

THE IMPACT OF AUDIT FEE, SIZE OF PUBLIC ACCOUNTING FIRM, COMPANY SIZE, AND LEVERAGE ON THE COMMUNICATION OF KEY AUDIT MATTERS (IMPLEMENTATION OF THE FIRST YEAR OF KAMs ADOPTION IN INDEPENDENT AUDITORS' REPORTS IN INDONESIA)

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ABSTRACT

Auditing standard 701 "Communicating Key Audit Matters (KAMs) in the Independent Auditor's Report" will be implemented in Indonesia in 2022. The communication of KAMs aims to increase the transparency of financial statements for users. This study examines the effect of audit fees, Size of public accounting firm, company size and leverage on the communication of Key Audit Matters (KAMs). The research population is companies that are listed on the Indonesia Stock Exchange and report audited financial statements for the fiscal year 2022. The sample was selected using purposive sampling method. The research data was processed using the Multiple Linear Regression method using IBM SPSS Statistics software ver. 25. This study proves that audit fees ($\text{sig } 0.000 < 0.05$) and Size of public accounting firm ($\text{sig } 0.000 < 0.05$) have a positive and significant effect on communicating KAMs. While company size ($0.188 > 0.05$) leverage ($0.378 > 0.05$) has no significant effect on communicating KAMs. Based on the results of the study, it is hoped that companies can consider an adequate audit fee budget and choose a Public accounting firm whose competence is in accordance with the conditions of the company to be able to increase the communication of KAMs. Thus, companies can increase investor and other stakeholder confidence through the communication of KAMs as an effort to demonstrate commitment to transparency and good corporate governance.

KEYWORDS KAMs, audit fees, Size of public accounting firm, company size, Leverage



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INTRODUCTION

Financial statements are documents prepared by the company containing important and accurate information that is relevant regarding the entity's financial position and performance within a certain period (Moroney et al., 2021a). Financial reports are useful for decision making by stakeholders ((Sierra-García et al., 2019a)). As a basis for decision making, financial statements must have high credibility so that decisions made on these financial statements are not misleading. To determine the credibility of the financial

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statements prepared by the company, the financial statements need to be audited by an independent auditor to ensure that the financial statements have been presented fairly and in accordance with established standards. (Chen et al., 2023a)

Stakeholders' assessment of the audited financial statements is based on the auditor's opinion included in the audit report. Prior to the enactment of SA 701, the auditor's report was in standard form, there was no important information other than the auditor's opinion. The absence of information other than opinion makes report users not get important or significant information from the audit report. Many audit reports get an alarming response from report users because there is no other information other than opinion, while report users want to know more information that is not obtained from the opinion provided by the auditor. (Moroney et al., 2021a). In connection with the many criticisms raised by users of audit reports, new auditing standards are needed to encourage auditors to present reports that are more informative and useful to users. Updated audit standards will help achieve improved audit quality and provide appropriate information to users.

The International Auditing and Assurance Standards Board (IAASB) recognizes the need to improve and develop audit quality, especially in terms of transparency of audited financial statements. One of the steps taken by the IAASB is to issue standards related to the communication of *Key Audit Matters (KAMs)* in the auditor's report. To realize this goal, the IAASB released a new auditing standard, *International Standard on Auditing (ISA) 701: Communicating Key Audit Matters in the Independent Auditor's Report* in January 2015. This standard is effective for audits of financial statements for periods beginning on or after December 15, 2016. Communication of *KAMs* is expected to encourage auditors to present more detailed and relevant reports, thereby helping users of financial statements understand important areas in the audit (IAASB, 2014).

The established auditing standards are then adopted by various countries in the world including Indonesia. The Indonesian Institute of Certified Public Accountants (IAPI) adopted ISA 701 into Auditing Standard (SA) 701 "Communicating Key Audit Matters in the Independent Auditor's Report" in July 2021. SA 701 is effective for audits of financial statements for periods beginning on or after January 1, 2022. The implementation of this standard is expected to increase the transparency and communicative value of audit reports in Indonesia (Lauren & Mita, 2023).

OJK states that to improve the quality of public accountant reports to be more informative, public accountant reports need to use *KAMs* as determined by the Indonesian Institute of Certified Public Accountants (OJK, 2023). For this reason, OJK issued Financial Services Authority Regulation (POJK) Number 30 of 2023 which requires entities that trade shares, bonds, sukuk or warrants listed on the stock exchange to submit public accountant reports using SA 701 standards.

The communication of *KAMs* as a new audit standard involves auditor characteristics as well as auditee characteristics in the communication of *KAMs*. The presentation of an independent auditor's report with the topic of *KAMs* increases the auditor's consequences for the risks, sanctions and governance of the audit services to be performed so that the size of public accounting firm and audit fees become a major consideration. In addition, the characteristics of the auditee are also the focus of the audit in communicating *KAMs*, where the greater the company segment, company size, *leverage*, losses and so on, the greater the expectations of report users for communicating *KAMs*. (Ferreira & Morais, 2019a). Research conducted by (Wuttichindanon & Issarawornrawanich, 2020a) on the application of ISA 701 in Thailand which investigates factors that affect the communication of *KAMs* including auditor litigation risk, company type, profitability and company complexity.

