number of key audit matters and separate compensation for being a member of an audit committee. ACMEET and KAM are correlated with a significance $<0,01$, and the coefficient is 0,185, which means that there is a positive relationship between these variables. This would imply that more meetings in the audit committee will increase the number of KAMs.

ACSIZE and KAM have a weak negative relationship with a coefficient of -0,038, which implies that more members in the audit committee decrease the number of KAMs. But since the significance is $>0,05$, which means that we cannot conclude that the relationship between these variables does not depend on other factors. Moreover, KAM and ACIND are weak and positively correlated with a coefficient of 0,036, but the significance is $>0,05$ and we can't therefore make any conclusions about the relationship between these variables. Lastly is the relationship between ACDIV and KAM positively with a coefficient of 0,083 and a significance $<0,01$. This implies that more women in the audit committee slightly increases the number of KAMs in the audit report. One thing that is important to note is that we won't make any major conclusions about these values, since the Pearson correlation is mostly used to detect any multicollinearity that can affect the regression.

Furthermore, BOARD is positively correlated with KAM with a significance $<0,01$, and a coefficient of 0,294. This relationship implies that more board members increase the number of key audit matters in the audit report. $\log(N.Inc / Assets)$ is positively correlated with KAM and insignificant, while $\log(Debt/asset)$ and $\log WORDS$ are positively correlated with KAM with a significance $<0,01$. To investigate furthermore about multicollinearity, we will do a VIF analysis which is presented in the next part.

		ACDED	ACREM	ACMEET	BOARD	ACSIZE	ACIND	ACDIV	Firm no.	Firm year	KAM	IND	log(N.inc / assets)	log(Debt / assets)	logWORDS
ACDED	Pearson Correlation	1													
	N	1230													
ACREM	Pearson Correlation	0,656***	1												
	Sig. (2-tailed)	<0,001													
ACMEET	N	1230	1230												
	Pearson Correlation	0,588***	0,455***	1											
BOARD	Sig. (2-tailed)	<0,001	<0,001	<0,001											
	N	1230	1230	1230	1230										
ACSIZE	Pearson Correlation	0,329***	0,354***	0,348***	1										
	Sig. (2-tailed)	<0,001	<0,001	<0,001	<0,001										
ACIND	N	1230	1230	1230	1230	1230									
	Pearson Correlation	-0,797***	-0,519***	-0,430***	0,003	1									
ACDIV	Sig. (2-tailed)	<0,001	<0,001	<0,001	0,929	<0,001									
	N	1230	1230	1230	1230	1230	1230								
Firm no.	Pearson Correlation	0,126***	0,136***	0,120***	0,046	-0,102***	1								
	Sig. (2-tailed)	<0,001	<0,001	<0,001	0,107	<0,001	<0,001								
Firm year	N	1230	1230	1230	1230	1230	1230	1230							
	Pearson Correlation	0,169***	0,220***	0,155***	0,088***	-0,172***	0,066**	1							
KAM	Sig. (2-tailed)	<0,001	<0,001	<0,001	0,002	<0,001	0,02	<0,001							
	N	1230	1230	1230	1230	1230	1230	1230	1230						
IND	Pearson Correlation	0,071**	0,017	-0,021	-0,361***	-0,192***	-0,034	0,029	1						
	Sig. (2-tailed)	0,012	0,554	0,462	<0,001	<0,001	0,232	0,311	<0,001						
log(N.inc / assets)	N	1230	1230	1230	1230	1230	1230	1230	1230	1230					
	Pearson Correlation	0,097***	0,091***	0,126***	-0,110***	-0,127***	0,034	0,065**	0,110***	1					
log(Debt / assets)	Sig. (2-tailed)	<0,001	0,001	<0,001	<0,001	<0,001	0,233	0,022	<0,001	<0,001					
	N	1230	1230	1230	1230	1230	1230	1230	1230	1230	1230				
logWORDS	Pearson Correlation	0,120***	0,192***	0,173***	0,294***	-0,032	0,04	0,081***	-0,157***	-0,157***	1				
	Sig. (2-tailed)	<0,001	<0,001	<0,001	<0,001	0,268	0,159	0,005	<0,001	<0,001	<0,001				
log(Debt / assets)	N	1230	1230	1230	1230	1230	1230	1230	1230	1230	1230				
	Pearson Correlation	-0,174***	-0,155***	-0,068***	-0,156***	0,159***	-0,037	0,013	0,078***	-0,011	-0,004	1			
logWORDS	Sig. (2-tailed)	<0,001	<0,001	0,017	<0,001	<0,001	0,192	0,657	0,006	0,695	0,9	<0,001			
	N	1230	1230	1230	1230	1230	1230	1230	1230	1230	1230	1230			
log(N.inc / assets)	Pearson Correlation	0,001	-0,004	-0,027***	0,39	-0,013	-0,021	-0,026	-0,159***	0,018	0,049	0,149***	1		
	Sig. (2-tailed)	0,973	0,902	0,338	0,176	0,651	0,457	0,354	<0,001	0,539	0,086	<0,001	<0,001		
log(Debt / assets)	N	1230	1230	1230	1230	1230	1230	1230	1230	1230	1230	1230	1230		
	Pearson Correlation	0,164***	0,135***	0,129***	0,130***	-0,113***	0,029	0,138***	0,025	0,079***	0,087***	0,047	-0,270***	1	
logWORDS	Sig. (2-tailed)	<0,001	<0,001	<0,001	<0,001	<0,001	0,314	<0,001	0,385	0,006	0,002	0,098	<0,001	<0,001	
	N	1230	1230	1230	1230	1230	1230	1230	1230	1230	1230	1230	1230	1230	
logWORDS	Pearson Correlation	0,425***	0,346***	0,351***	0,249***	-0,298***	0,061**	0,147***	0,002	0,076***	0,083***	-0,176***	-0,05	0,120***	1
	Sig. (2-tailed)	<0,001	<0,001	<0,001	<0,001	<0,001	0,036	<0,001	0,938	0,009	0,004	<0,001	0,086	<0,001	<0,001
logWORDS	N	1230	1230	1230	1230	1230	1230	1230	1230	1230	1230	1230	1230	1230	1230
	*** Correlation is significant at the 0,01 level (2-tailed) ** Correlation is significant at the 0,05 level														

