



The Relationship Between Companies Characteristics and Key Audit Matters (KAM): A Case Study of ISSI Indexed Companies

Hapid Durohman^{1,3}, Faatih Rahmah², Quri Zahra Manika³

^{1,2,3} Padjajaran University, Indonesia

The role of the audit profession and the implementation of new audit standards are aimed at improving the quality of audit reports and one of the recent improvements is the inclusion of Key Audit Matters (KAM) as a separate section in the auditor's report. This inclusion aims to enhance the communicative value of audit reports, providing users with greater transparency. This study aims to contribute to the current literature by determining the matters which should be included as KAMs and the factors affecting KAM disclosure. It also examines the relationship between the total number of KAMs, nominal of KAMs and firm level characteristics. This study employs descriptive quantitative approach which use secondary data from 385 companies listed on the Indonesian Stock Exchange (IDX) and indexed by ISSI. The research utilizes two methods, namely multiple linear regression, and logistic regression. The findings of this study reveal that the variables of complexity, financial performance, and financial indebtedness exert a significant influence on the total number of Key Audit Matters (KAMs). Additionally, the variables of opinion and financial performance significantly impact the nominal Key Audit Matters (KAMs).

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*Correspondence:
Hapid Durohman

hapidurohman010302@gmail.com

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INTRODUCTION

Along with changes in the global business environment coupled with increasingly complex financial reporting requirements, International Standards on Auditing (ISA) and International Financial Reporting Standards (IFRS) continue to try to adapt to keep up with all these developments. Until 2015, the International Auditing and Assurance Standards Board (IAASB) issued a new ISA 701 regarding Communicating Key Audit Matters in The Independent Auditor's Report. This standard is very important for Indonesia considering that there is still a gap between auditing standards in Indonesia and international auditing standards (Figa et al., 2023). Although in terms of the index, the quality of the public accounting profession in Indonesia has a quality score of 5.28 on a scale of 1-6. These results indicate that the public accounting profession in Indonesia is stated to be in very good condition (PPPK, 2022). However, this does not rule out the possibility that there is a lack of transparency regarding the audit process in Indonesia which has the potential to reduce the level of trust of users of financial statements because they fail to detect fraud in financial statements. Like the case that occurred with the Garuda Indonesia company which had irregularities in the financial statements presented (Afriyadi, 2019). The financial statements were audited by KAP Tanubrata, Sutanto, Fahmi, Bambang and Partners which apparently found a violation committed by the auditor and KAP which had not implemented a quality control system properly regarding consultation with external parties.

Quoting from the Association of Chartered Certified Accountants (ACCA) report in March 2018, the assessment of the first-year adoption of new auditor reporting standards in 11 countries accentuates the significance of KAM. This assessment included countries such as Brazil, Cyprus, Greece, Kenya, Nigeria, Oman, Romania, South Africa, United Arab Emirates, and Zimbabwe. ACCA's research, utilizing both quantitative and qualitative analyses, reveals three key benefits of KAM: fostering communication between auditors and governance entities, guiding auditors to focus on critical audit areas, and encouraging preparers to enhance reporting and disclosure in financial statements. The inclusion of Key Audit Matters in the Auditor's Report, as mandated by Auditing Standards (SA) 701 issued by the Public Accountants Professional Standards Board in 2021, represents a groundbreaking initiative. This inclusion aims to enhance the

communicative value of audit reports, providing users with greater transparency. For investors, analysts, regulators, suppliers, employees, and governments, information on Key Audit Matters becomes a valuable tool to gain insight into the areas of focus and discussions between auditors and those charged with governance.

Several studies have explored the relationship between audit firm attributes and the readability of Key Audit Matters (KAM). A study found that the Big Four audit firms are not homogenous in their audit reports, indicating significant differences among them (Honkamäki et al., 2022). Another study examined the association between audit firm attributes (such as Big 4 status, audit fees, busy season, audit firm tenure, and audit partner gender) and the impact of these attributes on KAM readability (Hussin et al., 2023). Additionally, an analysis of the relationship between KAM and firm characteristics, including the influence of Big 4 audit firms, was conducted, revealing a unified audit judgment among Big 4 audit firms (Genç et al., 2018). Furthermore, a study in Oman investigated the heterogeneity of KAM for Big 4 audit firms, finding that each firm reports KAM differently, indicating heterogeneity among auditors in styling their KAM disclosure (Baatwah, 2023). These studies provide valuable insights into the impact of audit firm attributes, including Big 4 status, on the readability and disclosure of Key Audit Matters. However, further research is needed to explore the specific implications of these findings for the Indonesian context and to understand the relationship between the number of disclosed KAM and various variables such as auditor fees, auditor's opinion, audited company complexity, and corporate governance quality.

