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**Determinants of Disclosure of Key Audit Matters in the Independent Auditor's Report**

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doi.org/10.51505/IJEBMR.2025.9902

URL: <https://doi.org/10.51505/IJEBMR.2025.9902>

Received: Aug 22, 2025

Accepted: Aug 27, 2025

Online Published: Sep 08, 2025

**Abstract**

This research examines and analyzes the effects of audit fees, KAP size, partner's gender, auditors' tenure, audit committee size, and overlapping audit committees on key audit matters in the independent audit report. The research employs quantitative methods, utilizing secondary data in the form of companies' annual reports. In line with this, 146 manufacturing companies were listed on the Indonesian Stock Exchange during 2022-2023, serving as the sample. Therefore, a total of 292 samples were taken. Furthermore, the data collection technique used was purposive sampling. The data analysis technique used was multiple regression. The results indicate that audit fees, partners' gender, auditors' tenure, and audit committee size have a positive effect on the disclosure of key audit matters. Meanwhile, the size of KAP and the overlapping audit committee have a negative impact on key audit matters disclosure.

**Keywords:** key audit matters, audit fees, KAP size, partner's gender

**1. Introduction**

*1.1 Background*

Public trust in public accounting services increases the demand for financial statement audit services, particularly for high-quality financial information used in the decision-making process. However, accounting scandals involving Enron Corporation, WorldCom, and several US public companies caused a crisis of public confidence in the quality of public accountant audits (Duff, 2004). This scandal became a global problem because it involved Arthur Andersen, which is one of the five largest accounting firms in the world (Choi et al., 2010). In addition to the fact that Enron's former Chief Audit Executive was a partner of Arthur Andersen, Enron's finance director, and most of Enron's accounting staff came from Arthur Andersen, this scandal was caused by moral hazard behavior, such as manipulating financial statements and recording a profit of 600 million dollars when in fact the company suffered losses (Wahyudi, 2012).

Not only on an international scale, similar incidents also occur in Indonesia. One case that is quite prominent is the case of default on JS Saving Plan customers' matured policy claims by PT

Asuransi Jiwasraya (Persero). In this case, the public accounting firm (KAP) involved was Tanudiredja, Wibisana, Rintis & Rekan, which is a member of the PwC network of firms. The failure of the public accountant to disclose material information related to this case triggered public doubts about the quality of the audit performed (Rizky, 2020). This case reinforces concerns that public trust in the public accounting profession could be shaken due to inadequate audit practices and a lack of transparency in reporting significant audit findings, which could have a systemic impact on the national economy.

To overcome the limited informative value that is considered lacking in the independent auditor's report, the organization that oversees public accountants in Indonesia, better known as the Institute of Certified Public Accountants, adopted ISA 701 on Key Audit Matters as additional information in the independent auditor's report. The Public Accountants Professional Standards Board approved SA 701 (2021) on "Communicating Key Audit Matters in the Independent Auditor's Report" on July 13, 2021. This standard applies to audits of financial statements beginning on or after January 1, 2022.

Key Audit Matters (KAM) disclosure is one of the important innovations in audit practice introduced through the international standard ISA 701. KAMs are designed to provide more transparency in the audit report by identifying significant issues that auditors encounter during the audit process. The main objective of this change is to improve the audit function, transparency, and quality of the audit report, which directly increases communicative value by generating useful information for users of financial statements (Kohler et al., 2020; Pratoomsuwan and Yolrabil, 2020; Zeng et al., 2021).

Agency theory is used to explain KAM reporting disclosures because KAM disclosures based on agency theory can serve as a communication device between auditors and stakeholders to reduce the information gap between management and shareholders, improve the understanding of financial statements about the duties and responsibilities of auditors, and improve the quality of financial statements (Velte and Issa, 2019). Reid et al. (2019) argue that KAM disclosure can reduce the likelihood of aggressive accounting behavior. Therefore, KAM disclosure can be a valuable tool that efficiently reduces agency conflicts caused by information asymmetry in large companies that may face agency problems (Ozcan, 2021).

Previous studies have identified several factors that influence KAM disclosure, such as audit fees, KAP size, partner gender, auditor tenure, number of audit committees, and overlapping audit committees. The study of Sierra-García et al. (2019) shows that companies with high audit fees tend to receive more KAM disclosures at the entity level, while receiving fewer at the account level. Abdulla if and Al Rahahleh (2020) argue that Big4 KAPs tend to disclose more KAM than non-Big4 KAPs. Furthermore, Özcan (2021) suggests that the appointment of Big4 KAP is positively related to the amount of KAM disclosure, but Sierra-García et al. (2019) find that auditors from firms such as KPMG and BDO tend to report less KAM than other firms, suggesting differences in reporting strategies between auditors.