Table 3: Correlation matrix

The table shows how the study's variables co-vary with each other. The correlation coefficient, $p < 0,01$ and $p < 0,05$ indicates how big the connection between the variables is. The significance level indicates how high the profitability is for that the connection between the variables depends on the coincidence. For description of the concepts, see explanation to table 2.

4.3 Control of error sources

To evaluate any multicollinearity in the sample, we have performed a VIF (Variance Inflation Factors) analysis, and the correlation analysis in section 4.2. Since there aren't any values over 0,8 or -0,8 in the correlation matrix, the risk of multicollinearity is low. There isn't any value over 5 in the VIF analysis, which makes the risk of multicollinearity low (Ringle et al., 2015). We also examined the tolerance level, and none of the values were under 0,2, which also decreases the risk of multicollinearity. One variable, ACDED, is nearly the limit of 5 with a value of 4,774 but does not exceed the level and is therefore not at a high risk of multicollinearity. Table 4 shows the VIF values for all the variables, in relationship with our dependent variable KAM.

Variable	VIF
ACDED	4,774
ACREM	1,824
ACMEET	1,592
BOARD	1,802
ACSIZE	3,634
ACIND	1,03
ACDIV	1,083
Firm no.	1,261
Firm year	1,077
IND	1,138
logWORDS	1,298
log(N.inc / assets)	1,182
log(Debt / assets)	1,172

Table 4: VIF-test

Dependent variable = KAM

For description of the concepts, see explanation to table 2.

4.4 Regression analysis

In table 5 we examined the relationship between the dependent variable KAMs and the independent variables, which are the audit committee characteristics. We examined the hypothesis stated in chapter 2 of this thesis. We will focus on the full model (model 8) for our

hypotheses, but we will also consider our other models (model 1-7 and 9) when discussing the effect from the different independent variables.