This study endeavors to investigate and establish a positive relationship between several variables and the frequency of disclosed Key Audit Matters (KAM). The variables under examination include the presence of Big 4 auditors, auditor fees, auditor opinions, the complexity of the audited company, the going concern risk associated with the audited entity, financial performance indicators, financial indebtedness, auditor rotation, litigation risks concerning auditors, and the quality of corporate governance. Employing empirical analysis as the research methodology, this inquiry aims to elucidate the intricate dynamics among these variables and their impact on the disclosure of Key Audit Matters in the auditor's report. The overarching objective is to contribute to a deeper understanding of audit

transparency and its broader implications within the scholarly discourse on auditing practices.

LITERATURE REVIEW

Agency and Hogarts Theory

The agency theory was proposed by [Jensen & Meckling \(1976\)](#). It explains the contractual relationship between capital owners (principal) and management (agent). In this employment contract, capital owners hire management to perform a service activity based on the owners' interests by delegating decision-making authority to the management. [Theory of Hogarth \(1980\)](#) regarding the assimilation of information in the judgement and decision-making process to identify the factors that influence the number of KAMs that auditors disclose. As stated by [\(Pinto & Morais, 2019\)](#), in the KAM disclosure process, auditors can use avoidance or confrontation. The use of avoidance means that the auditor will not disclose a KAM or will delay its disclosure, and avoidance is expected to occur when the auditors consider there to be less responsibility associated with the effects of not disclosing a KAM than disclosing it. The use of confrontation means that the auditor uses compensatory strategies expressed in the expected utility model, in which the auditor is risk averse. The disclosure of KAMs in the audit report is influenced by the consequences perceived by the auditor in the economic trade-off between the probability of being exposed to litigation and the loss of reputation, on one hand, and the expected cost of losing a client, on the other. Thus, the characteristics of audited companies and the relationship between the auditors and companies audited are expected to be important drivers of the number of KAMs disclosed [\(Ferreira & Morais, 2019\)](#).

Number of Key Audit Matters

The communication of key audit matters (KAM) in financial statements aims to provide additional insights to users, helping them grasp the most significant aspects of the audit [\(Ong et al., 2022\)](#). Despite potential benefits, concerns exist about the impact of KAM disclosure on investor behavior, with some arguing that it may not induce expected changes. In Indonesia, there's apprehension that a high number of KAMs may wrongly signify a troubled company, although auditing standards don't prescribe specific limits. Determining the appropriate number of KAMs involves considerations like management involvement, potential for material misstatements, and events

affecting the audit. Various internal and external factors, including company size, complexity, risks, profitability, debt levels, auditors, opinions, and changes in auditors, also influence this decision.

Nominal of Key Audit Matters

We further consider if the effect of KAM quantification on financial statement understandability depends on KAM readability. Since the introduction of KAMs, there has been evidence that auditors sometimes include numbers (quantification) in KAM disclosures. We find evidence that KAM readability enhances financial statement understandability, and that KAM quantification is more beneficial when the KAM is more readable. When responding to an opened question regarding the information included in the audit report that they believe impacted their understanding of the financial statement, the most common response was the KAM [\(Baatwah, 2023\)](#). Quantification can facilitate or inhibit a reader's capacity to process information. Quantification can provide precision and specificity, reduce uncertainty in readers' interpretations of the implications of information [\(Ang and Trotman, 2015\)](#), objective magnitude [\(Burton et al., 2006\)](#) detail of the subject matter [\(Kadous et al., 2005\)](#). Alternatively, quantifying narrative information may inhibit a reader's information processing as it requires incremental effort for encoding and processing. Prior research has shown that people take longer to process the same information when quantification is included [\(Yalch and Elmore-Yalch, 1984\)](#) as it increases encoding and processing effort [\(Kahneman and Tversky, 1973; Nisbett and Ross, 1980; Payne et al., 1993; Christensen et al., 2014\)](#). Including numbers in Key Audit Matter (KAM) descriptions has a dual impact on financial statement understandability, depending on KAM readability. In less readable KAMs, quantitative information burdens non-professional investors, potentially impairing understandability. Conversely, in more readable KAMs, quantification enhances precision without significantly hindering understandability. The additional processing effort in readable KAMs is mitigated by high readability, aiding non-professional investors in comprehending the underlying financial statements. Thus, the influence of quantification on understandability is contingent on the clarity and readability of the KAM being discussed.

Auditor

The size of auditing firms, particularly the Big 4, is a significant factor influencing audit opinions, according to literature [\(Francis & Yu, 2009; Krishnan,](#)

2003). The Big 4, with substantial investments in resources and advanced technology, are known for providing higher-quality audits. They maintain independence, report financial information conservatively, and withstand client pressure, often leading to unqualified opinions. The literature indicates a positive relationship between the Big 4 and the issuance of unqualified opinions. Big 4 auditors, due to their robust internal processes, demonstrate a greater focus on Key Audit Matters (KAMs), disclosing more extensively than non-Big 4 auditors (Prasad & Chand, 2017). This tendency is attributed to societal expectations, the need to uphold reputation, and international affiliations. The literature suggests that auditor size, especially in the case of the Big 4, influences the disclosure of KAMs as a strategic means to communicate significant concerns without the risks associated with disclosing qualifications (Rahaman et al., 2023)

H₁ : there is a positive association between a company being audited by a Big 4 and the number of KAMs.

