



**JOURNAL OF BUSINESS
MANAGEMENT AND ACCOUNTING**

<https://e-journal.uum.edu.my/index.php/jbma>

How to cite this article:

Yulianto, A. R., Lokman, N., & Razali, F. M. (2024). The era of transparency: Auditor's judgement of key audit matter and audit quality. *Journal of Business Management and Accounting*, 14(2) July, 187-211. <https://doi.org/10.32890/jbma2024.14.2.1>

**THE ERA OF TRANSPARENCY: AUDITOR'S JUDGEMENT
OF KEY AUDIT MATTER AND AUDIT QUALITY**

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Received: 18/11/2023 Revised: 12/2/2024 Accepted: 18/2/2024 Published: 30/7/2024

ABSTRACT

This paper discusses the theoretical influence of key audit matter and audit quality. This paper discusses a literature study method approach to explore the possible impact of key audit matters (KAMs) and audit quality. In particular, the authors believe implementing key audit matters can largely affect audit risk, going concern evaluation and audit response procedures, which in the end can influence on audit quality. Implementation of key audit matters in Indonesia began in 2022, audit firms are strongly advised to prepare better audit working papers and mitigate audit risks. This can help them consider matters that require the auditor's significant attention, which in turn is hoped

can increase the flexibility and effectiveness of communication between auditees and auditors. In addition, the author recommends that regulators or audit oversight boards require the application of boards to apply key audit matters to all audit work, not just mandatory for listed companies. It is hoped that this rule will help audit companies work more carefully in dealing with audit risks, which appear to be positively related to audit quality. As far as the author knows, limited educational study has explored the possible influence of key audit matters (KAMs) on audit quality in Indonesia. Therefore, this paper reduces the research gap in the audit literature. On the other hand, this paper can be used as a foundation for developing research instruments (e.g., questionnaires, interviews, or content analysis) to grant empirical evidence.

Keywords: Transparency, audit quality, communicating value, key audit matters.

INTRODUCTION

Regulatory bodies like the Public Company Accounting Oversight Board (PCAOB) and the International Auditing and Assurance Standards Board (IAASB) have identified stakeholder expectations for extended important points in the audit report, not just opinion or judgment (Hong Li et al., 2019). In Indonesia, in July 2021, updated auditor reporting requirements were established, presenting the latest Standard on Auditing (SA) 701 (Communicating Key Audit Matters (KAMs) in the Independent Auditor's Report). This standard will be relevant to audits of the economic statements of listed companies starting from January 2022 onwards. Incorporating KAMs in the auditor's report objectives enhances transparency related to the audit procedure and enhances the informative value or content matter of auditor's reports. According to (XRB, 2017), the latest auditor reporting model mandates listed corporations to expose key audit matters ("KAMs") and the identity of the engagement partner in the auditor's report, along with other modifications.

In developing nations, restricted research have been performed on Key Audit Matters (KAMs), as exemplified by Suttipun (2022), who examined KAMs disclosure in Thailand and recognized a positive correlation among audit fees, auditor type, and KAMs reporting.

Nevertheless, rising economies like Bangladesh exhibit wonderful characteristics in their audit markets compared to developed nations. Developing countries often have limitations and challenges in adopting and implementing new audit standards. Boolaky et al. (2020) recently investigated International Standards on Auditing (ISAs) in the context of developing nations, revealing a universal deficiency in education and coaching that significantly hinders the establishment of auditing standards and the adoption of International Standards on Auditing (ISAs). Prior findings by way of Boolaky and Soobaroyen (2016) underscored countless factors influencing the dedication to adopting and harmonizing ISAs in creating countries, which includes the safety of minority interests, regulatory enforcement, foreign aid, rights of lenders and borrowers, the occurrence of overseas ownership, instructional attainment, and specific elements of the political system (such as the degree of democracy).

Since 1 January 2022, the audit report form, in accordance with the latest audit standards, must contain company-specific information, such as the most substantial risks of material misstatement. This includes an explanation of the auditor's application of materiality in audit planning and execution, explicitly declaring the materiality degree employed. Furthermore, the audit report should provide an overview of the audit scope, elucidating how the chosen scope addresses the risks outlined in the report. Implementing the new audit reporting standards may additionally extend auditor liability, as it necessitates disclosing more information. Auditors have the potential face legal motion if there is a breach of responsibility and care in disclosing Key Audit Matters (KAMs). According to the External Reporting Board (XRB, 2017), auditors have expressed apprehensions about the new requirements, specifically citing a perceived rise in litigation risk.