H1 are rejected, since ACSIZE has a $p > 0,05$ and the coefficient $-0,008$ in model 8. The relationship is therefore insignificant, and we won't draw any major conclusions about the relationship. If we look at model 1, which examines the relationship between just ACSIZE and KAMs, we can see that the $p < 0,05$ and the coefficient is $-0,035$. In model 1 we therefore get a significant negative relationship between ACSIZE and KAM, which would be in line with H1. Since the full model (model 8) shows an insignificant relationship, H1 will be rejected, even if model 1 would confirm the hypothesis.

H2 is rejected, since ACIND has insignificant result with $p > 0,05$ and a coefficient of $0,108$. Model 2, which examines only the effect from ACIND on KAM, has a $p > 0,05$ and a coefficient of $0,128$. This implies that higher independence in the audit committee increases the number of KAMs. The relationship in model 8 is positive and insignificant, which goes against our stated hypothesis, and H2 is therefore rejected.

Our third hypothesis, H3, is also rejected. ACMEET has a $p < 0,01$ and a coefficient of $0,036$ in model 8. In model 3, ACMEET has a $p < 0,01$ and a coefficient of $0,038$, which is basically the same result as in model 8. The relationship is positive, which implies that more meetings increase the number of key audit matters. Our hypothesis predicted a negative relationship, and therefore are H3 rejected.

Furthermore, are H4 rejected, since in model 8 ACDIV have a $p > 0,05$ and a coefficient of $0,162$. Model 4 shows a significant relationship with a $p < 0,05$ and a coefficient of $0,265$. Both models show a positive relationship, which goes against our stated hypothesis. H4 is therefore rejected.

H5 is rejected, since ACREM has a $p < 0,01$ and a coefficient of $0,279$ in model 8. Model 5 shows $p < 0,01$ and the coefficient is $0,261$. Both models imply that having separate remuneration increases the number of key audit matters, which doesn't go in line with our hypothesis. Therefore, H5 is rejected.

The sixth hypothesis, H6, is rejected. logWORDS has a $p > 0,05$ and a coefficient of -0,011 in model 8. In model 6, where only the relationship between one independent variable, logWORDS, and KAM is examined, logWORDS has a $p > 0,05$ and a coefficient of 0,045. The models show different relationships with KAM, since model 8 shows a negative relationship and model 6 shows a positive relationship with KAM. Both results are however insignificant, and H6 is therefore rejected.

H7 is rejected, since ACDED has a $p > 0,05$ and a coefficient of -0,219 in model 8, which implies a negative relationship between dedicated audit committees and key audit matters. In model 7, ACDED has a $p > 0,05$ and a coefficient of 0,124, which implies a positive relationship between dedicated audit committees and KAMs. The two models therefore show different relationships between ACDED and KAM. Both models are however insignificant and H7 is rejected since the result isn't statistically significant.

Regarding the control variables, all three variables have a significant relationship with KAM. BOARD has a coefficient of 0,09 and a $p < 0,01$. $\log(\text{N.Inc} / \text{assets})$ have a coefficient of 0,02 and a $p < 0,05$, and $\log(\text{Debt} / \text{assets})$ have a coefficient of 0,033 and a $p < 0,01$. We have also controlled for fixed effects, which are firm year and a specific firm number, and for industry effects. Both these control variables are stated as YES in all our models.

In the univariate analysis (model 9), where we separately examined the relationship between the individual independent variables and our independent variable, without our control variables. This analysis showed similar relationships between the independent variables and the dependent variable as in model 8. Some of the variables had significant relationships in model 9 that didn't exist in model 8, but the coefficients went in the same direction in both models.