H₂ : there is a positive association between a company being audited by a Big 4 and the nominal of KAMs.

Opinion

The IAASB (International Auditing and Assurance Standards Board) implemented the audit reporting standard, ISA 701, on December 15, 2016. The primary objective of this standard is to enhance audit reporting decisions by communicating key audit matters (KAM). KAMs are determined by the auditor's professional judgment and represent the most significant matters in the audit of the financial statements for the current period. These matters are derived from communication with those responsible for governance and may include significant risks, management judgments, unusual transactions, audit difficulties, and necessary modifications to the audit approach. It is important to note that the communication of KAMs in the audit report is not intended to express an opinion on these matters or serve as a substitute for a qualified or adverse audit opinion if required. However, the inclusion of KAMs can assist users of the financial statements in understanding the entity and areas of significant management judgment. Nevertheless, the academic research on the usefulness of KAM reforms has generated mixed views and reactions. Some studies indicate that the inclusion of KAMs in the audit report has a substantial positive

impact on investment decisions and audit quality (Christensen et al., 2013)

H₁ : there is a positive association between the existence of an opinion of or emphasis on going concern and the number of KAMs

H₂ : there is a positive association between the existence of an opinion of or emphasis on going concern and the nominal of KAMs

Complexity

To comprehend how the standard being studied affects a company, it is necessary to have a variable that considers the company's complexity. The number of segments reported by the company in its financial report is considered as an explanatory variable, as previous studies suggest the benefits of such reporting, such as a better perception of risks and opportunities that can impact investor decision-making (Berger & Hann, 2003). As a result, auditors are expected to pay more attention to clients with greater complexity, and the higher the number of segments a company operates in, the greater the number of KAMs that can be anticipated. Focusing on the firms' characteristics, Pinto and Morais (2019) have found that a higher number of business segments (complexity) and more precise accounting standards lead to the disclosure of a higher number of KAMs. However, Sierra-García et al. (2019) reported that, in addition to the firm's characteristics (i.e., industry type), the amount of disclosed KAMs also depends on the auditor characteristics. After controlling for a set of variables that could affect the audit function and for the mediating role played by the overall business complexity (as proxied by the firm size), we found that high quality and sustainable corporate governance firms tend to disclose fewer KAMs (Fera et al., 2022).

H₁ : there is a positive association between the complexity of the company audited and the number of KAMs.

H₂ : there is a positive association between the complexity of the company audited and the nominal of KAMs.

Going Concern Risk

The company's ability to maintain its business continuity can be one of the factors considered by the auditor in preparing the main audit matters. Even basically, the auditor has the responsibility to provide an assessment if there is material doubt about the entity's ability to maintain its going concern as stated in auditing standards. The going concern check is assessed by the auditor through whether or not the assumptions used by

the entity are appropriate. When there is doubt about the going concern of the entity in the future that is material, such as a high level of leverage or a reduced level of liquidity, this has the potential to become a key audit matter that the auditor needs to disclose in the auditor's report. In contrast, if the client's financial position is fine so that business continuity is not disrupted in the future, the auditor is less likely to disclose it as a major audit matter. When business continuity is clearly disrupted, the auditor will disclose KAM in more detail, including entering the nominal KAM to clarify potential business continuity risks. Thus, the risk of the entity's business continuity is expected to have a positive influence on the number of KAM and nominal KAM disclosed in the auditor's report.

H1 : there is a positive association between the existence of an opinion of or emphasis on going concern risk and the number of KAMs.

H2 : there is a positive association between the existence of an opinion of or emphasis on going concern risk and the nominal of KAMs.

Firm Size

Large-scale companies are synonymous with many business lines. The large number of business lines makes the auditor need more time and focus in examining each business area because of the high level of complexity. This high business complexity has the potential to encourage auditors to disclose KAM in their audit reports. In research conducted by [Pinto and Morais \(2019\)](#), researchers found that company size assessed from the natural log of sales as an explanatory variable has a positive relationship with disclosing the number of KAM. This is supported by ISA/BDS 701 stating that the number of KAM is affected by the size and complexity of the entity, the nature and conditions of its business, and "The facts and circumstances of the audit engagement" (ISA 701, p. A10; BDS 701, p. . , A30). Meanwhile, in the research of [Genç, E.G., & Erdem, B. \(2021\)](#), the relationship between company size and KAM problems disclosed in audit reports is negative. Companiests of the study are said to have confirmed that large companies have more power to negotiate with auditors in terms of audit fees and they can put greater pressure on auditors to disclose less KAM. Based on the two research references, the researcher predicts that the relationship between company size and the disclosure of the number of KAM is positive. As a result, the KAM disclosed by the auditor will be complemented by the nominal KAM to clarify how complexity can be the focus in the audit process.

Thus, the relationship between firm size and KAM nominal disclosure is positive.

H1 : there is a positive association between firm size and the number of KAMs.

H2 : there is a positive association between firm size and the nominal of KAMs.