The implementation of SA 701 in its first year of implementation was observed and analyzed by (Lauren & Mita, 2023) qualitatively at one of the Public accounting firm ABC which has a global affiliation in Indonesia. Informants from Public accounting firm ABC stated that they had adequate preparation and implementation in the first year of SA 701

implementation. This is evidenced by the implementation of standardized procedures in the form of documentation of the *KAMs* formulation form and consultation memos related to *KAMs* contained in the Independent Auditor's Report. Even so, there are obstacles faced in the application of SA 701 in the first year of implementation such as constraints on the preparation of grammar in the *KAMs* paragraph, determining the level of subjective significance, adjusting the auditor's work rhythm and audit fees (Lauren & Mita, 2023).

The application of communicating *KAMs* in the auditor's report will require auditors to work more thoroughly and use professional judgment in communicating *KAMs*. Auditors will be required to have high competence and experience in identifying issues that can be used as *KAMs* in order to provide high audit quality. Some experts believe that auditors who have higher competence, and experience and longer time will increase audit fees which are influenced by communicating *KAMs*. Auditor credibility in disclosing *KAMs* is related to risks such as company complexity and company inherent risks that affect auditor performance and increase audit fees. (Chen et al., 2023b). Auditors who have more experience, better understanding can make more accurate assessments of significant risks in the financial statements which then become *KAMs* issues. Thus, audit fees are thought to influence the quality and quantity of *Key Audit Matters* disclosed.

The size of public accounting firm also affects the communication of *Key Audit Matters*. (Elmarzouky et al., 2022). Size of public accounting firm can reflect the capacity, resources, and audit approach used by Public accounting firm. The size of public accounting firm is a consideration in choosing an audit service provider, Big 4 Public accounting firm is considered to have the opportunity to increase the value of credibility in communicating credible *KAMs*. (Moroney et al., 2021a). Research conducted by (Rinanda & Nurbaiti, 2018) *KAMs* are of concern to report users because they are significant matters that the auditor focuses on in auditing the client's financial statements for a certain reporting period. Big 4 Public accounting firm certainly has sufficient resources, competence, technology in identifying *KAMs* issues compared to public accounting firm non big 4, so that Size of public accounting firm affects the communication of *KAMs*, (Marlindah & Wahyono, 2020).

Reveal that the communication of *KAMs* is also influenced by client characteristics such as company size, complexity, type of client company (Wuttichindanon & Issarawornrawanich, 2020a). (Kitiwong & Sarapaivanich, 2020) reveals that the size of the company can affect the auditor in communicating *KAMs*, this is because the larger the company, the size of the audited entity will be larger and more complex, so that more *KAMs* are communicated by the auditor. Conversely, smaller companies do not have operations that are too complex, so there are not many things that become *KAMs* issues that will be communicated by auditors (Kitiwong & Sarapaivanich, 2020; Moroney et al., 2021). (Moroney et al., 2021a); (Suttipun, 2021a)). With these considerations, the larger the size of the company, the auditor is thought to need to disclose *KAMs* in greater numbers and with higher complexity to fulfill its public responsibilities (Muñoz-Izquierdo et al., 2023).

Another factor that is thought to have an influence on the determination of *Key Audit Matters* is *Leverage*. *Leverage* affects the risk that investors will face. *Leverage* disclosure in *KAMs* explains how companies manage the financial risks they face. Research conducted by (Mah'd & Mardini, 2022a) revealed that companies that report higher leverage will motivate auditors to disclose broader *KAMs*. *Leverage* information is very important for stakeholders as a step in providing understanding and transparency of reports. (R. J. P. Putra & Dwita, 2024).

In this study, researchers analyzed the effect of audit fees, Size of public accounting firm, company size, and *leverage* on the communication of *KAMs*. This study refers to research conducted (Sierra-García et al., 2019a) (Wuttichindanon & Issarawornrawanich, 2020b) ; (Pinto & Morais, 2019a)) which examines the factors of auditor characteristics

and client characteristics on the communication of *KAMs*. The results of research conducted by (Sierra-García et al., 2019a) shows that audit fees and client characteristics have an influence on the amount of *KAMs* communication in the auditor's report. Similar research was also conducted by (Pinto & Morais, 2019a) Research conducted by (Li, 2020) reveals that the audit fee factor has not been proven to affect the communication of *KAMs*. Research conducted by (Bédard et al., 2019) revealed that there is no effect of audit fees in communicating *KAMs* for audit reports.

Generally, investors in analyzing financial statements will look for important points in them. The communication of *KAMs* in the report acts as an attention grabber for investors. (Chirakool & Poonpool, 2021). Based on previous arguments, audit fees, Size of public accounting firm, company size and *leverage* level affect the disclosure of *KAMs*, which is an important point in influencing investor decisions (Ferreira & Morais, 2021). (Ferreira & Morais, 2019a; Hussin et al., 2022; Pinto & Morais, 2019a; Suttipun, 2020). This is in line with the concepts of signaling theory and agency theory. Signaling theory describes the communication of *KAMs* as a signal to attract investors' attention to highlight important parts of the report. In addition, agency theory describes the communication of *KAMs* as a mediator between the agent (management) and the users of the report (principals) in providing information transparency to stakeholders. Through signaling theory, it is expected that the communication of *KAMs* can provide positive signals to report users such as investors. (Sirois et al., 2018). Through agency theory, it is expected that *KAMs* can provide transparency reports so as to minimize the potential for information asymmetry between management and report users or stakeholders. (Alduneibat, 2024a).