Research on Key Audit Matters (KAMs) has explored various impacts of the recent audit report (e.g., Gutierrez et al., 2018; Li, Hay and Lau, 2019; Nguyen and Kend 2021). Nevertheless, until now there has been limited study in Indonesia that examines the disclosure of KAMs because the implementation of KAMs is still very new. Our study makes treasured contributions to the current body of research on Key Audit Matters (KAM) disclosures. Firstly, it addresses the need for extra empirical research on KAM disclosures, including the perception of their implementation impact. It is noteworthy as one of the preliminary examinations of the post-implementation

consequences of the new auditor reporting requirements, especially in the context of Indonesia. Secondly, our study explores content evaluation related with reporting reform, filling a hole in the literature.

Our research enriches the study of how reporting modifications and the new auditor reporting requirements impact disclosure content, as this field has been conspicuously understudied. This is in line with earlier research's recommendations and improves understanding of the wider ramifications of reporting changes in the Indonesian setting. In accordance with the findings of Köhler et al (2020), the disclosure of Key Audit Matters (KAMs) has an established impact on the disclosures' substance. This implies that the facts themselves play a crucial role in defining the precise information concealed in KAM's disclosures. Thus, it is crucial to study and analyse the content of KAM's disclosures in order to fully appreciate their wider implications and potential effects on stakeholders as well as the auditing process.

According to Kitiwong and Sarapaivanich (2020), there is an evidence that explains there is a link between the increased risk of financial misstatement and the type of Key Audit Problem (KAM) disclosed. In their study, Kitiwong and Sarapaivanich (2020) examined the relationship between the content of KAM information disclosed, the type of KAM disclosed, and the risk of financial misstatement. They assess the risk of this misstatement by analysing the restatement of the financial statements. This research shows that the nature of the disclosed KAM can provide an overview of the possible risks of financial misstatement.

Another study conducted by Wuttichindanon and Issarawornrawanich (2020) recommends that future research focus on Southeast Asian countries with the aim of comparative analysis studies to confirm the findings and address existing information gaps. This recommendation comes from the scarcity of studies related to key audit matters, so it is necessary to explore understanding of key audit matters (KAMs) and related matters in Southeast Asia more widely. Suggestions from Kitiwong and Sarapaivanich (2020) and Wuttichindanon and Issarawornrawanich (2020) motivated us to carry out a literature and literature study approach to see the influence of main audit matters on audit quality. Our research question (RQ1) is as follows:

How can the key audit matter affect (KAMs) the audit quality?

The results of this research are expected to be important for stakeholders, including regulators, expert accounting bodies and audit

firms. The results can provide insights for these entities to examine how auditors communicate matters in audit reports, ultimately facilitating continuous improvement in audit practices. In particular, regulators will gain an appreciation of how audit firms respond to their expectations regarding reporting in Key Audit Matters (KAM). This understanding can provide a resource for regulators in refining their audit reporting expectations and practices. In addition, standard setters and audit firms should use the findings of this research to determine key accounting standards. This information data can guide the identification of important areas in accounting standards that require attention and may impact future standard-setting approaches and audit practices.

Finally, our findings are poised to valuable assistance to assist users in making informed financial decisions. Understanding the extent to which Key Audit Matters (KAMs) disclosures are mentioned in the audit report can contribute to increased information transparency. By decreasing information asymmetries, users can achieve clearer insights into the significant audit matters and factors that effect on financial statements. The improved communicative value ensuing from complete KAMs disclosures aids users in interpreting the complexities of the audit process. Ultimately, this accelerated transparency and readability empower users to make extra wonderful and well-informed financial decisions based on a deeper understanding of the audit findings and their implications for the financial statements.

While there have been restrained studies, such as the work by way of Kitiwong and Sarapaivanich (2020), that have highlighted the importance of KAMs, there is a distinct absence of research analysing the manageable effect of KAMs on audit pleasant in the Indonesian context. By addressing this gap, this study assists to the current body of prior research and expands the understanding of the relationship between KAMs and audit quality. Prior research such as Reid et al. (2019), Shamsuddin and Masdor (2020), Rautiainen, Saastamoinen, and Pajunen (2021), Barghathi et al. (2021), Suttipun (2021), Zeng et al. (2022), Hegazy, El-Haddad, and Kamareldawla (2022), Bepari et al. (2023), Hu et al. (2023) found that audit quality has improved after the adoption of KAMs.