Financial Performance

The level of financial performance of an entity can predict business continuity in the future. When its performance results in high profits, the probability of default of the entity will be smaller so that it will generally receive an unqualified audit opinion ([Beasley, Carcello, & Hermanson, 1999](#); [Laitinen & Laitinen, 1998](#); [Loebbecke, Eining, & Willingham, 1989](#)). Whenact, they don't need to manipulate financial reports to show a good impression on investors ([Habib, 2013](#)). Conversely, when profitability is low, entities tend to implement various accounting standards in a unique way to prepare their financial statements. As a result, the auditor may issue a qualified audit opinion which is characterized by an expansion of the scope of the auditor's work and a greater number of KAM disclosures. In research conducted by [Pinto & Morais \(2019\)](#), the results were obtained that entities that have low profitability lead to a higher potential for failure to create a negative relationship with the number of KAM. This also resulted in the KAM disclosed by the auditor in the auditor's report being supplemented with a nominal value to further clarify the size of the area that is the focus of the auditor. Although in research conducted by [Genç, E.G., & Erdem, B. \(2021\)](#), financial performance which characterizes company profitability is measured through ROA apparently has a significant positive relationship with the amount of key audit matters disclosed.

H1 : there is a negative association between the audited company's profitability and the number of KAMs.

H2 : there is a negative association between the audited company's profitability and the nominal of KAMs.

Financial Indebtedness

In fact, to maintain its reputation for disclosing risky audit firm findings, it is predicted that auditors will disclose KAM in no small amount. In general, when the risk of a financial entity is too high, the auditor will examine the company in more detail and thoroughly so that audit effort and costs increase ([Nelson, Ronen, & White, 1988](#)). This high financial ratio can be indicated

by the excessively high debt value. As a result, the auditor needs to improve his audit procedures while giving full attention to each audit scope. Responding to this, the auditor will not only disclose the number of KAM in the report, but also the nominal KAM. The nominal KAM input can clarify the reason for the auditor making it one of the focuses of the audit. Thus, there is a positive relationship between financial risk and the disclosure of the number of KAM and nominal KAM.

H1 : there is a positive association between the company's level of indebtedness and the number of KAMs.

H2 : there is a positive association between the company's level of indebtedness and the nominal of KAMs.

Auditor Rotation

The duration of the auditor's tenure that is too long has the potential to interfere with the objectivity of the auditor and encourages the possibility of the audit process failing, being an argument that encourages auditor turnover. The existence of auditor rotation in the form of partner changes is expected to increase auditor independence, avoid a relationship between auditor and client that is too long, and raise high professional skepticism. As a result, these actions can negatively affect audit quality. In the research conducted by Francis et al. (2014), it was found that the audit style of each accounting firm is different and has its own characteristics that can leave a deep "imprint" on the audit report. As a result, auditor rotation can directly affect the disclosure of audit reports, including KAM. Where the new auditor will provide new views on audit procedures and financial reporting practices, which tend to be conveyed through KAM which is disclosed in the auditor's report. They also have the potential to identify critical issues in a different way using a fresher mindset than traditional auditors. On the other hand, the old auditors who were replaced may experience financial losses in the form of their accumulated knowledge that has been used while auditing clients. The loss in the form of accumulated knowledge is difficult to quantify so it tends to be described in detail using words. This causes auditor rotation to not have the potential to make the auditor disclose KAM as well as the nominal. Therefore, there is a positive relationship between auditor rotation and disclosure of KAM numbers and a negative relationship between auditor rotation and KAM nominal.

H1 : there is a positive relationship between auditor rotation and the number of KAM.

H2 : there is a negative relationship between auditor rotation and the nominal of KAM.

METHOD

The population in this study are companies in Indonesia that are listed on the IDX (Indonesian Stock Exchange) and indexed by ISSI. This sample involves 9 business sectors of companies listed on the IDX or the Indonesian stock market, namely agriculture, basic and chemical industry, mining, various industries, consumer goods industry, property, real estate & building construction, infrastructure, utilities & transportation, trading, services, & investment, and finance. As for the audited financial reports used in this study, they are reporting whose period ends on December 31, 2022.

Samples were selected using simple random sampling. This study used secondary data. As for this study, two dependent variables were used, namely the number of KAM and the nominal KAM. Then the independent variables used include Big4 or non-Big4 auditors, audit opinion, complexity, going concern risk, financial performance, financial indebtedness, audit rotation and total assets of the company. This study uses two models or data analysis methods, namely multiple linear regression, and logistic regression. The multiple linear regression analysis method is used in the first model because the number of independent variables is more than two variables and aims to analyze the effect of all independent variables on the total KAM variable. The estimated model is as follows:

$$\begin{aligned} tot_{kam} = & \alpha + \beta_1 auditor + \beta_2 opinion + \beta_3 cmplx \\ & + \beta_4 gcrisk + \beta_5 fncprn \\ & + \beta_6 fncidbt + \beta_7 audit_{rot} \\ & + \beta_8 lnasset + u \end{aligned}$$