Velte and Issa (2019) found a positive relationship between audit rotation and KAM reporting. Companies with an audit period of more than four years generally publish longer and more KAM and industry-specific KAM (Shao, 2020), but some studies find a negative relationship between auditor tenure and KAM disclosure because long audit tenure can affect auditor autonomy and objectivity due to familiarity between auditors and company management (Hussin et al., 2022).

Previous research on the relationship between female auditors and KAM reporting found a positive correlation direction (Abdelfattah et al., 2021; Khunkaew et al., 2023; Nekhili et al., 2018), but there is research that finds that female audit partners disclose less time variant KAM because they have a lower tendency to add new KAM and discard old KAM (Bepari and Mollik, 2023).

DeFond and Zhang (2014) found more evidence on the role of auditor interaction with the audit committee in audit quality. In addition, Al-Shaer et al. (2017) found that companies with a greater number and quality of audit committees make greater disclosure of audit and KAM information. In addition, research conducted by Al Lawati and Hussainey (2022) found that overlapping audit committee membership (OvAC) has a positive impact on the disclosure of key audit matters (KAM) in the auditor's report due to the spillover of knowledge resulting from duties on several committees.

This research examines and analyzes the effects of audit fees, KAP size, partner's gender, auditors' tenure, audit committee size, and overlapping audit committees on key audit matters in the independent audit report. Researchers chose a group of companies incorporated in the manufacturing sector that went public on the Indonesia Stock Exchange (IDX) as the object of research because this sector has the largest number of companies on the IDX with a variety of sub-sectors with a research sample period of 2022-2023, the selection of this period is due to the disclosure of KAM in Indonesia in the new Independent Auditor's Report starting in 2022.

## *1.2 Literature Review*

### *1.2.1 Agency Theory*

Jensen & Meckling (1976) state that the interests of the agent clash with the interests of the company's shareholders, where the agent has a lot of company information compared to the owner, resulting in information asymmetry. Agency theory determines the importance of audits in the business environment because audit reports can be used by shareholders in decision-making and reduce information asymmetry (Ozcan, 2021). The auditor, as an independent third party, uses the audit report to communicate to report users and inform stakeholders about the company's financial condition.

The newly implemented SA 701 standard in Indonesia regarding key audit matters provides an opportunity for stakeholders to engage with a series of key audit matter disclosures provided by the auditor (Suttipun, 2020) and build investor confidence (Ozcan, 2021). In addition, the main

purpose of this change is to improve the audit function, transparency, and quality of audit reports, which directly increases the communicative value by producing useful information for users of financial statements (Kohler et al., 2020; Pratoomsuwan and Yolrabil, 2020; Zeng et al., 2021).

Reid et al. (2019) argue that KAM disclosure can reduce the likelihood of aggressive accounting behavior. Therefore, KAM disclosure can be a valuable tool that efficiently reduces agency conflicts caused by information asymmetry in large companies that may face agency problems (Ozcan, 2021). Research by Sierra-García et al. (2019) also confirms that KAM disclosure helps reduce uncertainty and increase public confidence in audit results.

### *1.3 Hypothesis Development*

#### *1.3.1 Audit Fees*

KAM reporting regulations require external auditors to pay more attention when auditing company financial statements and be more critical when disclosing them. This makes public accounting firms have to spend more time, money, and other resources to prepare their staff for KAM reporting implementation and training (Li et al., 2019); therefore, this leads to an increase in audit fees.

Most of the previous related studies found a positive effect of audit fees on KAM reporting (Li et al., 2019; Suttipun, 2022). According to Alduneibat (2024), companies with higher leverage and debt, companies that pay higher auditor fees, and companies audited by Big Four KAPs tend to have higher levels of KAM disclosure. Boonlert-U-Thai and Suttipun (2023) found a positive relationship between audit fees and KAM reporting. This is because KAM reporting can create and increase the risk and effort for external auditors. So the hypothesis formulated is:

H1: Audit fees have a positive effect on KAM disclosure

#### *1.3.2 KAP size*

Previous research usually divides public accounting firms into two types, namely Big4 and non-Big4 public accounting firms (Suttipun, 2022). In terms of Big4 auditors, the world's largest audit firms include PricewaterhouseCoopers, KPMG, Deloitte, and Ernst and Young, while non-Big4 auditors are domestically based audit firms. Most of the previous related studies found that Big4 auditors provide more audit reports, including KAM reporting in terms of quality and quantity of information disclosure, than non-Big4 auditors (Suttipun, 2022). This is because Big4 auditors not only serve in a small number of countries, but also in many countries around the world. This makes them maintain their world-class reputation with high-quality services than local audit firms.