On the other hand, Li (2017) and Segal (2019) found that KAM reporting does not focus on audit quality, but KAM is carried out based on audit regulations and standards. Nguyen and Kend (2021) found insufficient consensus among stakeholders about KAM which can

improve audit quality. Correspondingly, Kitiwong and Sarapaivanich (2020), Badawy (2021), the number of KAMs disclosed, and the most commonly disclosed types of KAMs are not associated with audit quality. By implementing KAM, auditors may simply reduce the extent of audit testing by expending less effort and time, resulting in lower audit quality, because auditors are pressured by the duration of audit completion with audit fees that cannot be increased and limited resources. This requires KAM exploration to enrich the understanding. Until now, research on KAM in the audit literature is still limited because it is still new in Indonesia. This research exercise is crucial for advancing understanding of auditing, especially in the Indonesian setting, and has the potential to provide precious insights for academics and practitioners in the auditing profession.

Our study makes a treasured contribution to the current literature by conceptualizing the correlation between Key Audit Matters (KAMs) and audit quality. This conceptual framework lays the groundwork for the perception of the practicable connections and implications between these variables. For future research, complementing our findings with empirical methods such as a questionnaire survey or an interview timetable should, in addition, beautify our understanding of the realistic implications of the conceptualized relationship. Empirical investigations would permit data collection, enabling researchers to analyse and validate the conceptualized links between KAMs and audit quality. This combination of conceptual and empirical research methodologies can provide an extra complete and robust perception of the dynamics between key audit matters and audit quality in the context of this study.

This paper consists of the following. Section 1 is an introduction. Section 2 talks about agency theory and key audit matters in a regulatory background. The impact of the Communicative Value of Key Audit Matters is discussed in Section 3, while its impact on key audit matters on Audit Quality is in Section 4. Section 5 is our conclusion.

AGENCY THEORY AND KEY AUDIT MATTER A REGULATORY BACKGROUND

Agency theory (Jensen & Meckling, 1976) is our study's most essential and applicable idea. The theory advised enforcing a

governance mechanism to manage agents' behaviours. The role of audit as a monitoring and corporate governance mechanism seeks to balance the interests of both parties to minimize the opportunistic behaviour of managers and the gap in information between managers and investors. This is regular because KAMs to enhance audit reports' transparency and present users with relevant and beneficial information (PCAOB, 2013). The Conflicts of interest and information asymmetry between management and shareholders can be reduced through KAM disclosure. The latest and expanded audit report model proves the fairness of financial performance conditions and gives investors' confidence in the reliability of the financial report (Rainsbury, Bandara & Perera, 2023).

Agency theory explains that shareholders demand careful monitoring of financial reporting through auditors and audit committees. Not only shareholders, but also the audit committee needs external audits to be carried out cautiously because external auditors help the audit committee in its supervisory duties. Thus, it can be assumed that the opportunity of agency conflicts between management and shareholders bobbing up from conflicts of hobby and cloth facts asymmetry can be decreased by enforcing monetary and enterprise experts on the audit committee on the one hand and a readable key audit matters (KAMs) area in the audit document in the company. The agency concept assumes that the administration usually solicits unmodified opinions, even when the employer is in financial difficulties or earnings are poor, and that management will discourage the appointment of exterior auditors of lower quality (buying opinion) (Velte, 2020).

Continued dialogue about the expectations gap following a series of accounting scandals led to this much-needed change. Over time, countless substantial changes have been made to around the world the content and structure of audit reports worldwide. The goal is to increase audit transparency and thereby minimize information gaps (Rahaman et al., 2022). In 2015 the IAASB made current reforms by consisting of ISA 701 (Communicating Key Audit Matters" in the Independent Auditor's Report), as properly as changes to present requirements to provide extra entity-specific and audit-specific information in the audit report. Recognizing the advantages of KAM disclosure, more and more nations such as the UK, Australia, China, New Zealand, Malaysia, Hong Kong, Spain, Thailand, and Singapore adopted ISA 701 and corporations in these nations are now disclosing KAM to stakeholders (Suttipun, 2022).

The audit board in Indonesia (Indonesian Institute of Certified Public Accountants) has adopted ISA 701. As per ISA 701, auditors are required to perceive and communicate Key Audit Matters (KAMs) that, primarily based on the auditor's professional assessment, are the most critical issues in examining of the financial statements. Within this framework, auditors need to make annual decisions on the particular KAMs to be disclosed in their reports (Pinto & Isabel, 2018). The extended audit report with KAM is predicted to increase the informative value of the auditor's report and the quality of the audit through increasing accountability of the auditors (Bédard et al., 2018; Li et al., 2019) and responsibilities towards management and those charged with governance (TCWG) (Wei et al., 2017; Reid et al., 2018; Li et al., 2019). Revealing Key Audit Matters (KAMs) will increase the auditor's influence, especially when management needs to keep away from emphasis on areas, particularly those considered high-risk. KAMs disclosures also increase auditor accountability, underscores the dedication to transparency, and reinforces the accountability to provide evaluations.