While logistic regression analysis is used for the second model because the nominal variable KAM as the dependent variable is binary qualitative, namely the KAM value is disclosed or not disclosed. According to Ghozali (2018: 325), "Logistic regression analysis is a regression that tests whether there is a possibility that the dependent variable can be predicted by the independent variable." The stages of logistic regression analysis (logistic regression) include testing the feasibility of the regression model (Goodness of Fit Test), assessing model fit (Overall Model Fit), and regression testing. The data analysis method used to test the hypotheses in this study is descriptive statistics used to

provide an overview of the variables in this study. The logistic regression model is as follows:

$$\ln\left(\frac{P_i}{1 - P_i}\right) = \alpha + \beta_1 \text{auditor} + \beta_2 \text{opinion} + \beta_3 \text{cmplx} + \beta_4 \text{gcrisk} + \beta_5 \text{fncprn} + \beta_6 \text{fncidbt} + \beta_7 \text{audit}_{rot} + \beta_8 \text{lnasset} + u$$

Additional information:

totkam = Number of KAM

auditor = Auditor (Big4 and non Big4 auditors)

opinion= Audit Opinion

cmplx = Number of business segments owned by the company

gcrisk = Going Concern Risk

fncprn = Financial Performance (ratio of net earnings to total assets)

fncidbt = Financial Indebtness (ratio of net earnings to total liabilities)

auditrot = Audit Rotation

lnasset = Logarithm of Natural Total Assets

RESULTS AND DISCUSSION

Descriptive Analysis

Descriptive analysis is used to provide an overview of the variables used in this study. The following are the results of the descriptive analysis shown in Table 1.

Table 1. Descriptive Analysis

Variable	Obs.	Minimum	Maximum	Mean	Std Deviation
Number KAM	385	0	6	1,2883	0,7620
Nominal KAM	385	0	1	0,8338	0,3728
Auditor	385	0	1	0,2909	0,4548
Opinion	385	0	4	3,9403	0,2682
Complexity	385	0	13	2,9013	1,8107
Going Concern Risk	385	0	1	0,0649	0,2467
Financial Performance	385	-8,9525	3612,443	9,8155	184,1684
Financial Indebtness	385	0,0004	698,8981	3,8488	39,5850
Audit Rotation	385	0	1	0,9195	0,2724
Total Asset	385	3,6969	32,3600	15,2795	3,6969

Source: Author Processed

Based on Table 1. The amount of data used in this study is 385 sample companies from several sub-sectors in Indonesia as shown in Table 2.

Table 2. Types of Company Sub-sectors

Sub-Sector	Frequency	Percent	Cumulative
Various Industries	20	5,19	5,19
Consumer Goods Industry	44	11,43	16,62
Basic Industry and Chemicals	43	11,17	27,79
Infrastructure, Utilities, and Transportation	43	11,7	38,96
Finance	43	11,7	50,13
Trade, Services, and Investment	99	25,71	75,84
Mining	20	5,19	81,04
Agriculture	30	7,79	88,83
Property & Real Estate	43	11,17	100,00

Source: Author Processed

Variable financial performance own mark Lowest i.e., -8.9525. The negative sign on financial performance shows that the company experiences loss or amount cost is bigger compared to income received. The top rated from variable financial performance is 3612.443. Positive value signifies a company that makes profit. The average value of variable obtained financial performance from 385 companies taken is 9.8155 with mark deviation raw of 184.1684. The lowest value from variable the number of KAM is 0 and a value the highest of 6. The average value of the variable the number of KAM is 1.2883 with deviation row of 0.7620. The lowest value from the nominal variable KAM is 0, which represents a company with KAM values that are not disclosed, meanwhile the highest mark is 1, which represents a company that values its KAM disclosed. The nominal variable KAM has an average value of 0.8338 with deviation standard 0.3728. This shows that the company average in sample discloses the KAM value. The lowest value from the Auditor variable is 0, which represents the originating auditor from Big 4 companies and the highest mark is 1, which represents the originating auditor from a company other than Big4. The auditor variable has the average value of 0.2909 with deviation raw as big 0.4548.

The lowest value from the opinion variable is 1, which represents an audit opinion that does not reasonably or possibly contains fraud in the report of his finances. And value the highest is 4, which represents reasonable audit opinion without exception. The opinion variable has an average value of 3.9403 deviation standard 0.2682. This show below average audit opinion is reasonable without exception. The

lowest value from complexity variable is 0 and value the highest by 13, which illustrates the amount of segment business owned by the company. The average of the variable complexity is 2.9013 with deviation raw 1.8107. The lowest value from going concern risk variable is 0, which represents No exists going concern risk and value the highest is 1, which represents there is going concern risk. The average going concern risk variable is 0.0649 with a deviation standard 0.2467. This shows that the average does there is going to concern risk in the company.

The lowest value from the financial independence variable is 0.0004 and the value the highest is 698.8981. As for the average value, the financial independence variable is 3.8488 with deviation default 39.5850. The lowest value from the audit rotation variable is 0, which represents no audit transfer and value the highest is 1, which represents existing shift audits. The average value of the audit rotation variable is 0.9195 with a deviation standard 0.2724. this _ show that the company average there is shift audits. The lowest value from variable the natural logarithm of the number of assets is 3.697 and value the highest is 32,360. As for the average value variable ln the number of assets is 15.279 with deviation default 3.6969.