Dependent	KAM	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
Independent	ACSIZE	-0,035**	-	-	-	-	-	-	-0,008	-0,050**
		-0,017							-0,031	-0,017
	ACIND	-	0,128	-	-	-	-	-	0,108	0,188
			-0,125						-0,132	-0,129
	ACMEET	-	-	0,038***	-	-	-	-	0,036**	0,068***
				-0,01					-0,012	-0,01
	ACDIV	-	-	-	0,265**	-	-	-	0,162	0,391***
					-0,113				-0,117	-0,115
ACREM	-	-	-	-	0,261***	-	-	0,279***	0,431***	
					-0,059			-0,074	-0,055	
logWORDS	-	-	-	-	-	0,045	-	-0,011	0,150***	
						-0,043		-0,046	-0,043	
ACDED	-	-	-	-	-	-	0,124	-0,219	0,347***	
							-0,068	-0,141	-0,064	
	BOARD	0,117***	0,117**	0,099***	0,115***	0,095***	0,116***	0,109***	0,09***	-
		-0,014	-0,014	-0,015	-0,014	-0,015	-0,014	-0,015	-0,017	-
	log(N. inc / assets)	-0,031**	-0,032**	-0,029	-0,036**	-0,029	-0,031	-0,032**	0,02**	-
	-0,016	-0,016	-0,016	-0,016	-0,016	-0,016	-0,016	-0,016	-0,01	-
log(Debt / assets)	0,024**	0,027**	0,024**	0,023	0,022	0,029**	0,024**	0,033***	-	
	-0,012	-0,012	-0,012	-0,012	-0,012	-0,012	-0,012	-0,012	-0,013	-
Constant		152,238***	148,067***	164,067***	149,716***	161,970***	150,262***	151,910***	184,411***	-
		-31,287	-31,196	-31,407	-31,137	-31,135	-31,668	-31,32	-31,982	-
Fixed effects		YES	YES	YES	YES	YES	YES	YES	YES	YES
Industry variable		YES	YES	YES	YES	YES	YES	YES	YES	YES
R² Overall		0,116	0,114	0,122	0,117	0,127	0,117	0,115	0,141	-
R² Within		0,111	0,108	0,117	0,112	0,122	0,112	0,11	0,131	-
Sig.		***	***	***	***	***	***	***	***	***
N		1230	1230	1230	1230	1230	1230	1230	1230	1230
*** Correlation is significant at the 0,01 level (2-tailed)										
** Correlation is significant at the 0,05 level (2-tailed)										

Table 5: Linear regression for the relationship between KAM and audit committees
For description of the concepts, see explanation to table 2.

4.5 Sensitive analysis

To be able to ensure that our data is stable and trustworthy, we also have performed a Poisson regression, since our dependent variable, KAM, is a count variable. We performed this to see if the results of this test were like linear regression. The biggest difference between the linear regression (table 5) and the Poisson regression (table 6) is that ACMEET isn't significant in the Poisson regression. We therefore must take this into consideration when we further discuss the relationship between ACMEET and KAM. Overall is the relationship the same, even if the coefficients are smaller in the Poisson regression compared to the linear regression.

Parameter	B	Std. Error	95% Wald Confidence Interval		Parameter estimates Hypothesis Test			Exp(B)	95% Wald Confidence Interval for Exp(B)	
			Lower	Upper	Wald Chi-Square	df	Sig.		Lower	Upper
Intercept	82,912	24,4897	34,913	130,911	11,462	1	***	1,02E+36	1,45E+15	7,14E+56
ACSIZE	0,001	0,024	-0,046	0,048	0,001	1		1,001	0,955	1,049
ACIND	0,024	0,1051	-0,182	0,23	0,053	1		1,025	0,834	1,259
ACMEET	0,016	0,0089	-0,001	0,033	3,274	1		1,016	0,999	1,034
ACDIV	0,138	0,1084	-0,075	0,35	1,61	1		1,147	0,928	1,419
ACREM	0,151	0,06	0,034	0,269	6,376	1	**	1,163	1,034	1,309
logWORDS	-0,004	0,0348	-0,073	0,064	0,017	1		0,996	0,93	1,066
ACDED	-0,09	0,1117	-0,309	0,129	0,653	1		0,914	0,734	1,137
BOARD	0,042	0,0124	0,017	0,066	11,337	1	***	1,043	1,018	1,068
log(N.inc / assets)	-0,008	0,0087	-0,025	0,009	0,899	1		0,992	0,975	1,009
log(Debt / assets)	0,017	0,0088	-0,001	0,034	3,547	1		1,017	0,999	1,034
Fixed effects	YES									
Industry variable	YES									
Scale	1 ^a									

Table 6: Poisson regression

For description of the concepts, see explanation to table 2.