The results of research by Ferreira and Morais (2020) and Choi et al. (2019) show a positive relationship between KAP Big 4 and the amount of KAM disclosed. Abdullatif and Al-Rahahleh (2020) argue that Big4 KAP tends to disclose more KAM compared to Non Big4 KAP. In addition,

Ozcan (2021) suggests that the appointment of KAP Big4 is positively related to the amount of KAM disclosure. According to Wuttichindanon and Issarawornrawanich (2020), companies that use auditors from Big 4 KAP, have many subsidiaries, and are in the technology, property, and financial sectors tend to disclose more KAM.

H2: KAP size has a positive effect on KAM disclosure

### 1.3.3 Partner Gender

Female audit partners demonstrate strict legal compliance with higher levels of moral and ethical rationalization (Karjalainen et al., 2018). Based on previous research, female partners spend more time planning testing engagements and additional procedures that can reduce the likelihood of earnings management (Garcia-Blandon et al., 2019; Mnif and Cherif, 2022; Nekhili et al., 2022) and improve audit quality. Research involving a sample of companies from the UK shows that female partners disclose more KAM compared to male partners (Abdelfattah et al., 2021).

According to Khunkaew et al. (2023), the relationship between female auditors and KAM reporting showed a positive correlation direction. This is because female auditors have a better ability to communicate and disclose audit reporting, including KAM reporting, than male auditors. In addition, female auditors are more sensitive to risk because they see more risk and uncertainty, participate in less risky behavior, and make less risky choices (Ho et al., 2015). So the hypothesis formulated is:

H3: Partner gender has a positive effect on KAM disclosure

### 1.3.4 Auditor Tenure

Velte and Issa (2019) found a positive relationship between audit rotation and KAM reporting. Lin and Yen (2022) document interesting findings on different KAM disclosures as they are more likely to be observed when there is a change in audit partner than when there is no change. As a result, the number of KAMs is expected to increase.

Research conducted by Kamarudin et al. (2022) complements the impact of information, where the gradual accumulation of client-specific knowledge in a long auditor-client relationship can promote optimal auditing and financial reporting. Regarding KAM, companies with an audit period of more than four years generally publish longer and more KAM and industry-specific KAM (Shao, 2020). According to Lennox and Wu (2018), a long audit tenure can produce high-quality audits because partners can gradually acquire more expertise that is more specific to the client and industry. Therefore, longer audit tenure may prove beneficial for partners to disclose more KAM after gradually accumulating information and determining substantial matters as reflected in KAM. So the hypothesis formulated is:

H4: Auditor tenure has a positive effect on KAM disclosure

### 1.3.5 Committee Size

External auditors in conducting audits of historical financial statements will generally work closely with the company's audit committee. In addition, external auditors must comply with Auditing Standard 260 on Communication to Parties Responsible for Corporate Governance, where external auditors must present and communicate audit reports, including KAM reporting, to parties responsible for corporate governance, one of which is the audit committee. Two important roles of the audit committee are reviewing the company's financial statements and preparing audit committee reports. In addition, the audit committee acts as a monitor in KAM reporting on the external auditor's audit reporting (Kang, 2019). Thus, different audit committee characteristics may affect audit reports, such as the number of KAMs. According to previous research, there are four main variables used to represent audit committee characteristics, namely audit committee size, audit committee expertise, audit committee meetings, and independent audit committee. In the audit committee size variable, previous studies found a positive effect of audit committee size on KAM reporting (Rifai and Siregar, 2021; Sarhan et al., 2019; Velte and Issa, 2019; Wuttichindanon and Issarawornrawanich, 2020).

Al-Shaer et al. (2017) found that companies with a larger number and quality of audit committees make greater disclosure of audit and KAM information. Thus, the size of the audit committee can increase the level of KAM reporting in the audit report. So the hypothesis formulated is:

H5: The number of audit committees has a positive effect on KAM disclosure

### 1.3.6 Overlapping Audit Committee

OvAC membership should have a positive impact on the decision-making process of the board due to their extensive channel network and the thorough knowledge they possess. Habib and Bhuiyan (2016) found that the overlapping presence of AC members in many committees leads to increased expertise and knowledge spillover that can be utilized in better management, monitoring, and improved FRQ (Financial Reporting Quality) of the company.