Results of Regression Analysis Model 1 (Multiple Linear Regression)

Analysis regression used for determining connection between variable dependent and variable independent. Following is the results analysis of multiple linear regression shown in Table 3.

Tabel 3. Analysis Results Multiple Linear Regression

Variable	Coefficient	Std. Error	t-count	p-values
Constant	0.0422	0,6242	0,07	0,946
Auditor	0.0441	0,0818	0,54	0,590
Opinion	0.2086	0,1539	1,36	0,176
Complexity	0.0422	0,0218	1,94	0,054*
Going Concern Risk	0.2203	0,2475	0,89	0,374
Financial Performance	0.0003	0,00004	7,28	0.000***
Financial Indebttness	-0.0008	0,00021	-3,63	0.000***
Audit Rotation	0,0944	0,0969	0,97	0,331
In Total Asset	0.0422	0,6242	0,07	0,946
R Squared d	0,0268			
F-count	28.06			
Sig. F	0.000			

Standard errors in parentheses

*** p<0,01; **p<0,05; *p<0,1

Based on Table 3, the mark is constant of 0.0422. This shows that if variable independence is considered constant, then the average value of the number of KAM is 0.0422. Coefficient value Auditor regression (X1) of 0.0441. Considering that variable independent other still, p This shows that if auditors come from Big 4 companies, then the average number of KAM will be taller of 0.0441 compared with the originating auditor from companies other than Big4. Positive sign on the coefficient regression means the average number of KAM if the auditor is from Big4 companies will be taller than the average number of KAM if the auditor originates from a company other than Big4. In line with prior studies [Rahaman et al., \(2023\)](#) Big-4 affiliated auditors (BIG-4) are expected to disclose more KAMs for several reasons, including a better experience and expertise to uncover more risk issues, protect their image and reputation that could be damaged through litigation and maintain audit quality as they have international affiliations.

The Opinion regression coefficient (X2) of 0.2086. Considering that variable independent other still, p This shows that every increase in company audit opinion is number One so will increase the average number of KAM by 0.2086. Positive signs on the coefficient regression show that connection between variable opinion with the number of KAM is positive or in the same direction. Some studies suggested that including audit opinion has significant positive impact on KAM ([Christensen et al., 2013](#)).

The Complexity regression coefficient (X3) of 0.0422 and statistically significant at the 10% level. Considering that variable independent other still, p This shows that every increased segment owned business company is number One so will increase the average number of KAM by 0.0422. Positive signs on the coefficient regression show that connection between the Complexity variable with the number of KAM is positive or in the same direction. Consistent with the previous preliminary literature such a conclusion, however, could consider just one side of the ledger. It has been argued that the quality of internal corporate governance is highly related to the firm's overall size and complexity, with the latter affecting the perceived riskiness of a company and, in turn, the KAMs disclosed in the audit report ([Pinto & Morais, 2019](#)).

The Going Concern Risk regression coefficient (X4) of 0.2203. Considering that variable independent other still, p This shows that if there is risk going concern then the average number of KAM will be taller of 0.2203 compared with companies without risk going

concern. Positive sign on the coefficient regression means the average number of KAM if company own risk going concern will be taller than the average number of KAM if company no own risk going concern. According to the results, some of the GC matters could also be interpreted by auditors as matters that could be significant in the audit and accordingly need to be communicated to those charged with governance, i.e., KAMs ([Hegazy & Kamareldawla, 2021](#))

The Financial Performance regression coefficient (X5) is 0.0003 and statistically significant at the 1% level. Assuming that the other independent variables are constant, this shows that every one percent increase in the company's financial performance will increase the average number of KAM by 0.0003. The positive sign on the regression coefficient indicates that the relationship between the Financial Performance variable and the Total KAM is positive or unidirectional. The results of this study seem to be in line with research that has been conducted by [Genç et al., \(2018\)](#), which also stated a positive relationship between financial performance and disclosure of the number of KAM. That is, the greater the profit generated by the company, the greater the number of KAM disclosed.

The regression coefficient value of Financial Indebtedness (X6) is -0.0008 and statistically significant at the 1% level. Assuming that the other independent variables are constant, this shows that every one percent increase in a company's financial indebtedness will reduce the average number of KAM by 0.0008. The negative sign on the regression coefficient indicates that the relationship between the Financial Indebtedness variable and Total KAM is negative or not unidirectional. However, other research finds that financial indebtedness has a negative impact on the number of KAM ([Ferreira & Morais, 2020](#)). The less debt owned by the company, the greater the number of KAM disclosed in the auditor's report. Vice versa, the more debt a company has, the less KAM is disclosed.