The application of SA 701 was first established in 2021 in Indonesia and in accordance with the regulations set by OJK in 2023 regarding the submission of public accountant reports, companies whose securities are *listed* on the Indonesia Stock Exchange (IDX) to present audit reports in accordance with SA 701. (OJK, 2023). Research on factors that influence the communication of *KAMs*, especially on audit fees, Size of public accounting firm, company size and *leverage* in companies *listed* on the IDX for the 2022 period is important to do so that it can find out what factors can affect the communication of *KAMs* in Indonesia.

Research related to the influence of *KAMs* communication in Indonesia, especially in companies *listing* on the IDX, is still rarely done in Indonesia. In this study, researchers used the dependent variable, namely the communication of *KAMs*, independent variables, namely audit fees, Size of public accounting firm, Company Size, and *Leverage* as well as control variables including auditee characteristics (*ROA*, *Current ratio*, *Revenues*, *Loss*).

This study uses all companies *listed* in 2022 on the IDX as a population. The sample was taken using *purposive sampling* method, a technique chosen with special consideration to ensure that the sample taken was appropriate and relevant to the research objectives. (Sugiyono, 2008). The selection of all *listing* companies as a population is intended so that the *KAMs* communication data obtained comes from various types of companies with varying conditions and risks. Based on the background that has been described, this study aims to be able to analyze the effect of *audit fees*, company size, Size of public accounting firm and *leverage* on the communication of *KAMs* in general in Indonesia.

RESEARCH METHOD

This research uses quantitative methods, where the data obtained are in the form of numbers and analyzed statistically (Sugiarto, 2022; Sugiyono, 2012). This study aims to analyze the relationship between audit fees, company size, Size of public accounting firm, and leverage on the disclosure of Key Audit Matters (*KAMs*) in the financial statements of companies listed on the Indonesia Stock Exchange (IDX) in 2022. The study population includes all companies listed and reporting financial statements on the IDX in 2022

(Sugiarto, 2022). The sample was taken using purposive sampling method, which was selected based on specific criteria to be relevant to the research objectives. These criteria include companies listed on the IDX until the end of 2022 and have complete financial data related to research variables. Data analysis was carried out using IBM SPSS Statistics 25.

Data Analysis Method

Multiple Linear Regression

Multiple linear regression analysis is performed to assess and understand the relationship between two or more independent variables on a particular dependent variable (Ghozali, 2016). The multiple linear regression equation used in this study is as follows:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \beta_7X_7 + \beta_8X_8$$

Description:

Y	: Key audit matters
β_0	: Constant
X_1	: Fee audit
X_2	: Size of public accounting firm
X_3	: Company Size
X_4	: Leverage
X_5	: ROA
X_6	: Current ratio
X_7	: Revenues
X_8	: Loss

RESULT AND DISCUSSION

Classical Assumption Test Results

Normality Test

In this study, the normality test was carried out using the Kolmogorov-Smirnov test with a significance level of 0.05.

Table 1. Normality Test Results

	Unstandardized Residual	
N	504	
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.74345860
Most Extreme Differences	Absolute	.252
	Positive	.252
	Negative	-.125
Test Statistic	.252	
Asymp. Sig. (2-tailed)	.000 ^c	
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

Based on the Kolmogorov-Smirnov test results in the table above, the Test Statistic value is 0.252 with Asymp. Sig. (2-tailed) of 0.000. This significance value is smaller than 0.05, which indicates that the residuals are not normally distributed. These results indicate a deviation from the normality assumption in the regression model used. Although the normality assumption is not met, this does not invalidate the validity of the research results. According to Ghozali (2016), multiple linear regression can still provide valid results even if the normality assumption is not met, especially if the sample size is large enough (more than 30 observations) in accordance with the Central Limit Theorem, this research data is considered normal. In this study, with a sample size of 504 companies, the impact of deviations from the normality assumption is not too significant. The Central Limit Theorem

states that the distribution of sampling averages from a large enough sample will approach the normal distribution, regardless of the distribution of the original population (Rice, 2007).

Multicollinearity Test

The multicollinearity test is carried out to detect whether there is a high correlation between the independent variables in the regression model. In this study, the multicollinearity test was carried out by looking at the Tolerance and Variance Inflation Factor (VIF) values of each independent variable.

Table 2. Multicollinearity Test Results Before Outlier Removal

Model	Collinearity Statistics	
	Tolerance	VIF
1	(Constant)	
	Audit Fee	.658
	Size of public accounting firm	.773
	Size	.546
	Leverage	.093
	ROA	.087
	Current ratio	.986
	Revenues	.695
	Loss	.665

Based on the multicollinearity test results in the table above, it can be seen that most of the independent variables have a Tolerance value greater than 0.10 and a VIF value smaller than 10, which indicates the absence of serious multicollinearity problems. However, there are two variables that show high indications of multicollinearity, namely *Leverage* with a Tolerance value of 0.093 and a VIF of 10.784, and *ROA* with a Tolerance value of 0.087 and a VIF of 11.557. A Tolerance value smaller than 0.10 and a VIF value greater than 10 indicates a high correlation between *Leverage* and *ROA* with other independent variables in the regression model.

To overcome the multicollinearity problem identified between the *Leverage* and *ROA* variables, the researcher decided to remove *outliers* using the *Interquartile Range* (IQR) method.