Al-Dhamari et al. (2022) found a positive relationship between overlapping AC and high accounting information quality and lower operational risk. "Since KAM is thoroughly discussed between the AC and the external auditor during the audit" (Velte, 2018), the level of collaboration between these two parties should be increased by overlapping members. The OvAC makes a positive contribution to stakeholders' information interests through close monitoring of financial reporting, which leads to the release of relevant disclosures to stakeholders. Therefore, it is expected that the level of corporate disclosure will be enhanced when the average number of overlapping AC members is higher.

Research conducted by Al Lawati and Hussainey (2022) found that overlapping audit committee membership (OvAC) has a positive impact on the disclosure of key audit matters (KAM) in the

auditor's report due to the spillover of knowledge resulting from duties on several committees. So the hypothesis formulated is:

H6: Audit committee overlapping has a positive effect on KAM disclosure.

**2. Method**

This research is a quantitative study using secondary data in the form of data derived from annual reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2022- 2023. This research sample uses a purposive sampling method, namely, sample collection using certain criteria, which can be seen in Table 1.

Table 1. Sampling Technique

No.	Description	2022	2023	Total
1.	Companies engaged in the manufacturing sector listed on the Indonesia Stock Exchange (IDX) in the research period 2022-2023	195	195	390
2.	Manufacturing companies that cannot obtain annual reports and audited financial reports from www.idx.co.id in the research period 2022-2023.	(13)	(13)	(26)
3.	Manufacturing companies that do not have complete data on the variables studied in the form of audit fees.	(4)	(4)	(8)
4.	The company's financial statements do not use the rupiah currency (IDR).	(32)	(32)	(64)
<b>Total Sample</b>		<b>146</b>	<b>146</b>	<b>292</b>

Source: Data processed, 2025

The reason for using smartPLS is that this research data is non-parametric data, where the data does not require normal distribution assumptions. Most of the research data uses a nominal scale, such as KAM, KAP size, partner gender, auditor tenure, audit committee size, and overlapping audit committee, so that it is suitable to use PLS in testing regression because it does not require normally distributed data. Several stages are carried out in data analysis, namely descriptive statistical tests, inner model tests, and t-tests. The regression equation used in this study to test the hypothesis is as follows:

$$KAM = \alpha + \beta_{(1)}.AF + \beta_{(2)}.KAP + \beta_{(3)}.PG + \beta_{(4)}.AT + \beta_{(5)}.AC + \beta_{(6)}.OVAC + e$$

Table 2. Operational Research Variables

Variable	Measurement	Source
<b>Dependent Variable:</b>		
Key Audit Matters (KAM)	The number of KAMs disclosed in the audit report	Suttipun (2022)
<b>Independent Variable:</b>		
Audit Fee (AF)	Natural logarithm of total audit fees	Alduneibat (2024)
KAP size (KAP)	dummy variable, 1 = KAP Big4 and 0 = Non Big4	Suttipun (2022)
Partner Gender (PG)	dummy variable, 1 = Female Partner and 0 = Male Partner	Suttipun (2022)
Auditor Tenure (AT)	The number of consecutive years an auditor is involved with the same client.	Hussin et al. (2022).
Audit Committee Size (AC)	The number of audit committees personnel in the company	Suttipun (2022)
Overlapping Audit Committee (OVAC)	The number of committee members who also sit on other committees in the same company at the same time	Al Lawati and Hussainey (2022)
<b>Control Variable:</b>		
Company Profitability (ROE)	ROE = Net income after tax divided by Equity	Bédard et al. (2019), Li et al. (2019), and Reid et al. (2019)
Leverage (LEV)	total debt divided by total assets	Bédard et al. (2019), Li et al. (2019), and Reid et al. (2019)
Firm Size (FZ)	natural logarithm of total assets	Bédard et al. (2019), Li et al. (2019), and Reid et al. (2019)

### 3. Results

#### 3.1 Descriptive Statistical Analysis

Descriptive statistics have the aim of providing an overview of the research variables. The results of the descriptive analysis of this study can be seen in Table 3.

Table 3. Descriptive Statistical Analysis Results

	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Variance</b>
KAM	292	0	6	1,39	0,84	0,70
AF	292	17,85	25,53	20,54	1,47	2,16
KAP	292	0	1	0,32	0,46	0,22
PG	292	0	1	0,19	0,39	0,15
AT	292	1	5	2,08	0,96	0,92
AC	292	1	6	3,01	0,37	0,14
OVAC	292	0	5	0,47	0,64	0,41
ROE	292	-4,96	2,17	0,05	0,40	0,16
Lev	292	0,002	4,12	0,50	0,50	0,25
FZ	292	12,93	33,73	28,01	2,32	5,40
Valid N (listwise)	292					

Source: SmartPLS Data Processing Results (2025)

The key audit matters (KAM) variable has a minimum value of 0 and a maximum value of 6, which means that there are companies that are sampled in their independent audit reports that do not disclose key audit matters, and the largest number of key audit matters disclosures in the independent auditor's report is 6 disclosures. The average value is 1.39, which means that the average disclosure is 1-2 disclosures. This indicates that the auditor considers that there are several important areas in the financial statements, but not too many.