The Audit Rotation regression coefficient value (X7) is 0.0944. Assuming that the other independent variables are constant, this indicates that if there is an audit rotation, the average number of KAM will be 0.0944 higher than if there is no audit rotation. A positive sign in the regression coefficient means that the average number of KAM if the auditors change will be higher than the average number of KAM if the auditors do not change. This research seems to be in line with the results of a previous study conducted by [Francis et al., \(2014\)](#) and [Chen et al., \(2023\)](#) which states that auditor rotation has a positive impact on disclosing the number

of KAM based on new thinking from different auditors and the unique audit style of each auditor.

The regression coefficient value of Ln Total Assets (X8) is 0.04220. Assuming that the other independent variables are fixed, this indicates that every one percent increase in total company assets will reduce the average number of KAM by 0.00042 ($0.0422/100 = 0.00042$). The positive sign on the regression coefficient indicates that the relationship between the Total Assets variable and the Total KAM is positive. However, other research finds that Total Assets have a negative impact on the number of KAM (Ferreira & Morais, 2020)

Table 3 shows that the value of the coefficient of determination (R Squared) is 0.0268. This means that 2.68% of the variation that occurs in the number of KAM is explained by the origin of the auditor company, opinion, number of company business segments, going concern risk or company sustainability, financial performance, financial indebtedness, audit rotation, and total assets, while the rest of 97.32% ($100\% - 2.68\% = 97.32\%$) is explained by other variables outside the model. The calculated F value based on the data presented in Table 3 is 28.06, with a significant probability value of $0.000 < 0.05$. This shows that the regression model is declared "fit".

Table 3 shows that the Complexity variable has a t-count value of 1.94 with a significance value (p-value) of 0.054 which means that the Complexity variable has

a positive effect on the number of KAM, indicated by a positive sign on the t-count, and the effect is significant with the value significance < 0.10 . The Financial Performance variable has a t-count value of 7.28 with a significance value (p-value) of 0.000 which means that the Financial Performance variable has a positive effect on the number of KAM, indicated by a positive sign on t-count, and the effect is significant with a significance value < 0.01 . The Financial Indebtedness variable has a t-count value of -3.63 with a significance value (p-value) of 0.000 which means that the Financial Indebtedness variable has a negative effect on the total KAM, indicated by a negative sign on the t-count, and the effect is significant with a significance value < 0.01 . Auditor, Opinion, Going Concern Risk, Audit Rotation, and Ln Total Asset variables each have a significance value of 0.590; 0.176; 0.374; 0.331; and 0.946, which means the significance value is > 0.10 , so it can be concluded that these five variables have no significant effect on the total KAM.

Results of Regression Analysis Model 2 (Logistic Regression)

Analysis regression used for determining influence between dependent and independent variables. Following is results analysis regression logistics shown in Table 4.

Table 4. Analysis Results Regression Logistics

Variable	Coefficient	Std. Error	z-count	p> z
Constant	8,1557	2,5102	3,25	0,001
Auditor	0,1724	0,3397	0,51	0,612
Opinion	-1.7393	0,5984	-2,91	0,004***
Complexity	0,1316	0,0991	1,33	0,184
Going Concern Risk	-0,0374	0,6579	-0,06	0,955
Financial Performance	0,9232	0,2495	3,70	0.000***
Financial Indebtness	0,0069	0,0049	1,39	0.164
Audit Rotation	-0,5038	0,5991	-0,84	0,400
Ln Total Asset	0,0249	0,0451	0,55	0,580
Pseudo R Squared	0,0358			
Wald-count	19,65			
Sig. Wald	0.0358			

Standard errors in parentheses
 *** $p < 0,01$; ** $p < 0,05$; * $p < 0,1$

Source: Author

However, the coefficient typical logit regression No can be interpreted in a manner directly. So from it, after doing logit regression, we need to look for the

marginal effect that can show how much probability changes independent variable on variable dependent.

The following are the marginal effect logit results are shown in Table 5.

Table 5. Logit Marginal Effects

Variable	dy/dx	Std. Error	z	p> z
Constant	0.023	0.046	0.510	0.611
Auditor	-0.234	0.084	-2.780	0.005***
Opinion	0.018	0.013	1.340	0.181
Complexity	-0.005	0.088	-0.060	0.955
Going Concern Risk	0.124	0.034	3.610	0.000***
Financial Performance	0.001	0.001	1.380	0.169
Financial Indebtness	-0.068	0.080	-0.840	0.400
Audit Rotation	0.003	0.006	0.550	0.581
Ln Total Asset	0.023	0.046	0.510	0.611

Standard errors in parentheses

*** p<0,01; **p<0,05; *p<0,1

Source: Author

Based on Table 5 capable of explaining probability KAM nominal change. On the variable auditor with consider that other independent variables still, p This show that if the auditor originates from Big4 companies, then the nominal probability of KAM being disclosed will increase by 2.3 percentage points compared to the nominal KAM that is not disclosed. The positive sign on the marginal effect coefficient means the nominal average of KAM if the auditor originates from Big4 companies will be taller than the average number of KAM if the auditor originates from a company other than Big4 or relationship is in the same direction.