Table 3. Multicollinearity Test Results After Outlier Removal

Model	Collinearity Statistics	
	Tolerance	VIF
1	(Constant)	
	Audit Fee	.659
	Size of public accounting firm	.766
	Size	.484
	Leverage	.730
	ROA	.452
	Current ratio	.955
	Revenues	.693
	Loss	.456

Based on the multicollinearity test results after *outlier* removal, there is an improvement in the relationship between the independent variables. Tolerance values for all independent variables are now greater than 0.10 and VIF values are smaller than 10, indicating the absence of serious multicollinearity problems in the revised regression model. After *outlier* removal, the *Leverage* and *ROA* variables which previously showed high multicollinearity, now have Tolerance values of 0.730 and 0.452 respectively, and VIF values of

1.370 and 2.214. These values are within acceptable limits, indicating that the multicollinearity between the two variables has been significantly reduced.

Heteroscedasticity Test

The heteroscedasticity test is conducted to test whether in the regression model there is an inequality of variance from the residuals of one observation to another (Ghozali, 2016). In this study, the heteroscedasticity test was carried out using the Glejser test.

Table 4. Heteroscedasticity Test Results

Model		Unstandardized Coefficients		Standardized	T	Sig.
		B	Std. Error	Coefficients		
1	(Constant)	1.033	.520		1.988	.047
	Audit Fee	7.435E-12	.000	.041	.692	.489
	Size of public accounting firm	.101	.066	.085	1.543	.124
	Size	-.023	.019	-.085	-1.222	.223
	Leverage	.110	.125	.050	.877	.381
	ROA	.001	.008	.011	.146	.884
	Current ratio	-.001	.001	-.050	-1.020	.308
	Revenues	-6.454E-16	.000	-.027	-.468	.640
	Loss	.168	.094	.128	1.785	.075

a. Dependent Variable: abs_res

Based on the Glejser test results in the table above, it can be seen that no independent variable has a significant effect on the absolute value of the residual. All independent variables, namely Size of public accounting firm, Audit Fee, Size, Leverage, ROA, Current ratio, Revenues, and Loss, have a significance value greater than 0.05. This result indicates that there is no significant heteroscedasticity problem in the regression model used.

Multiple Linear Regression Analysis Results

Multiple linear regression analysis is used to test the effect of the independent variable on the dependent variable (Ghozali, 2016).

Hypothesis Test Results

Test Results of the Coefficient of Determination (R²)

The coefficient of determination (R²) test is carried out to measure the extent of the regression model's ability to explain variations in the dependent variable (Ghozali, 2016). In this study, the coefficient of determination test is used to determine how much the independent variables (Size of public accounting firm, Audit Fee, Size, and Leverage) and control variables (ROA, Current ratio, Revenues, and Loss) can explain the dependent variable (KAM).

Table 5. Determinant Coefficient Test Results

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.364 ^a	.133	.116	.744	

a. Predictors: (Constant), Loss, Leverage, Size of public accounting firm, Current ratio, Revenues, Audit Fee, Size, ROA

Based on the results of the coefficient of determination test in the table above, the R value is 0.364, which shows the correlation between the independent variables and the control variable and the dependent variable. The R Square value of 0.133 indicates that the independent variables (Audit Fee, Size of public accounting firm, Size, Leverage) and control variables (ROA, Current ratio, Revenues, Loss) in the model can explain 13.3% of the variation in the dependent variable KAM.

Based on the Adjusted R Square value, which has been adjusted to the number of variables in the model (Putra & Dwita, 2024), which is 0.116, it shows that the independent variables and control variables in the regression model can only explain 11.6% of the variation in the dependent variable KAM, while the rest (88.4%) is explained by other factors outside the model. The relatively low Adjusted R Square value (0.116) indicates that the regression model used, including the independent and control variables, has a limited ability to explain variations in KAM communication. This suggests that there are other factors not included in the model that have a significant influence on the amount of KAM communicated in the audit report.

This result is consistent with the complexity of the KAM communication phenomenon, which can be influenced by various factors, both related to auditor characteristics, auditees, and other contextual factors (Ferreira & Morais, 2019; Pinto & Morais, 2019). Although the selected independent variables (Audit Fee, Size of public accounting firm, Size, *Leverage*) and control variables (ROA, *Current ratio*, *Revenues*, *Loss*) contribute in explaining the variation of KAM, there is still significant room for other factors that influence the communication of KAM in the Indonesian context.

The Effect of Audit Fee Variables, Size of public accounting firm, Company Size, and Leverage, Individually on the Number of KAMs

In this study, the t statistical test is used to test the hypothesis of the effect of independent variables (Size of public accounting firm, Audit Fee, Company Size, and *Leverage*) and control variables (ROA, *Current ratio*, *Revenues*, and *Loss*) on the dependent variable (KAM) individually. Table 4.23 below shows the effect of the independent variables on the dependent variable from this research data.