The Audit Fee variable has a minimum value of 17.85 and a maximum value of 25.53. The average value of 20.54 indicates that the amount of audit fees is quite high with a moderate distribution.

The KAP size variable has a minimum value of 0, which indicates the company is audited by KAP Non Big4, and a maximum of 1, which indicates the company is audited by KAP Big4. The average value of 0.32 indicates that manufacturing companies listed on the IDX in 2022-2023 were mostly audited by KAP Big4 and mostly audited by KAP non-Big4.

The partner gender variable has a minimum value of 0, which indicates that the partner who signs the independent auditor's report is male, and a maximum of 1 indicates that the partner who signs the independent auditor's report is female. The average value of 0.19 means that the gender of partners who sign the independent auditor's report of manufacturing companies listed on the IDX is predominantly male.

The auditor tenure variable, measured by the number of times the auditor signs the independent auditor's report, has a minimum value of 1 and a maximum value of 5, indicating that the auditor signs the independent auditor's report at least 1 time and at most 5 times. The average value of 2.08 means that the average auditor has worked with their client for 2 years.

The audit committee size variable has a minimum value of 1 and a maximum of 6, which means that the number of audit committees serving in the company is at least 1 person and at most 6 people. The average value of 3.01 means that the average number of audit committees serving in the company is 3, which is the minimum regulations that generally apply.

The overlapping audit committee variable has a minimum value of 0 and a maximum value of 5, meaning that there are no committee members who also sit on other company committees, and audit committee members who also sit on other company committees at most 5 people. The average value of 0.47 means that the audit committee overlaps with other committee memberships in the company by 47%, meaning that almost half of the audit committee members in the companies in the research sample hold similar or concurrent positions on one or more other committees.

The return on equity (ROE) variable has a minimum value of -4.96, indicating that there are companies that experience equity deficiencies, and a maximum value of 2.17, indicating that the largest ROE level in manufacturing companies is 2.17. The average value of 0.0494 indicates a very small ROE level, which means low return on capital efficiency.

The leverage variable has a minimum value of 0.002 and a maximum value of 4.12, indicating that there are companies with very high debt structures. The average value of leverage indicates that, on average, 50% of the company's assets are financed by debt.

The firm size variable measured by the logarithm of total assets has a minimum value with the smallest firm size of 12.93 and a maximum value with the largest firm size of 33.73. The average value of 28.0168 indicates that the average company observed includes companies with large total assets.

### 3.2 Inner Model Test

Inner model testing can be seen from the R-Square value, which is used to measure the model's ability to explain variations in the dependent variable. Inner model testing can be seen in Table 4.

Table 4. Inner Model Testing Results

	<b>R Square</b>	<b>R Square Adjusted</b>
<b>KAM</b>	0.478	0.461

Source: SmartPLS Data Processing Results (2025)

Based on table 4, the R-Square value of 0.478 or 47.8% means that 47.8% of the variation in the magnitude of key audit matters is explained by the audit fee variable, KAP size, partner gender, auditor tenure, audit committee size, overlapping audit committees and control variables in this study, while the remaining 52.2% is explained by other variables outside the model.

3.3 *T test*

The t-test is used to measure whether there is a strong relationship between the independent variable and the dependent variable. The t-test results can be seen in Table 5.

Table 5. Results of the t-test

	<b>Original Sample (O)</b>	<b>Sample Mean (M)</b>	<b>Standard Deviation (STDEV)</b>	<b>T Statistics ( O/STDEV )</b>	<b>P Values</b>
<b>AF -&gt; KAM</b>	0.091	0.088	0.050	1.832	<b>0.034</b>
<b>KAP -&gt; KAM</b>	-0.186	-0.188	0.046	4.008	<b>0.000</b>
<b>PG -&gt; KAM</b>	0.087	0.089	0.034	2.511	<b>0.006</b>
<b>AT -&gt; KAM</b>	0.074	0.075	0.039	1.912	<b>0.028</b>
<b>AC -&gt; KAM</b>	0.160	0.153	0.070	2.308	<b>0.011</b>
<b>OVAC -&gt; KAM</b>	-0.212	-0.217	0.045	4.667	<b>0.000</b>
<b>LEV -&gt; KAM</b>	0.233	0.237	0.059	3.939	<b>0.000</b>
<b>ROE -&gt; KAM</b>	-0.565	-0.526	0.139	4.076	<b>0.000</b>
<b>FZ -&gt; KAM</b>	0.081	0.084	0.045	1.786	<b>0.037</b>

