

Disclosure of Key Audit Matters in Banking Issuers for The Period 2022–2024

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ABSTRACT

The implementation of Auditing Standard (SA) 701 on Communicating Key Audit Matters (KAM) represents a major development in auditor reporting—particularly within the banking industry, which is characterized by high regulatory intensity, operational complexity, and significant risk exposure. SA 701 requires auditors to disclose matters that required significant professional judgment during the audit, with the objective of enhancing transparency and increasing the informational value of the auditor’s report for stakeholders. This research aims to analyze KAM disclosures among Indonesian banking issuers during the 2022–2024 period and to identify challenges in implementing SA 701 at the public accounting firm (KAP) level. This descriptive qualitative case study analyzed 141 audited financial statements of banks listed on the Indonesia Stock Exchange, supported by semi-structured interviews with engagement partners from Big Four and Non–Big Four firms. KAM disclosures were classified into account-level and entity-level categories to identify patterns in determining significant audit areas. The results show that the average number of KAMs disclosed per auditor’s report is 1.32, consisting of 1.07 account-level KAMs and 0.26 entity-level KAMs. Allowance for Expected Credit Losses (ECL/CKPN) is the most frequently disclosed KAM, appearing in all observations, followed by issues related to financial reporting information systems. These findings indicate that credit risk assessment and IT system reliability remain the primary audit focus in the banking sector. While SA 701 does not substantially alter audit procedures, it increases documentation, coordination, and review requirements.

KEYWORDS *Key Audit Matters, SA 701, independent auditor’s report, banking.*



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INTRODUCTION

The Independent Auditor’s Report (Laporan Auditor Independen – LAI) is an important instrument for users of financial statements, as it serves as the basis for decision-making. The report also functions as the primary means through which auditors communicate professional findings and opinions to stakeholders. Through the LAI, the auditor assesses the fairness of the company’s financial statement presentation based on audits conducted in accordance with applicable standards (Dogan & Arefaine, 2017).

Financial statements prepared in accordance with IAS 1 or PSAK 1 must meet certain qualitative characteristics, namely reliability, relevance, comparability, and consistency. Information is considered reliable when it is trustworthy and free from material errors, while relevance means that it can influence users’ decision-making. Comparability enables both inter-period and inter-entity performance analysis, while consistency requires the application of uniform accounting policies over time. A clear and easily understandable presentation is also essential to ensure that financial statements can be effectively utilized by all stakeholders. When these characteristics are met, financial statements provide an accurate and valuable representation of a company’s financial condition (Alshdaifat et al., 2025; Rahaman & Karim, 2023).

In January 2015, the New York-based International Auditing and Assurance Standards Board (IAASB) issued the International Standard on Auditing (ISA) 701: Communicating Key Audit Matters in the Independent Auditor's Report. This standard applies to audits of public companies' (issuers') financial statements for periods beginning on or after December 15, 2016. ISA 701 aims to enhance the quality of information in audit reports by requiring the communication of the most significant matters encountered during the audit, thereby improving transparency and the relevance of audit reports to stakeholders (Yulianto et al., 2025).

In Indonesia, the Indonesian Institute of Public Accountants (Institut Akuntan Publik Indonesia – IAPI) officially adopted ISA 701 into Auditing Standard (Standar Audit – SA) 701: Disclosure of Key Audit Matters in the Independent Auditor's Report in July 2021 (Bepari et al., 2023). This standard applies to audits of complete general-purpose financial statements of public companies (issuers) and is implemented when auditors determine that key audit matters (KAM) should be included in the auditor's report for periods beginning on or after January 1, 2022 (Federsel & Hörner, 2023). SA 701 requires auditors to disclose KAM in the Independent Auditor's Report (LAI). KAM refer to issues that auditors consider most significant during the audit of an issuer's financial statements. Before including KAM in the report, auditors are required to discuss these matters with those charged with governance.