According to Bédard et al. (2018), the higher the level of accountability, the more it encourages auditors to have greater professional skepticism and obtain more evidence when conducting audits. Ratzinger-Sakel and Theis (2018), and Asbahr and Ruhnke (2019), found that auditors who disclose KAMs exhibit less skepticism in their actions and assessments. This may lead users to discover auditors as being less accountable for inaccuracies, and users might also subsequently have decreased confidence in accounts identified as KAMs, as found by Kachelmeier et al. (2017). Stakeholders may only pay attention to other information in the financial statement concerning matters disclosed as KAM and not view the auditor's report comprehensively (Sirois et al., 2018).

Audit reporting using key audit matters increases the value of the audit report, reduces information asymmetry, increases the reliability of financial reporting, and reduces the expectation gap (Matta and Feghali (2020)). This shows that it can be reduced. In addition, the research results show that KAM increases the auditee's understanding of the company being audited, increase assurance of audited financial statements, and help close gaps with audit expectations. This is different from the results of the Segal (2019) research, stating that audit experts concluded that in the end, KAM was unable to increase

transparency, because auditees ignored KAM disclosures. The study from Alqam et al. (2021) emphasizes the importance of key audit issues to provide more relevant and valuable information for users of financial statements as well as providing important information to regulatory authorities and standards bodies that key audit issues must be given more attention regarding the manner of disclosure and presentation.

COMMUNICATIVE VALUE OF KEY AUDIT MATTER

Audit reporting has received criticism because it lacks transparency regarding financial reports, giving rise to the introduction of KAM which aims to increase transparency in the implementation of audits, and increase the communication value of audit reports (Köhler Quick & Willekens, 2016). The International Auditing and Assurance Standards Board (IAASB) in 2015 highlighted that Key Audit Matters are intended to direct the focus of financial statement users toward areas involving substantial management judgments. These areas necessitate significant attention from auditors. The introduction of KAMs aims to enhance communication between auditors, audit committees, users and those charged with governance regarding these critical matters. The most significant changes are to key audit matters (KAM), which relies heavily on the auditor's professional judgment to reveal the most critical matters at risk in auditing financial statements, to reduce the auditor's report expectation gap, and to increase informative content. This, in turn, can enhance the disclosure and transparency (Gutierrez et al., 2018) of these substantial matters with the aid of managements. These measures contribute to a more thorough comprehension of financial statements, minimizing information gaps (Bédard et al., 2016; Wei et al., 2017), overcoming information asymmetry (Bédard et al., 2019; Boolaky & Quick., 2016) and specific aspects or sections within a given context that are characterized by a significant level of risk (Boolaky & Quick, 2016) (Wei et al, 2017) for users.

According to ISA 701, the auditor must determine and disclose the KAMs in the auditor's report that contain the most significant issues in the audit of the financial statements, therefore requiring professional considerations. In addition, KAM reforms have contributed to expanding communication between clients and auditors. Auditors have in the previously been criticized for being poor communicators

(Shozić et al., 2016). KAM provides space for auditors to communicate information about the audit process. Nguyen and Kend, (2021) found that better communication has contributed to overcoming the audit expectations gap problem. Likewise, the latest research by Botes et al. (2020) considers New Zealand, Australia, and the United Kingdom, stating that KAM is an effort to overcome gaps in audit expectations and other problems presented in financial reports.

The application of ISA 701 aims to increase transparency and depth of insight in audits. On the other hand, ISA 701 is a decision-making framework for deciding which issues will be counted as KAM. Of course, it can help auditors limit what things need to be paid attention to by considering the area where there is a risk of material misstatement in the financial statements. The auditor must also consider areas in the financial statements that require consideration from management and the impact of the audit on a transaction event in a period. So that KAM will provide several modifications to the audit report where there will be an auditor's opinion positioned at the opening of the audit report, a description regarding ongoing concerns which will be included in each section of management and auditor responsibilities, enhanced reporting requirements on material uncertainty contained in going concerns (Emilio et al., 2022). In making this KAM judgement, the auditor should consider the following:

1. Areas at risk of material misstatement, or significant risks identified based on audit standard 315.
2. The auditor's significant considerations relate to significant management considerations, and accounting estimates with high uncertainty.
3. The impact of significant transactions or events during the period.