Source: SmartPLS Data Processing Results (2025)

The following is the equation output from the regression model as follows:

$$KAM = \alpha + 0.091.AF - 0.186.KAP + 0.087. PG + 0.074.AT + 0.160. AC - 0.212. OVAC + e$$

Based on Table 5, the results of the t-test are as follows:

1. The audit fee regression coefficient value of 0.091 shows a positive direction with a p-value or significance value of 0.034, which means that the significance value is smaller than 0.05 ( $\alpha = 5\%$ ), this indicates that audit fees have a positive effect on the disclosure of key audit matters, meaning that high audit fees have a greater level of KAM disclosure, thus Hypothesis 1 is accepted.
2. The regression coefficient value of KAP size of -0.186 shows a negative direction with a p-value or significance value of 0.000, which means that the significance value is smaller than 0.05 ( $\alpha = 5\%$ ), this indicates that KAP size has a negative effect on the disclosure of key audit matters, meaning that companies audited by Big4 KAP have a lower level of KAM disclosure, thus Hypothesis 2 is rejected.
3. The partner gender regression coefficient value of 0.087 shows a positive direction with a p-value or significance value of 0.006, which means that the significance value is smaller than 0.05 ( $\alpha = 5\%$ ), this indicates that partner gender has a positive effect on the disclosure of key audit matters, meaning that companies audited by female auditors or public accountants have a greater level of KAM disclosure, thus Hypothesis 3 is accepted.
4. The auditor tenure regression coefficient value of 0.074 shows a positive direction with a p-value or significance value of 0.028, which means that the significance value is smaller than 0.05 ( $\alpha = 5\%$ ), this indicates that auditor tenure has a positive effect on the disclosure of key audit matters, meaning that the longer the control range of public accountants auditing the

- company has the higher the level of KAM disclosure, thus Hypothesis 4 is accepted.
5. The regression coefficient value of the audit committee size of 0.160 shows a positive direction with a p-value or significance value of 0.011, which means that the significance value is smaller than 0.05 ( $\alpha = 5\%$ ), this indicates that the size of the audit committee has a positive effect on the disclosure of key audit matters, meaning that the greater the number of audit committee personnel in a company has a greater level of KAM disclosure, thus Hypothesis 5 is accepted.
  6. The regression coefficient value of the overlapping audit committee of -0.212 shows a negative direction with a p-value or significance value of 0.000, which means that the significance value is smaller than 0.05 ( $\alpha = 5\%$ ), this indicates that the overlapping audit committee has a negative effect on the disclosure of key audit matters, meaning that the greater the number of audit committee personnel who serve on other committees in a company has a lower level of KAM disclosure, thus Hypothesis 6 is rejected.
  7. The coefficient value of the return of equity control variable of -0.565 shows a negative direction with a p-value or significance value of 0.000, which means that the significance value is smaller than 0.05 ( $\alpha = 5\%$ ), this indicates that ROE has a negative effect on the disclosure of key audit matters, meaning that the lower the ROE level of a company has a higher level of KAM disclosure.
  8. The coefficient value of the leverage control variable of 0.233 shows a positive direction with a p-value or significance value of 0.000, which means that the significance value is smaller than 0.05 ( $\alpha = 5\%$ ), this indicates that leverage has a positive effect on the disclosure of key audit matters, meaning that the higher the level of leverage of a company has a higher level of KAM disclosure.
  9. The coefficient value of the firm size control variable of 0.081 shows a positive direction with a p-value or significance value of 0.037, which means that the significance value is smaller than 0.05 ( $\alpha = 5\%$ ), this indicates that firm size has a positive effect on the disclosure of key audit matters, meaning that the higher the level of firm size has a higher level of KAM disclosure.

#### **4. Discussion**

##### *4.1 The Effect of Audit Fees on KAM Disclosure*

The hypothesis results show that audit fees have a positive effect on KAM disclosure because high audit fees indicate a high level of audit complexity, high audit risk, and client requests for more in-depth audit examinations so that auditors who receive higher fees tend to have more resources to conduct examinations with comprehensive and in-depth audit procedures that allow auditors to find and disclose more KAM in a relevant and significant manner. Thus, auditors who receive high audit fees have an incentive to provide more transparent reports, so as to increase investor and other stakeholder confidence and reduce information asymmetry between management and external stakeholders. This is in line with the agency theory perspective.