5. Discussion

This chapter discusses the result of the thesis together with theory from the theoretical framework. The chapter starts with a discussion about the relationship between the characteristics and the number of KAMs and ends with a discussion about the important notes in the study.

5.1 The relationship between different characteristics and the number of KAMs

The size of the audit committee didn't have a significant relationship with *KAMs* in model 8, so we won't draw any major conclusions about this result. In model 1 however, we have a significant negative relationship between audit committee size and *KAMs*. Model 1, therefore, implies that more members in the audit committee will reduce the number of *KAMs*, which is in line with the literature (DeZoort et al., 2002). Model 8 also shows a negative relationship between the size of the audit committee and *KAMs*, which also are in line with H1 and the literature. A reason why this is the relationship can be because more members in the audit committee would mean more people working with the internal controls and the preparation of the financial reporting in the companies. This could make it higher quality since there are more different opinions that need to be evaluated and considered. The coefficient is small in both models 8 and 1, which implies that the institutional structure can have an impact on the audit committees' effect on *KAMs* (Achtenhagen et al. 2018). The relationship is insignificant in model 8, and we won't draw any major conclusions about this result. The reason why we won't apply the result from model 1 to our hypothesis is because this model only shows the effect from just the size of the audit committee, and in a more practical perspective the companies don't just have the size of the audit committee to consider. This means that the other characteristics must be considered in the real world, and therefore we will not draw conclusions about H1 from model 1.

The independence of the audit committee has a positive relationship with the number of *KAMs* in the audit report in both model 2 and 8. This implies that having a majority of independent members in the audit committee relates to more *KAMs* in the audit report. This doesn't go in line with the literature, since independence is commonly known as an important tool to increase financial reporting quality (Abu & Jaffar, 2020). It is also shown as a good monitoring activity (Ahola et al. 2021). A reason why this positive relationship exists in this

thesis could be that most of the companies had independent members in their audit committees, which could affect the result. The result is insignificant in both models and because of that, there won't be any major conclusions drawn about this result. In other words, model 2 and 8 presented nearly the same results which indicate that this relationship is not affected by whether the other characteristics are included or not.

The relationship between meeting frequency in the audit committee and the number of KAMs was significant both in model 3 and 8 which means that we can draw some conclusions about it. Since it was nearly the same result in both models, we can see that the other characteristics won't affect the relationship between the number of KAMs and meeting frequency. Abbott et al. (2004) and Abu & Jaffar (2020) claimed that higher meeting frequency will increase the work with financial reporting matters and therefore increase the quality of the financial reporting. We could not see this relationship since H3 was rejected, this means that more meetings in the audit committee are positively related to the number of KAMs.

Information asymmetry occurs when one part has more information than the other part (Eisenhardt, 1989; Ahola et al., 2021). Higher meeting frequency will therefore mean that the audit committee has more meetings to discuss different situations which reduces the information asymmetry. Another perspective of this is that more meetings could make the audit committee ineffective and discuss different situations too much which could lead to more KAMs. However, the information asymmetry will still be reduced if an audit committee has one or twelve meetings, it may largely depend on how effective they are in the meetings.

The relationship between meeting frequency and KAMs was very low and close to zero according to table 5, which means that there isn't a relationship. Achtenhagen et al. (2018) explain that Sweden's institutional structure is more stable compared to other countries. With this as a base, the authors mean that the financial reporting quality in Sweden already is highly monitored. It could therefore mean that the quality of the financial reports already is high and doesn't depend on the meeting frequency.