For standard setters, Key Audit Issues (KAM) will provide relevant information to users and increase the communicative value of the auditor's report by providing transparency about the audit performed. Communicating Key Audit Matters (KAM) requires the auditor to exercise professional judgment and consider the nature and scope of communications with client (those charged with governance). This is done to ascertain or identify the following:

- whether any matters exist a risk;
- whether, for the matter in discussion, it used to be challenging to achieve appropriate and adequate audit evidence;

- whether the matter has required high judgement;
- whether weaknesses in the internal control system relate to the question to be analysed.

In implementing the auditor's sceptical and professional judgment, Key Audit Matters (KAM) are identified based on discussions held with the management. These areas were determined to be the most important in the auditor's application of professional judgment during the audit process. The Key Audit Matters (KAMs) concern the exercise of professional judgment by the lead auditor, guided by communication with those responsible for governance (TCWG). Based on International Standard Audit (ISA 315), the auditor's initial step is to identify matters posing risks and support them with sufficient and appropriate audit evidence. This process may involve challenging assessments, particularly when the internal control system is associated with deficiencies related to the scrutinized matter (ISA 701). Subsequently, the areas identified as KAMs by auditors are conveyed in the audit report. The explanation of KAMs should provide an overview of relevant completed control activities and significant findings. This detailed information aims to enable users of the audit report to comprehend why a specific area has been designated as a Key Audit Matter. KAM reporting is based on the auditor's opinion when performing an audit of financial statements, to communicate non-financial and financial information to stakeholders, including information relating to taxation, inventory recognition, income, receivables and provisions, goodwill value, property valuation, asset value, investments, and other accounts.

Communication theory can explain the relationship between KAM reporting and audit quality because this theory can describe the communication system through definitions, elements, processes and methods, results and outputs, and effects between sender and receiver (Smith & Smith, 1971). The key to communication is that the receiver understands the sender's message. Therefore, KAM reporting reflects the message the auditor conveys to the company and the company's stakeholders. Although the new KAM audit reporting should produce communicative and informative audit report value and audit quality, KAM reporting can produce very different results regarding audit risk and audit reliability (Reid et al. 2019). Meanwhile, KAM reporting can be a risk for auditors because auditees do not want external auditors to reveal risks and uncertainties to stakeholders. On the other

hand, KAM reporting can increase audit transparency, reliability, and responsibility to present accurate judgements. Therefore, the results of using KAM reporting regarding audit quality are still inconclusive.

KEY AUDIT MATTER AND AUDIT QUALITY

The discussion about the concept of audit quality begins with the definition of quality. Delima et al. (2019); Krisnanto and Novianti (2019) defines ‘quality’ as a standard of reasonableness of services provided and being able to satisfy customers. In audit work, Audit quality benefits for the truth and fairness of financial reports. DeFond and Zhang (2014) stated that audit quality plays an essential role in enhancing financial reporting quality because it will increase the credibility of financial reports. For auditees, Audit quality can help with issues related to agency costs (Jensen & Meckling, 1976). Meanwhile, for auditors, better audit quality reduces litigation, reputational, and regulatory risks (DeFond & Zhang, 2014). However, it is currently a challenging concept to measure and define (DeFond & Zhang, 2014; Kilgore et al., 2014), as specific stakeholders have awesome views on what represents audit quality and which proxies are the best. In reality, it is hard to operationalize and assign audit quality:

“There is not much consensus regarding how to assign, let alone measure, audit quality, although research has been conducted for more than 2 decades. regulators, auditors, Users, and the public – stakeholders in the financial reporting process – may have very different opinions about audit quality, which will influence the indicators that can be used to assess audit quality. Perceptions of audit quality depend greatly on who is reviewing it.” (Knechel et al., 2013).