The results of this study support research conducted by Alduneibat (2024), Li et al (2019), and Suttipun (2022), which found a positive effect of audit fees on KAM reporting. This means that

the higher the audit fee received by the auditor, the more KAM disclosure in the independent auditor's report. According to Alduneibat (2024), auditors who receive higher fees tend to conduct audits in more depth and disclose more KAM to maintain their reputation and reduce the risk of litigation if material errors are found in the future.

#### *4.2 The Effect of KAP Size on KAM Disclosure*

The hypothesis results show that KAP size has a negative effect on KAM disclosure because Big4 KAP tends to have a standardized and structured audit system so that it can cause KAM disclosure to be minimal and boilerplate in nature, which means that Big4 KAP only focuses on the main issues that are already common, not on more specific or sensitive issues. Thus, Big4 KAPs tend to be more careful in disclosing KAM so as not to cause negative perceptions of their clients because more detailed or numerous KAM disclosures can be perceived as a signal of significant risk to clients, which can harm long-term business relationships and the reputation of the KAP itself. These results also reject agency theory because Big4 KAP is more focused on business retention than maximum transparency, so it cannot reduce the information asymmetry that occurs between the agent (management) and the principal (shareholders).

The results of this study contradict research conducted by Ferreira and Morais (2020); Choi et al. (2019); Abdullatif and Al-Rahahleh (2020); Ozcan (2021), and Suttipun (2022) show a positive relationship between KAP Big4 and the amount of KAM disclosed, which means that KAP Big4 tends to disclose more KAM than KAP Non Big4. However, the results of this study support research conducted by Rahaman et al. (2023), which states that KAP size has no significant effect on the amount of KAM disclosed, but Big4 KAP tends to provide more detailed and informative KAM disclosures than Non-Big4 KAP. Sierra-García et al. (2019) also found that auditors from firms such as KPMG and BDO tend to report less KAM than other firms, indicating differences in reporting strategies between auditors.

#### *4.3 The Effect of Partner Gender on KAM Disclosure*

The hypothesis results show that partner gender has a positive effect on KAM disclosure because female partners tend to have a higher level of ethical sensitivity and compliance and in decision making are more likely to be conservative than male partners, this means that female partners will be more transparent and tend to disclose more significant audit issues in KAM to avoid potential mistakes that could have a negative impact on personal and audit firm reputation. This is in line with the agency theory perspective because female partners who care more about transparency and accountability will play a positive role in minimizing information asymmetry through more detailed and informative KAM disclosures.

The results of this study support research conducted by Abdel Fattah et al. (2021); Garcia-Blandon et al., (2019); Karjalainen et al. (2018); Khunkaew et al. (2023); Mnif and Cherif, (2022); Nekhili et al. (2022) found that female partners disclose more KAM than male partners, this is because female audit partners show strict legal compliance with a higher level of moral and ethical rationalization (Karjalainen et al., 2018) so that they can spend more time planning additional

testing and procedure engagements that can reduce the possibility of earnings management (Garcia-Blandon et al., 2019; Mnif and Cherif, 2022; Nekhili et al., 2022) and improve audit quality. In addition, female auditors have a better ability to communicate and disclose audit reporting, including KAM reporting, than male auditors (Khunkaew et al., 2023).

#### *4.4 The Effect of Auditor Tenure on KAM Disclosure*

The hypothesis results show that auditor tenure has a positive effect on KAM disclosure because auditors with long tenure can understand the client's business and risks better and are able to detect audit risks that may not be visible in the initial year of the engagement. Auditors' experience and knowledge allow them to find more important audit issues that should be disclosed. Therefore, the longer the auditor's tenure, the more likely they are to disclose more relevant KAM, which can help stakeholders understand important risks and issues in the financial statements, resulting in greater transparency and quality of audit reporting.

The results of this study are in line with research conducted by Velte and Issa (2019) and Kamarudin et al. (2022) found a positive relationship between audit rotation and KAM reporting. According to Kamarudin et al. (2022), the gradual accumulation of client-specific knowledge in a long auditor-client relationship can promote optimal auditing and financial reporting. Regarding KAM, companies with an audit period of more than four years generally publish longer and more KAM and industry-specific KAM (Shao, 2020). A longer audit period may prove beneficial for partners to disclose more KAM after gradually accumulating information and determining substantial matters as reflected in KAM.