One important note to add is that our sensitivity analysis, the Poisson regression (table 6) didn't show a significant relationship between ACMEET and KAM, and therefore conclusions about this relationship should take this into consideration. The relationship

between meeting frequency and KAMs are however interesting, since this study shows that more meetings in the audit committee doesn't have a greater effect on KAMs, which goes against former literature (Abbott et al. 2004; Abu & Jaffar, 2020).

Having more women in the audit committee is positively related to the number of KAMs both in model 4 and 8, which would imply that more women in the audit committee increases the number of KAMs in the audit report. Since women are shown to have a positive effect on financial reporting quality and a negative effect on the number of KAMs in the literature, this goes against our stated hypothesis (Velte, 2018). One reason why this relationship could exist in this study is that the governance mechanisms in Swedish companies already are strong and that more governance mechanisms, such as having more women on the audit committee, would cause more ineffectiveness in the company. This is also something that could be investigated in further research. The relationship between women on the board and KAMs is however insignificant in model 8 but significant in model 4, and we won't draw any greater conclusions about this relationship since we focus on model 8. Therefore, the relationship is significant in model 4 when we look at the characteristic in its own context, so it is not affected by the other characteristics, but in model 8 when they are affected by each other, it is insignificant. It could be explained by the fact that some characteristics have a high correlation with each other.

Separate remuneration to the members of the audit committee had a significant relationship with the number of KAMs both in model 5 and 8. This implies the same thing as in H2 and H3. Therefore, the other characteristics won't have an impact on how a separate remuneration relates to the number of KAMs. Park (2019) has previously examined the relationship between higher and separate compensation to the members of an audit committee and higher financial quality. The author found that a higher compensation which was not included in the compensation for the work of the board of directors was positively correlated with higher financial quality. We could not see this in our result since H5 was rejected.

Cox et al. (2006) meant that motivational factors such as rewards, in other words, remuneration, could motivate people to achieve goals. We could not see this in our result since separate compensation to audit committee members is positively related to the number of KAMs, and therefore means more issued KAMs. A reason for this could be Sweden's

institutional structure. According to Achtenhagen et al. (2018), Swedish corporate governance is very effective when it comes to creating high-quality and legitimate financial reporting since most Swedish companies explain their financial reporting process and corporate governance process in detail. When Sweden already has many different corporate governance mechanisms, the work in an audit committee could not be seen as a motivational factor. If they already are paid for their general work, an audit committee could be seen as “one more thing to do” and therefore not motivate them, with or without separate remuneration.

The number of words companies use to describe the audit committees' work in the annual reports is negatively related to the number of KAMs in model 8 and are positively related to the number of KAMs in model 6, but the relationships are insignificant. The relationship can still be discussed, and the result in model 8 is aligned with the literature (Abbott et al., 2004; Al-Shaer & Zaman, 2018). The number of words is connected to diligence, which is how much companies prioritize audit committees and their work. This can therefore show that companies that prioritize their audit committees also will have fewer KAMs in the audit report, which means that the financial reporting has higher quality. Since the result is insignificant, there won't be any major conclusions drawn about the relationship between the number of words and the number of KAMs.

That model 8 shows a negative relationship between the number of words that describe the work of the audit committees' and the number of KAMs as we stated in our hypothesis development and a positive relationship in model 6 could depend on different things. It means that this characteristic is affected by the other characteristics. For example, a company that only focuses on many words will decrease the number of KAMs but a company that focuses on both many words and other characteristics will increase the number of KAMs but the result is insignificant so we can't statistically confirm this.

A dedicated audit committee had an insignificant relationship with the number of KAMs in model 7 and 8. The relationship in model 8 was the way we stated in the hypothesis development since the coefficient was negative but H7 was rejected due to the insignificant relationship. A dedicated audit committee is a part of diligence, which has been shown as an important part of creating high-quality financial reports according to Abbott et al. (2004) and Al-Shaer & Zaman (2018). Since H7 was rejected, a dedicated audit committee did not decrease the number of KAMs. The Swedish institutional structure could have an important

role in this. Al Achtenhagen et al. (2018) explained that the Swedish institutional structure is strong, so the financial reporting quality is already highly monitored. This could mean that the financial reporting quality, and therefore the number of KAMs, is not affected by whether the company has a dedicated audit committee or not.