Table 6. Multiple Linear Regression Modeling Results - t test

Model	Unstandardized Coefficients		Standardized	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	2.101	.715		2.940	.003
	Audit Fee	7.754E-11	.000	.296	5.248	.000
	Size of public accounting firm	.330	.090	.191	3.654	.000
	Company Size	-.034	.026	-.087	-1.320	.188
	<i>Leverage</i>	.152	.172	.047	.882	.378
	ROA	-.003	.011	-.019	-.273	.785
	<i>Current ratio</i>	.000	.001	-.009	-.200	.842
	<i>Revenues</i>	-2.588E-15	.000	-.075	-1.365	.173
	<i>Loss</i>	.019	.129	.010	.144	.886

a. Dependent Variable: KAM

Based on the results of the t statistical test in the table above, the effect of each independent variable and control variable on KAM can be interpreted as follows:

1. Audit fees have a significance value of 0.000 (smaller than $\alpha = 0.05$). This shows that Audit Fee has a significant effect on KAM.
2. Size of public accounting firm has a significance value of 0.000 (smaller than $\alpha = 0.05$). This shows that Size of public accounting firm has a significant effect on KAM.
3. Company size has a significance value of 0.188 (greater than $\alpha = 0.05$). This shows that company size has no significant effect on KAM in the context of this study.
4. *Leverage* has a significance value of 0.378 (greater than $\alpha = 0.05$). This shows that *leverage* has no significant effect on KAM in the context of this study.
5. All control variables (ROA, *Current ratio*, *Revenues*, and *Loss*) have significance values greater than $\alpha = 0.05$.

Discussion of Research Results

The Effect of Audit Fees on Communicating *KAMs*

The results showed that audit fees have a positive and significant effect on the number of *Key Audit Matters (KAMs)* communicated. This can be seen from the significance value of 0.000 which is smaller than 0.05. This finding indicates that the higher the audit fee paid by the company, the more the number of *KAMs* communicated in the independent auditor's report. This result is in accordance with the research hypothesis which states that audit fees have a positive effect on the communication of *KAMs*.

The positive effect of audit fees on the amount of *KAMs* communication can be explained through the complexity of audit work and auditor workload. As explained by Syofiana et al. (2018), higher audit fees are proportional to greater workload and complexity in conducting audits. In the context of implementing SA 701, auditors are required to make more comprehensive audit planning related to the complexity of assessments, risks, and specific areas that require additional scope or testing to identify issues that can be used as *KAMs*. This certainly affects the time, resources, and judgment required, which ultimately has an impact on audit fees and the number of *KAMs* identified.

This finding can be explained through signaling theory. In accordance with this theory, higher audit fees can be viewed as a signal that the audit is more complex and requires more in-depth procedures. This is then reflected in the communication of more and detailed *KAMs*, which serves as a signal to users of the financial statements that the audit that has been performed is of high quality. As stated by Yahaya & Onyabe (2022), large audit fees indicate good auditor quality and competence, which encourages the communication of more *KAMs* as a signal of a quality audit.

The results of this study are in line with several previous studies. Pinto & Morais (2019) conducted research in 15 European countries with a sample of 381 companies and found a positive relationship between audit fees and the number of *KAMs*. Their research uses data from the first year of implementation of ISA 701, just like this study which uses data from the first year of implementation of SA 701 in Indonesia. The similarity of the results shows the consistency of the effect of audit fees on *KAMs* across different geographical contexts. Sierra-García et al. (2019) conducted a study in Spain with a sample of 103 non-financial companies listed on the stock exchange. They also found a positive relationship between audit fees and the number of *KAMs*. Although their sample size is smaller than this study (421 firms), the similarity of the results shows that the effect of audit fees on *KAMs* is consistent across different sample sizes. Oghuvwu & Orakwue (2019) conducted a study in Nigeria with a sample of 30 companies listed on the stock exchange during the period 2016-2017. They also found a positive relationship between audit fees and the number of *KAMs*. Although the country context and research period differ, the consistent results suggest that the effect of audit fees on *KAMs* may be universal across developing countries.

The Effect of Size of public accounting firm on the Number of Key Audit Matters Communicated

The results showed that Size of public accounting firm has a positive and significant effect on the number of *Key Audit Matters (KAMs)* communication. This can be seen from the significance value of 0.000 which is smaller than 0.05. This finding indicates that Public accounting firms classified as Big 4 tend to communicate more *KAMs* than non-Big 4 Public accounting firms. This result is in accordance with the research hypothesis which states that Size of public accounting firm has a positive effect on the communication of *KAMs*.

The positive effect of Size of public accounting firm on the amount of *KAMs* communication can be explained by the capabilities and resources possessed by Big 4 Public accounting firms. Big 4 Public accounting firms have more structured audit methodologies, stricter quality control procedures, and access to more sophisticated technology and

resources. (Che et al., 2020). This allows them to conduct more in-depth analysis and identify more areas of potential *KAMs*. As explained by (Abid et al., 2018), Size of public accounting firm can affect audit quality and the ability to provide adequate audit services.

This finding can be explained through signaling theory. In accordance with this theory, the use of Big 4 Public accounting firm services can be viewed as a signal that the company is committed to providing high quality audits. Big 4 Public accounting firms are considered to have greater resources, deeper expertise, and broader experience in conducting audits in various types of industries. This is in line with the opinion of (Zhao, 2022) which states that a larger Size of public accounting firm illustrates the credibility of trained and experienced auditors, thus encouraging the communication of more credible *KAMs* as a valid audit signal.