The regression coefficient value of opinion is -0.234 and statistically significant at the 1% level. On the variable opinion with consider that variable independent other still, p This shows that when company audit opinion the more well, then the nominal probability of KAM is disclosed will decrease by 23.4 percentage points compared to the nominal KAM that was not expressed. The negative sign on the marginal effect coefficient indicates that connection between variable opinion with nominal KAM is negative or compared upside down. The more it does not meet the requirements, the more it does not include quantification on the KAM. This means that in the KAM, there is no need to include the quantification of KAM because there is no "problem".

In the variable complexity with consider that variable independent other still, p This show that if there are two companies with the same characteristics However One company own amount segmentation

business more Lots so the nominal probability of KAM is disclosed will increase of 1.8 percentage points compared to the nominal KAM that did not express. The positive sign on the marginal effect coefficient indicates that connection between the complexity variable with the nominal KAM is positive or in the same direction.

In the going concern risk variable with consider that variable independent other still, p This shows that if there is going concern risk, then the nominal probability of KAM is disclosed will decrease by 0.5 percentage point compared to the nominal KAM that is not expressed. The negative sign on the marginal effect coefficient indicates that the connection between going concern risk variables with a nominal KAM is negative or compared backwards.

The regression coefficient value of financial performance is 0.9232 and statistically significant at the 1% level. Regarding the financial performance variable, assuming that the other independent variables are fixed, this shows that if there are two companies with the same characteristics, but one company has better financial performance, then the probability that the nominal KAM is disclosed will increase by 12.4 percentage points compared to the nominal KAM which is not disclosed. Although in research conducted by [Genç et al., \(2018b\)](#), financial performance which characterizes company profitability is measured through ROA apparently has a significant positive relationship with the amount of key audit matters disclosed. The positive sign on the marginal effect coefficient indicates that the relationship between the financial performance variable and the

nominal KAM is positive or unidirectional. The higher the profit of a company indicates that the nominal KAM is also needed in disclosing KAM in the auditor's report. This is because in Indonesia, companies tend to have business processes that are not simple so that the auditor deems it necessary to explain the focus of the audit process.

The regression coefficient value of financial indebtedness is 0.0069. On the financial indebtedness variable assuming that the other independent variables are constant, this shows that if there are two companies with the same characteristics, but one company has worse financial indebtedness, then the probability that the nominal KAM is disclosed will increase by 0.1 percentage point compared to the nominal KAM which not disclosed. The positive sign on the marginal effect coefficient indicates that the relationship between the financial indebtedness variable and the nominal KAM is positive or unidirectional. The regression coefficient value of audit rotation is -0.5038. In the audit rotation variable, assuming that the other independent variables are constant, this shows that if the auditor changes, then the probability that the nominal KAM is disclosed will decrease by 6.8 percentage points compared to the nominal KAM that is not disclosed. The negative sign on the marginal effect coefficient indicates that the relationship between the audit rotation variable and the nominal KAM is negative or inversely proportional.

The regression coefficient value of the total asset is 0.0249. In the variable ln total assets assuming that the other independent variables are fixed, this shows that if there are two companies with the same characteristics, but one company has more total assets, then the probability of the nominal KAM being disclosed will increase by 0.3 percentage point compared to the nominal KAM undisclosed. The positive sign on the marginal effect coefficient indicates that the relationship between the ln variable total assets and the nominal KAM is positive or in the same direction. The Macfadden test or test of the coefficient of determination is a test to find out how much the variation of the independent variable can explain the variation of the dependent variable. Based on table 4 the coefficient of determination reaches 0.0358 or 3.58%. So, the variation of the independent variables can explain the variation of the nominal KAM variable of 3.58% and the remaining 96.42% is explained by other variables outside the model. The reason for the coefficient of determination in this study is very small because the coefficient of determination is also influenced by the large number of observations, the

fewer the number of observations you have, the greater the R squared obtained (Wooldridge, 2012: 105).

CONCLUSION

This study aims to identify the number of KAMs reported for Indonesian listed companies and verify what the determinants of that disclosure are. Thus, the audit reports and financial statements presented by the Indonesian companies listed on the stock exchange were examined and indexed by ISSI, to collect the data needed to then build the descriptive statistics and apply regression methods. The results obtained reveal that when Big4 draws up the final audit report, a higher average number of reported KAMs are expected. Also, when the auditor's opinion is modified, greater KAMs are disclosed in the audit report. With relation to the determinants of the characteristics of the audited company, a higher number of KAMs is expected when the company is more complex. However, the existence of going concern risk will result in a higher number of KAMs. The financial performance is measured through ROA in our analysis shows positively correlated with greater number of KAMs. However, a lower number of KAMs is expected when the company has higher financial indebtedness. Also, auditor rotation will result in an increased number of KAMs.

This study contributes to expanding the literature on the entry force of ISA 701 in the current audit report, investigating the relationship with determinant characteristics for the disclosure of the auditor's opinion. It is important to highlight that the sample focuses on a recent period. This study's main limitation relates to defined sample, since it only takes Indonesian companies that are listed on the IDX (Indonesian Stock Exchange) and indexed by ISSI. Hence, this study creates the impossibility of comparing the disclosure of KAMs with the factors influencing opinions in different financial and economic situations.

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