The relationship between a dedicated audit committee and the number of KAMs differ between model 7 and 8 where model 7 showed a positive relationship and model 8 a negative relationship. This implies that the characteristic dedication is affected by the other characteristics since a dedicated audit committee increases the number of KAMs when we look at it individually but decreases the number of KAMs when it is affected by the other characteristics in model 8.

Information asymmetry could explain that dedication and KAMs were negatively related. It is a big part of the agency theory and occurs in situations where one part has more information than the other part (Eisenhardt, 1989; Ahola et al., 2021). A dedicated audit committee will reduce the information asymmetry since it is a smaller group than the whole board, so it is easier to communicate. Therefore, they could discuss different problems and situations before they are developed into a KAM. A dedicated audit committee will continuously report to the board which will reduce the information asymmetry. Transparency could therefore be seen as important in reducing the number of issued KAMs. We don't draw any major conclusions about the relationship, since the results were insignificant, but the relationship is still interesting to discuss.

5.2 Important notes

An important factor to note in our analysis is that we used model 8 when we confirmed or rejected our hypotheses. The reason for this, as we mentioned in the former part in this chapter, is that it isn't realistic to examine just one characteristic to see its relationship with KAMs, as we have done in model 1-7, and draw conclusions about that. The different characteristics are often applied together in a practical context, and how they affect each other should therefore be considered, and not just the single characteristics effect on KAMs. We have performed model 1-7 for theoretical contribution since these models examine the different characteristics relationship with KAMs. Researchers can therefore use these models to see how specific characteristics affect the number of KAMs.

One factor that is left out in this study and needs to be discussed is that we have left out an omitted relevant variable, which is that the relationship between audit committee characteristics and KAMs isn't a one-way relationship. Omitted relevant variables mean that there is a factor that is not included in the study that has an effect (Azubuike & Chinaka, 2020). The relationship between audit committee characteristics and KAMs isn't just the effect of audit committees on KAMs, but KAMs also affect different audit committee characteristics. For example, if a company does not have a dedicated audit committee and has a lot of KAMs, the company would probably implement an audit committee the next fiscal year, which would decrease the number of KAMs according to this study. This factor is not included in this study and is something that should be mentioned in the discussions.

With the paragraph above as a base, an important factor that was left out in this study was the complexity of the operations and the accounting. For example, a more complex operation with complex transactions could make a company to have both an audit committee and more KAMs, since the complexity in the company will increase the number of KAMs. The complexity in the operations could increase the risk which can increase the number of KAMs. It necessarily doesn't have to do with wrongful accounting but just the complexity that brings more risk which will be stated in more KAMs. Therefore, would the relationship between audit committees and KAMs be hard to point out because of these complexities.

None of the hypotheses that were confirmed, and only two of the characteristics had a significant relationship with KAM. Remuneration and meeting frequency both had a positive relationship with KAMs, which means that separate compensation for being in the audit committee and more meetings in the audit committee increases the number of KAMs. The other characteristics, dedication, size, independence, diversity, and number of words had different relationships with KAMs, but none of the relationships were significant. We won't therefore draw any major conclusions about them.

A reason why some of the characteristics didn't have a significant relationship with each other in model 8 is that the different characteristics can be correlated with each other, which implies that the different characteristics depend on each other, for example remuneration for being in the audit committee and having a dedicated audit committee. That is also a reason why we

performed model 1-7 and model 9, since these can help to show how the characteristics affect KAMs when they are affected by each other.