The results of this study are in line with several previous studies. (Ferreira & Morais, 2019b) conducted research in Portugal with a sample of 447 listed companies and found a positive relationship between Size of public accounting firm and the number of *KAMs*. They used data from 2016-2017, which was the initial period of application of ISA 701 in Portugal, similar to the context of this study which uses data on the first year of application of SA 701 in Indonesia. (Suttipun, 2021b) examined the factors that influence the communication of *KAMs* in Thailand, with a sample of 2,252 audit reports from 2016-2018. The study also found that Size of public accounting firm has a positive effect on the number of *KAMs*. Despite using a longer period, the consistent results suggest that the effect of Size of public accounting firm on *KAMs* may be stable over time. (Moroney et al., 2021b) conducted research in Australia with a sample of 280 listed companies in 2017. They also found a positive relationship between Size of public accounting firm and the number of *KAMs*. The similarity of these results indicates the consistency of the effect of Size of public accounting firm on *KAMs* across different geographical contexts and legal systems.

However, some studies have found different results. For example, (Pinto & Morais, 2019b) in their study of 15 European countries did not find a significant relationship between Size of public accounting firm and the number of *KAMs*. They explained that this may be due to an inhomogeneous sample, where some companies had adopted *KAMs* reporting before the study period. (Kitiwong & Sarapaivanich, 2020) in their study in Thailand also found no significant effect of Size of public accounting firm on the number of *KAMs*. They argue that this may be due to the standardization of *KAMs* reporting in Thailand, which may reduce variations in *KAMs* communication between Big 4 and non-Big 4 Public accounting firms.

Although the results of this study are consistent with most of the existing literature, variations in the findings suggest that the relationship between Size of public accounting firm and the communication of *KAMs* is also influenced by contextual factors such as audit regulations, financial reporting practices, and capital market characteristics in each country.

The Effect of Company Size on the Number of Key Audit Matters Communicated

The results showed that company size has no significant effect on the number of *Key Audit Matters (KAMs)* communicated. This can be seen from the significance value of 0.188 which is greater than 0.05. This finding does not support the research hypothesis which states that company size has a positive effect on the communication of *KAMs*. The absence of a significant effect of company size on the number of *KAMs* can be explained by several factors, such as accounting policies, credit risk, and other policies. (Putra & Dwita, 2024b) revealed that company size is not only determined by total assets, but also by these factors. This shows that the complexity of the company is not always directly proportional to its size.

The results of this study indicate that company size has no significant effect on *KAMs* disclosure. This finding does not support the agency theory underlying the initial hypothesis (Hashim et al., 2018). In the context of communicating *KAMs*, agency theory illustrates that larger companies have more complex operations, so auditors will provide more

oversight due to many areas of risk and more cash flows in order to obtain information (Mah'd & Mardini, 2022b); (Alduneibat, 2024b). Thus, this affects the amount of disclosure of information raised as *KAMs* issues in transparent and quality audit reports. However, the findings of this study do not support this argument. Differences in company characteristics and institutional environments of developing countries compared to developed countries may also be a factor affecting the results of this study (Kitiwong & Sarapaivanich, 2020). Research in Thailand by (Kitiwong & Sarapaivanich, 2020) explains that differences in company characteristics and institutional environments in developing countries compared to developed countries can affect the insignificant effect of company size on *KAMs*. This finding also shows that company size is not always related to significant risks and considerations of management in determining accounting methods and estimates for the presentation of financial statements (Putra & Dwita, 2024b). *KAMs* are essentially related to the risks and significant considerations of management, which are closely related to the characteristics of the company's business (SA 701: 9, 2021). Therefore, company size does not affect the amount of *KAMs* communication (Putra & Dwita, 2024b).

The results of this study differ from some previous studies. Pinto & Morais (2019) in their study of 142 companies in Europe found that the number of *KAMs* is positively correlated with company size as measured by the natural logarithm of total assets. (Sierra-García et al., 2019b) who examined 280 companies listed on the FTSE 100 during 2013-2016 also reported that company size is positively related to the number of *KAMs* disclosed.

Meanwhile, this finding is in line with several previous studies. (Putra & Dwita, 2024b) who conducted research in Indonesia with a sample of 77 manufacturing companies listed on the IDX in 2022 also found no significant effect between company size and the number of *KAMs*. These consistent results reflect the special characteristics of the Indonesian capital market and prevailing audit practices. (Wuttichindanon & Issarawornrawanich, 2020a) in their research in Thailand found similar results, where company size has no significant effect on the number of *KAMs*. They argued that this could be due to the fact that most of the companies in the sample have not been audited by the Big 4 Public accounting firm. This is in line with the current study where most companies are audited by non-Big 4 Public accounting firm so that the sample number of companies audited by Big 4 Public accounting firm is not significant enough to affect the overall results. (Kitiwong & Sarapaivanich, 2020) also reported insignificant results in their study in Thailand, explaining that differences in company characteristics and institutional environments in developing countries may affect these results. In addition, (Ferreira & Morais, 2019b) in their study in Brazil also found no significant effect of company size on the number of *KAMs*, suggesting that auditors may focus more on company-specific risk and complexity rather than general company size. The similarity of these results reflects the specific characteristics of the implementation of the KAM standard in developing countries, including Indonesia.

The difference in results with research in other countries is due to several factors. First, this study was conducted in the first year of implementation of SA 701 in Indonesia, which is effective for audits starting on January 1, 2022 (SA 701, 2021). In the context of the first year of implementation, this insignificant result reflects a transition period where auditors and companies are still adapting to the new requirements of *KAMs* disclosure. (Lauren & Mita, 2023) reveal that there are obstacles faced in the implementation of SA 701 in the first year, such as grammatical constraints in *KAMs* paragraphs, determining the level of subjective significance, and adjusting the work rhythm of auditors. These constraints may cause auditors to be more cautious and conservative in determining the number of *KAMs*, regardless of company size.