Several fundamental characteristics that must be considered in audit quality include significance (what is the necessary of the audit), Timeliness (work time coverage or minimum audit delay in presenting the report), objectivity (independence during the audit process), reliability (whether the auditor’s findings reflect the true nature of the client or the accuracy of management’s assertions), Efficiency (the

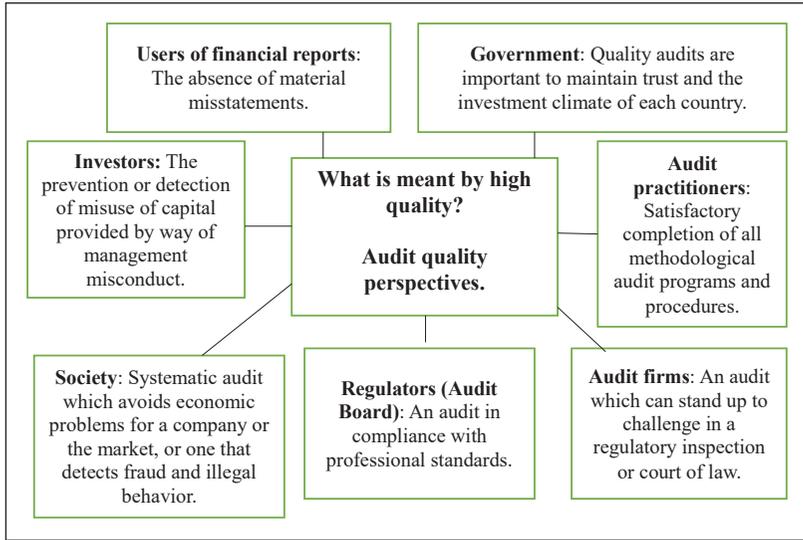
benefits obtained are equivalent to the costs incurred), Scope (extent of audit covered), Clarity (audit findings and recommendations are communicated well), and Effectiveness (extent to which audit objectives are achieved) (Yuniarti, 2011). The combination of these characteristics provides quality to the audit. This means that when these characteristics can be identified, audit quality becomes a top priority.

According to Dopuch and Simunic (1980) measured audit quality with the size of public accounting firms, larger public accounting firms have a better reputation, there are many training programs provided to auditors, and the audit programs used are more accurate and standardized, and there are more possibilities for examining audit. In addition, audit quality describes how accurately the audit detects material misstatements of financial statements, reduces information asymmetry between principals and agents, and helps protect shareholder interests (Salehi & Azary, 2009). Quality audit reports foster trust in users of financial reports where these financial reports provide accurate information and fair representation and comply with global accounting standards. Therefore, audits are carried out based on risk emphasizing data validity and accuracy of data for report users (Segal, 2017; Maroun, 2018).

Audit quality is also usually related to the auditor's ability to find material misstatement in financial reports, whether due to fraud or recording errors. This is closely related to the disclosure of unbiased reports due to an audit process that complies with audit standards. Many studies show that conveying key audit matters (KAM) increases the reliability and value of the data only when the disclosure is made by a Big Four audit firm. Besides that, previous researchers also found that KAM disclosures attract investors' attention to latest and substantial information, which may divert their attention from the main information in the audit report (Shakhatreh, Alsmadi & Alkhataybeh, 2020; Moroney, Phang, & Xiao, 2020; Marques, Pereira, Aquino, & Freitag, 2021). Next, Figure 1 summarizes various perspectives on audit quality.

Figure 1

Perspectives on Audit Quality

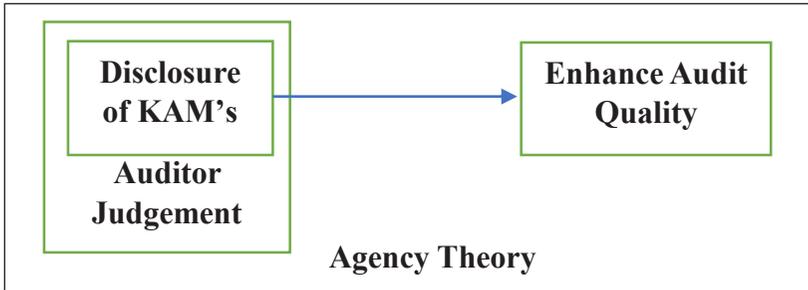


Source(s): Modified from Francis, (2004); Francis, (2011); Knechel et al, (2013).

In line with the agency theory, higher audit quality is in the interests of auditees and auditors. For auditees, better audit quality can help overcome problems related to agency costs. On the other hand, some believed that Key Audit Matters (KAMs) are anticipated to positively influence audit quality. The addition of this standard in audit reports has the potential for promote a competitive environment in professional scepticisms among audit firms. Many people believe that this competitiveness is what motivates audit quality improvement, which raises the audit process's overall value and promotes trust in confirmed financial reports. The audit supervisor would probably expect an adequate and comprehensive response in the audit evidence documentation when an issue is classified as a KAM. The identification of KAMs acts as a reminder of these crucial concerns to auditors as well as a motivator for them to focus their efforts more prudently. This might lead auditors to concentrate less on things that are not as significant and do not count as KAMs, freeing up more time and resources to deal with the more critical issues. Additionally, Figure 2: Conceptual framework about key audit matters.