The different characteristics and their relationship with the number of KAMs could be explained with different factors, where the biggest is the institutional structure in Sweden. The Swedish institutional structure is seen as strong since the comply-or-explain principle is an effective tool according to Achtenhagen et al. (2018). So, the Swedish corporate governance structure is effective when it comes to creating high-quality and legitimate financial reporting, which could be the reason that there was a small relationship between the characteristics and number of KAMs. The financial reporting quality is so regulated in the Swedish institutional structure which means that different individual characteristics in a company will not have a negative relationship with the number of KAMs.

6. Conclusions

This chapter conveys the thesis conclusions and develops into two sections about the theoretical and practical contribution. The chapter ends with a section about the thesis' limitations and suggestions for further research.

6.1 Conclusion

The purpose of this thesis was to see how the quality of the audit committee relates to the number of KAMs in the audit report. The quality of the audit committee was determined through characteristics such as meeting frequency, independence in the audit committee, size of the audit committee, diversity in the audit committee, separate remuneration for the work in the audit committee, and diligence, in other words through dedication and the number of words that describe the work in the audit committee. To answer our purpose, we used the research question *Do audit committee characteristics have a relationship with the number of key audit matters?* We believe that the research purpose and -question is answered through the multivariate analysis.

The results in this thesis show a significant relationship between the number of KAMs and the characteristics of meeting frequency and remuneration in our model 8. None of the hypotheses showed the relationship that was stated in the hypothesis development. Many of the hypotheses could be explained using the theory about the Swedish institutional structure since it is a very strong structure according to Achtenhagen et al. (2018). The result in the regressions differ from model 1-7 to model 8 but we can't look at the characteristics individually since they are applied together in the practice which would have made a non-realistic perspective.

6.2 Theoretical contribution

The theoretical contribution of this thesis is the increased knowledge about the relationship between audit committees and KAMs. The literature is thin in the area, and the need for more research is needed since KAMs have become an important part of the audit report. This thesis has also contributed with research in an institutional structure that already is strong, and where audit committees only are one of many governance mechanisms. Former research has only been performed in weaker institutional structures (Al Lawati & Hussainey, 2022). This thesis has therefore helped to fill this gap in the literature. The thesis has also contributed with

an analysis of many different characteristics regarding audit committees, to include as many aspects as possible. Another contribution is that this thesis has examined the different characteristics separately, that researchers can use to see the different characteristics separate effect on KAMs.

6.3 Practical contribution

The practical contribution of this thesis is increased knowledge for the companies when it comes to the implementation of audit committees. The companies will get knowledge about how to implement an audit committee and if they help them or not. Companies can use this to examine how audit committees in this type of institutional structure affect the number of KAMs, and how they should value the usage of audit committees. This thesis has also contributed with a realistic analysis of audit committees in model 8, since we have implemented them in a context when they are put together, which they also are in practice. The biggest practical contribution is that separate compensation for being in the audit committee and more audit committee meetings increases the number of KAMs since these were the significant results in this study.

6.4 Limitations and suggestions for further research

One limitation of this study is that an omitted relevant variable is left out, which is that the relationship between KAMs and audit committees isn't a one-way relationship, since KAMs and audit committees affect each other, and not only that audit committees affect KAMs. This is something that should be noted in future research. Another limitation is that this study hasn't taken into account the effect from different industries, since this study only has taken the summarized industrial effect into account. This study is also only done in Sweden, which limits the usage of the result to only Swedish-listed companies or countries with similar institutional structure.

Another limitation with this study is that the characteristics correlate with each other, and therefore affect each other's results. To decrease this limitation, we performed model 1-7 and model 9 in chapter 4.4, to examine the relationship between the different characteristics and KAM, when the characteristics are separated from each other. This study has therefore given a realistic practical contribution with model 8, and a deeper theoretical contribution with model 1-7 and 9.

A suggestion for future research is to examine more countries in the EU, to see if the EU has a major impact on the governance of its member states or if the individual countries' differences influence audit committees and their impact on KAMs. Another suggestion is to compare the differences more deeply on how the different audit committee characteristics affect the number of KAMs, by having two different control groups. Future research could also make a comparison on smaller listed companies and bigger listed companies, to see if there are any differences between them.

7. References

The following chapter presents the study's sources that have been used.

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