The Effect of *Leverage* on the Number of Key Audit Matters Communicated

The results showed that *Leverage* has no significant effect on the number of *Key Audit Matters (KAMs)* communication. This can be seen from the significance value of 0.378 which is greater than 0.05. This finding does not support the research hypothesis

which states that *Leverage* has a positive effect on the communication of *KAMs*. The absence of a significant effect of *Leverage* on the number of *KAMs* can be explained by several factors as revealed by (Astuti et al., 2015), companies with safe *Leverage* can pay the debt used to finance the company's assets. This suggests that a high level of *leverage* does not necessarily indicate higher risk or the need for more extensive disclosure. In addition, auditors may consider *leverage* in the broader context of a company's overall risk profile, rather than as a single factor that determines the amount of *KAMs*.

This result is in line with several previous studies that also did not find a significant effect between leverage and the number of *KAMs*. (Pinto & Morais, 2019b) conducted research in 15 European countries with a sample of 381 companies in 2016 and found no significant effect between leverage and the number of *KAMs*. They explain that the research sample only includes large listed companies, which generally have not very high leverage, so the variation in leverage may not be enough to affect the number of *KAMs*. (Suttipun, 2021b) examined 150 companies listed on the Stock Exchange of Thailand in 2016-2018 and also found no significant effect of leverage on the number of *KAMs*. He argues that auditors may focus more on company-specific risk factors rather than general leverage in determining *KAMs*. (Velte, 2018) conducted a study on 283 companies in Germany in 2014-2015 and found no significant relationship between leverage and the number of *KAMs*. He explained that leverage may not be the main risk factor that auditors consider in the context of German companies. (Oghuvwu & Orakwue, 2019) examined 30 companies listed on the Nigerian Stock Exchange in 2017-2018 and found no significant effect of leverage on the number of *KAMs*. They argue that auditors may consider qualitative factors such as industry complexity rather than leverage in determining *KAMs*.

The difference in results with research in other countries may be due to several factors. First, this study was conducted in the first year of SA 701 implementation in Indonesia, which may have caused auditors to focus more on meeting the basic requirements of the standard rather than calibrating the number of *KAMs* based on the level of leverage (Suttipun, 2021b). Second, differences in regulations and audit practices in different countries may affect the relationship between leverage and the communication of *KAMs*. Third, the characteristics of the sample consisting of large, listed companies may have relatively stable and not too high leverage levels, so the variation in leverage may not be enough to affect the number of *KAMs* (Pinto & Morais, 2019b).

In conclusion, although leverage did not show a significant effect on the number of *KAMs* in this study, this finding highlights the complexity of the relationship between a firm's capital structure and the communication of *KAMs*. These results suggest that the communication of *KAMs* may be more influenced by other factors such as the quality of a firm's risk management, financial policies, or the audit approach used (Oghuvwu & Orakwue, 2019).

Additional Analysis

Grouping Types of *KAMs* by Cluster

Based on the analysis of 504 sample companies, a total of 693 *KAM* issues were found to be communicated in the independent auditor's report. These issues are then grouped into 25 types of *KAM* based on the similarity of themes or areas discussed.

Table 7. Types of *KAMs*

Types of <i>KAMs</i>	Total	Percentage
Allowance for impairment losses (CKPN) on receivables, loans, and financing	165	23,81%
Revenue Recognition	134	19,34%

Types of <i>KAMs</i>	Total	Percentage
Valuation and Impairment of Property, Plant and Equipment, Investment Property, and Right of Use Assets	113	16,31%
Inventory Valuation and Presence	66	9,52%
Goodwill Valuation and Impairment	30	4,33%
Valuation of Insurance and Investment Contract Liabilities	26	3,75%
Accounting for Business Combinations and Consolidations	21	3,03%
Other	19	2,74%
Valuation and Classification of Real Estate Inventories and Un-developed Land	15	2,16%
Accounting for Leases in accordance with PSAK 73	13	1,88%
Valuation of Securities Portfolio and Other Financial Assets	12	1,73%
Recognition and Measurement of Deferred Tax Assets	11	1,59%
Operation and Control of the Financial Reporting IT System	10	1,44%
Valuation of Investments in Associates and Joint Ventures	8	1,15%
Purchase Advances and Cooperation Commitments	8	1,15%
Biological Asset Valuation	7	1,01%
Provisions/Estimates related to Asset Decommissioning, Environmental Reclamation and Mine Closure	6	0,87%
Business Continuity	5	0,72%
Valuation of Actuarial Gains/Losses and Employee Benefits Liabilities	5	0,72%
Accounting for Transactions with Related Parties	4	0,58%
Valuation of provisions for legal and tax cases	4	0,58%
Fair Value Valuation of Financial Instruments	4	0,58%
Capitalization and Amortization of Intangible Assets	3	0,43%
Amortization of toll road concession rights	2	0,29%
Accuracy of Revenue and Expense Recognition related to Debt Restructuring	2	0,29%
Total	693	100%

The most frequently disclosed type of *KAMs* is "Allowance for Impairment Losses (CKPN) on Receivables, Loans and Financing" with 165 mentions, representing 23.81% of the total *KAMs*. This indicates that the issue of impairment of financial assets is the area that most often requires significant auditor consideration, in line with the criteria for determining *KAMs* involving areas with a higher assessed risk of material misstatement (SA 701:9, 2021). The second most frequent type of *KAMs* is "Revenue Recognition" with 134 mentions or 19.34% of the total *KAMs*. This high frequency reflects the importance of revenue recognition as an area that requires significant auditor consideration, especially in the context of the complexity and diversity of companies' business models (Ferreira & Morais, 2019). "Valuation and Impairment of Property, Plant and Equipment, Investment Property and Right-of-Way Assets" came in third with 113 mentions, representing 16.31% of the total *KAMs*. This significant percentage illustrates the complexity in the valuation of non-financial assets, which often involves accounting estimates with high estimation uncertainty (SA 701:9, 2021). Cumulatively, these top three types of *KAMs* account for 59.46% of all reported *KAMs*, indicating a high concentration on issues related to impairment, revenue recognition and asset valuation.