#### *4.5 Effect of Audit Committee Size on KAM Disclosure*

The results of the hypothesis show that the size of the audit committee has a positive effect on KAM disclosure because with more audit committee members in a company, they have a diversity of backgrounds, experiences, and expertise so that they are more critical in assessing the audit process, and can provide wider input to external auditors regarding areas that need attention in the audit and can supervise the audit more effectively. This encourages auditors to disclose more and quality KAM, so as to increase the transparency and accountability of financial statements and increase public trust in audit results, and can minimize information asymmetry that occurs between management and stakeholders. This is in line with the agency theory perspective.

The results of this study are in line with research conducted by Rifai and Siregar (2021); Sarhan et al. (2019); Velte and Issa (2019); Wuttichindanon and Issarawornrawanich (2020) found a positive effect of audit committee size on KAM reporting. This is because external auditors usually work closely with the company's audit committee in presenting and communicating audit reports, including KAM disclosures. In addition, two important roles of the audit committee are to review and prepare the company's financial statements, which consist of their opinions on the accuracy, completeness, and reliability of the company's financial statements, and their opinions on sustainable development; therefore, a larger number of audit committees may provide higher KAM reporting.

#### *4.6 Effect of Overlapping Audit Committee on KAM Disclosure*

The hypothesis results show that the overlapping audit committee has a negative effect on KAM disclosure because audit committee members who serve on other committees in a company can reduce the independence of audit committee members and have excessive workloads so that they can reduce the effectiveness of audit committee supervision including reviewing the main audit issues that need to be disclosed in KAM, as a result the pressure on auditors to disclose KAM transparently decreases which in turn can lead to low levels of KAM disclosure. The results of this study, which show a negative effect, reject the simple application of agency theory because it shows that the quality of supervision also depends on the capacity and structure of the membership, not just the existence of the committee.

The results of this study are not in line with research conducted by Al Lawati and Hussainey (2022) found that overlapping audit committee membership (OvAC) has a positive impact on the disclosure of key audit matters (KAM) in the auditor's report due to the spillover of knowledge resulting from duties on several committees. However, this study supports research conducted by Kusnadi et al. (2016), who found that a high level of audit committee overlap is likely to lead to dilution of effort due to multi-accountability, which may not result in better monitoring of the financial reporting process and higher financial reporting quality. Tanyi and Smith (2015) also found that overlapping audit committee members negatively impact the quality of director monitoring, which reduces Financial Reporting Quality (FQR). This is due to the workload borne by audit committee members and the limited time they have, which hinders their monitoring role. Therefore, audit committee members who have dual roles may face a conflict of interest between their oversight duties and other strategic or management interests, putting them under pressure to protect management interests or avoid scrutiny of sensitive company issues.

### **5. Conclusion**

The changes in Auditing Standards regarding the disclosure of key audit matters introduce significant changes to the independent auditor's report to increase the value of financial information that can be used as a basis for decision-making for stakeholders. Agency theory is the reference for this study, where researchers explain the relationship between KAM disclosure and the six main variables (audit fee, KAP size, auditor tenure, partner gender, audit committee size, and overlapping audit committee).

The results showed that audit fees, partner gender, auditor tenure, audit committee size have a positive effect on the disclosure of key audit matters, this means that the higher the audit fee, the female gender partner, the longer the auditor tenure, the more the size of the audit committee, the greater the number of disclosures of key audit matters in the independent auditor's report, while the size of the KAP and the overlapping audit committee have a negative effect on the disclosure of key audit matters, this means that the higher the size of the KAP and the overlapping audit committee, the less disclosure of KAM in the independent auditor's report.

This study it self has limitations that must be improved in future research, namely the object of this research is only focused on manufacturing companies listed on the Indonesia Stock

Exchange, which is only one of the types of companies on the Indonesia Stock Exchange, this study only has 292 samples so that the research results are less generalizable and seen from the results of the R-Square, the independent variables in this study are only able to explain the dependent variable by 47.8%, so there are still other variables that can explain the disclosure of KAM.

This study still has many shortcomings, so the suggestions that need to be considered in future studies are that the sample in the next study can be expanded again and not only in manufacturing companies so that the results can be generalized, further research should be able to consider adding other factors that affect KAM disclosure such as external auditor experience, financial distress, frequency of audit committee meetings, and accounting expertise on the audit committee, Future research can add a longer period so that the research sample obtained is large and the results can be representative and can identify the dynamics of changes in KAM disclosure gradually, and future researchers can use a mixed approach both quantitatively and qualitatively so that they can learn more about the reasons behind KAM disclosure and the impact it has on stakeholders.

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