Figure 2

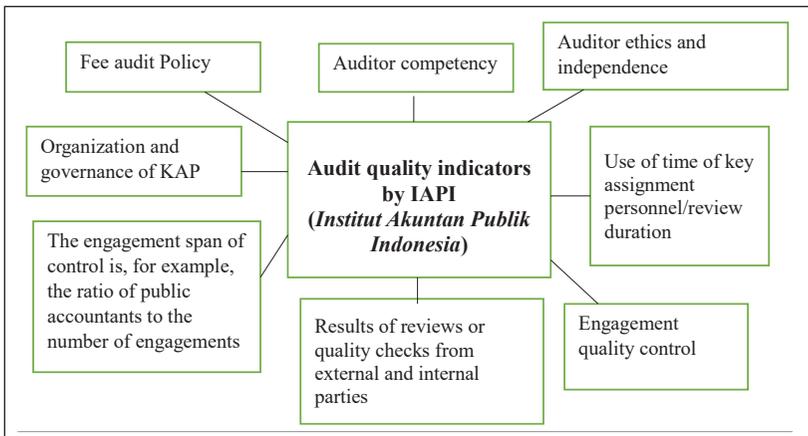
Conceptual Framework about Key Audit Matters



The figure 2 above aligns with the audit quality indicators issued by IAPI. Audit quality indicators at the audit firm level which include audit engagements on financial reports carried out by public accountants (auditors) as in figure 3 below:

Figure 3

Audit Quality Indicators



On the other hand, Hao Li (2017) found that disclosing key audit matters can improve audit quality. Shamsuddin & Masdor (2020) also found the same thing. The study results show that KAM reporting is useful for users and has implications for setting policies and standards on the Malaysia Stock Exchange. Disclosure of certain audit issues can cause auditors to take responsibility for reporting important matters,

thereby prompting them to conduct a more in-depth analysis. Investors also believe that key audit issues can have a positive influence (Hao Li, 2017). Additionally, the benefits associated with disclosing these important issues also include audit reports. This becomes apparent to users, potentially increasing monitoring costs if these critical audit matters are not handled appropriately.

Research conducted by Wuttichindanon and Issarawornrawanich (2020) regarding Key Audit Matters (KAMs) in Thailand, proves that the company's business specifications are the main factor influencing the scope and characteristics of KAM disclosures. Users of financial reports can be certain that this nation's audit quality satisfies international requirements as a result. Next, the conceptual framework in this study is depicted in the figure below. Suttipun (2021) found a positive relationship between KAM reporting and audit quality. KAM reporting is assessed using the number of words from the KAM paragraph in the audit report, while audit quality is assessed using the Modified Jones Model. Additionally, the correlation between the number of audit matters disclosed and audit quality is recommended (Abdullatif & Al-Rahahleh, 2020); (Shamsuddin, & Masdor, 2020).

Meanwhile, Barghathi et al. (2021) used interviews with seven auditors from nonBig4 and six auditors from Big4 to study whether KAM reduces agency costs and improves audit quality. The findings show that especially in listed companies, KAM disclosure improves audit quality and increases managerial responsibility, thereby minimizing the cost of equity. On the other hand, Rautiainen, Saastamoinen, and Pajunen, (2021) analysed auditors' perceptions in a survey in Finland on whether KAM reporting improves audit quality. The study results show that key audit matters are important to the extent, because effectiveness is positively correlated with the influence of KAM.

Furthermore, Nguyen and Kend, (2021) revealed that KAM shows the auditor's efforts to provide better performance for audit clients and improve communication with auditee regarding key audit risks. Some groups of respondents believe that KAM reform improves audit quality. Auditors think about key audit risks, establishing a clearer audit focus and better communication; monitoring KAM disclosures, as well as being careful when carrying out audit work. In general, Australian respondents trust that KAM disclosure in audit reports is a useful concept, creating a greater need for more technical reviews,

internal quality control for auditors, and more examination of key risk areas.

There is some evidence that KAM disclosure increases audit costs and audit quality in New Zealand (Hong Li et al., 2019). In line with Segal (2019) that ISA 701 is expected to improve audit quality. In addition, KAM will reduce this auditor's responsibility (Pratoomsuwan and Yolrabil, 2020) and eliminating KAM can increase auditor judgment negligence (Vinson et al., 2019). Nguyen and Kend, (2021) found that most respondents defined audit quality as the auditor's focus on material matters in the audited financial statements and implementing the auditor's competence in conducting audits, as well as complying with appropriate audit standards.