The variety of *KAMs* identified reflects the diverse characteristics of the sample companies. For example, "Inventory Valuation and Existence" was recorded as the fourth most *KAM* with 9.52%, indicating the importance of inventory management in many industry sectors. Meanwhile, *KAMs* such as "Valuation of Biological Assets" (1.01%) and "Amortization of toll road concession rights" (0.29%) although present with lower frequency, reflect industry-specific issues that are important to certain sectors. Some *KAM* types such as "Business Continuity" (0.72%) and "Fair Value Valuation of Financial Instruments" (0.58%), although recorded with relatively low frequency, still reflect critical issues that can have a significant impact on stakeholder decision-making (Sierra-García et al., 2019b).

The diversity of types of *KAMs* reported, with a total of 25 different categories, suggests that auditors have considered various factors in determining *KAMs*, including the impact on the audit of significant events or transactions that occurred during the period (SA 701:9, 2021). This is in line with the objective of implementing SA 701 to increase transparency in financial statements and provide more relevant information to users of financial statements (Moroney et al., 2021b).

CONCLUSION

Based on the results of the analysis and discussion that has been carried out, the following conclusions can be drawn:

1. Audit fees have a positive and significant effect on the number of Key Audit Matters (*KAMs*) communicated. This means that the higher the audit fee paid by the company, the more the number of *KAMs* communicated in the independent auditor's report. This shows that higher audit fees allow auditors to perform more thorough, detailed and in-depth audit procedures. With more extensive and detailed audit procedures, auditors can find more areas that require special attention in the audit process. As a result, more *KAMs* issues can be identified and reported by auditors.
2. Size of public accounting firm has a positive and significant effect on the number of Key Audit Matters (*KAMs*) communicated. Public accounting firms classified as Big 4 tend to communicate more *KAMs* than non-Big 4 Public accounting firms. This finding suggests that Big 4 Public accounting firms, with greater resources and broader experience, are better able to detect and communicate areas that require significant audit judgment as *KAMs* in the independent auditor's report. This reflects the capability of Big 4 Public accounting firms to conduct in-depth analysis, identify audit risks, and provide greater transparency to financial statement users through more comprehensive disclosure of *KAMs*.
3. Firm size has no significant influence on the number of *Key Audit Matters (KAMs)* communicated. The communication of *KAMs* is more influenced by other factors such as industry characteristics, operational complexity, quality of corporate governance, or the audit approach used, rather than simply company size. The findings also reflect the transitional period of SA 701 implementation in the first year in Indonesia, where auditors and companies are still adapting to the new *KAMs* disclosure requirements, which may lead to variations in the number of *KAMs* disclosed regardless of company size.
4. Leverage has no significant effect on the number of Key Audit Matters (*KAMs*) communicated. This finding indicates that a high level of leverage does not necessarily indicate higher risk or the need for greater disclosure in the communication of *KAMs*. Auditors consider leverage in the broader context of the company's overall risk profile, rather than as a single factor that determines the number of *KAMs*. This study was conducted in the first year of SA 701 implementation in Indonesia, which caused auditors to focus more on meeting the basic requirements of the standard. The characteristics of the sample consisting of large listed companies have a relatively stable and not too high level of leverage. The communication of *KAMs* is more influenced by other

factors such as the quality of corporate risk management, financial policies, or the audit approach used, in accordance with the findings of previous studies.

Research Limitations

Based on the research results and conclusions above, the following are the limitations of this study:

1. This study was conducted in the first year of SA 701 implementation in Indonesia, so the results do not fully reflect the mature disclosure practices of *KAMs*.
2. Limited access to additional data or information about the audit process and the auditor's determination of *KAMs*, which may provide a deeper understanding of the factors affecting *KAMs* disclosure.

Advice

Based on the research results and conclusions above, the following suggestions can be given:

1. Conduct research over a longer period of time, covering several years after the adoption of SA 701 in Indonesia. This would help understand how *KAMs* disclosure practices evolve over time.
2. Conduct interviews or surveys with auditors to obtain more in-depth information about the process of determining *KAMs*. This will provide a better understanding of the factors that influence the disclosure of *KAMs*.

Recommendation

Based on the research results and conclusions above, the following is the theoretical implementation of this research:

1. For Auditors can Improve internal training related to the identification and communication of *KAMs*, with a focus on the quality of disclosures, and improve communication between auditors, audit committees, and company management regarding the determination and disclosure of *KAMs*.
2. Future Research could conduct longitudinal studies to observe the evolution of *KAMs* disclosure practices in Indonesia over time, as well as develop more comprehensive metrics to measure the quality of *KAMs* disclosures, not just the amount.

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