Previous studies such as Boolaky and Quick (2016), Reid et al. (2019) and Nguyen and Kend, (2021), reported findings regarding whether KAM disclosures can improve audit quality, based on the perceptions of various stakeholder groups, thus indicating the need for further academic research. In another case with Rautiainen, Saastamoinen, and Pajunen, (2021), found that respondents did not reveal that KAM improved audit quality. However, respondents who focused on efficiency assessed that KAM made the audit process smoother. Furthermore, the use of KAM can increase audit effectiveness and collaboration between auditees and auditors. Kitiwong and Sarapaivanich (2020) found some weak evidence that KAM disclosure improves audit quality because auditors put more effort into their audits and audits are more thorough after KAM implementation. Interestingly, the number of KAMs disclosed and the most common types of KAMs disclosed were not associated with audit quality. Moroney, Phang, and Xiao, (2020) found that KAM increased value and credibility when audits were conducted by non-big 4 audit firm. When Big 4 audit firm conducted audits, regardless of whether KAM was included or not, the value and credibility remained high.

This study is pioneering work, this can help the industry to consider matters in determining matters that require the auditor's significant attention, which in turn is expected to increase the flexibility and effectiveness of communication between the auditor and the auditee. In addition, the author recommends that regulators or audit supervisory boards require the implementation of key audit matters in all audit work, not only mandatory for listed companies. It is hoped that this

rule will help audit companies to work more carefully in dealing with audit risks, which appear to be positively related to audit quality.

CONCLUSION

The new audit standard adopting ISA 701 was released by the Audit Standards Board in Indonesia, which requires auditors to disclose Key Audit Matters (KAM) in the auditor's report when conducting an audit of a public company. This has implications for the form or model of audit reporting which is also modified by the Audit Standards Board. The auditor's report serves as the primary vehicle for auditors to communicate and report the findings of an audit to external stakeholders. On a global scale, standard-setters have introduced recent and edited auditor reporting standards with the goal of enhancing the informativeness and utility of the auditor's report for users. An important alteration to the traditional prior model report (pass/fail) is the inclusion of KAM. KAMs provide a glimpse into the most critical issues faced by auditors throughout the audit process. This shift is designed to offer stakeholders a more comprehensive and informative understanding of the audit results. Building upon accountability theory and the literature on disclosure transparency, we predict is that heightened transparency, leading to increased second-guessing concerns, contributes to elevated managerial accountability. Consequently, this is expected to result in an enhancement of audit quality.

Due to the implementation of audit standards regarding key audit matters which will begin implemented in 2022, audit companies are strongly advised to prepare better audit working papers and mitigate audit risks. This can help them consider matters that require the auditor's significant attention, which in turn is anticipated to increase the flexibility and effectiveness of communication between auditors and their auditees. In addition, the author recommends that regulators or audit oversight boards apply key audit matters to all audit work, not just mandatory for listed companies. It is hoped that this rule will help audit companies work more carefully in dealing with audit risks, which appear to be positively related to audit quality.

One limitation of our research is the absence of empirical analysis regarding the crucial impact of Key Audit Matters on audit quality.

Subsequent research endeavours could enhance our study by offering substantial empirical evidence on the impact of Key Audit Matters on factors such as audit procedures, competency auditor, going concern assessments, and audit fees. Additional research could delve into the policy inquiries regarding how and why these Key Audit Matters influence audit quality. Undoubtedly, investigating these questions in the future is critical due to their practical implications. Furthermore, future research should explore the potential repercussions of auditor communication with corporate governance variables, such as the audit committee, mainly in conditions where the audit committee assumes a monitoring function in Key Audit Matters disclosure (Wuttichindanon and Issarawornrawanich, 2020). In conclusion, our findings recommend that Key Audit Matters are more likely to exert a positive effect on audit quality. This study also points to future studies that must address, not only words and issues but also issues that may have different impacts on KAM implementation. Because KAM is considered a new issue, it is limited to data access. Apart from using cross-section data, using panel data may be a better alternative form of data for revealing trends in existing problems.

ACKNOWLEDGMENT

We thank all the volunteers who participated in this research, and the staff at Universitas Islam Sultan Agung, for administrative and funding support. Thank you to Dr. Norziana Lokman (ARI UiTM Mara) and Dr. Fazlida Mohd Razali (ARI UiTM Mara) for all guidance and supervision. Responsibility for the content and any remaining errors, omissions, and inaccuracies rests with us.

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