Principal audit matters generally include aspects of the audit that demand heightened attention from auditors, often due to significant risk exposure, materially impactful accounts, high potential for misstatement, or estimates and judgments subject to considerable management discretion. Additionally, KAM may encompass significant transactions or events occurring during the reporting period. By including KAM in the LAI, auditors provide additional information to help users understand the focus areas of the audit, thereby increasing accountability and strengthening stakeholder confidence in audit quality.

SA 701 began implementation for audits of issuers' financial statements for periods starting on or after January 1, 2022. Hence, the current year marks the third year of its application, making SA 701 implementation an important topic for research—particularly in understanding how auditors apply its provisions in practice. Under earlier standards such as SA 700, SA 705, and SA 706, auditors were only required to provide an opinion, consider possible modifications to that opinion, and determine whether the inclusion of an emphasis paragraph was necessary. The application of SA 701 therefore carries significant implications for audit procedures (Alduneibat, 2024). Its implementation is further supported by OJK Regulation No. 30 of 2023 concerning the Communication of Key Audit Matters in Public Accountant Reports on Audited Financial Statements in the Capital Market, effective December 29, 2023 (Alshdaifat et al., 2024).

An ACCA (2017) survey across various countries revealed that disclosing KAM plays an important role in improving communication between auditors and clients, especially with those charged with governance (TCWG) (ACCA Global, 2018). The findings also confirmed that implementing KAM strengthens auditors' roles and encourages greater participation throughout the audit process.

In Indonesia, Widianingrum and Wijayati (2022) examined the readiness of Public Accounting Firms (Kantor Akuntan Publik – KAP) in implementing SA 701 during its early stage of enactment. Their study found that the KAPs under review had generally undertaken adequate preparation and implementation steps. However, auditors' understanding of SA 701

remained general, given the recent adoption of the standard. The study also identified several challenges, particularly concerning the formulation of appropriate KAM wording in the auditor's report.

To ensure that financial statements meet the principles of completeness, neutrality, and freedom from misstatement, management must ensure that reports undergo a comprehensive audit process. The audit aims to assess whether the disclosed information is accurate and reliable for users of financial statements. Based on SA 200 (2021 Revision), the primary objective of independent auditors is to enhance users' confidence by expressing professional opinions affirming that financial statements have been prepared in accordance with generally accepted financial reporting standards (IAPI, 2021a).

The auditor's opinion plays a crucial role in evaluating whether financial statements are presented fairly in all material respects and in providing reliable information for decision-making. The presence of independent auditors enhances users' confidence, promotes integrity and transparency in financial reporting, and increases public trust in the company. Moreover, the auditor's opinion serves as an external oversight mechanism, encouraging management to maintain disciplined and responsible financial reporting practices.

In forming an opinion, auditors must ensure that financial statements are free from material misstatement, whether due to fraud or error. The level of assurance obtained must be sufficiently high to provide a reasonable degree of confidence. To achieve this, auditors collect adequate and relevant audit evidence to minimize the risk of issuing an inappropriate opinion should the financial statements contain material misstatements.

Prior to the enactment of SA 700 (Revision) and SA 701, the preparation of the Independent Auditor's Report (LAI) followed a standardized format. In this format, the auditor explained the scope of the audit, management's responsibility for financial statements, the auditor's responsibilities, and provided the audit opinion. Consequently, each LAI shared a similar structure, with the key distinction being the opinion paragraph—unqualified, qualified, adverse, or disclaimer of opinion. Additionally, auditors could include an emphasis or other additional paragraph, if necessary. These standardized reports were often viewed as uninformative and failed to provide meaningful insights beyond the opinion paragraph. As a result, users typically paid minimal attention to the LAI, prompting criticism that the reports lacked sufficient information or depth of analysis regarding the auditor's conclusions.

Research by Srijunpetch (2017) and Boonyanet and Promsen (2018) revealed that disclosing KAM had no significant impact on stock price movements. However, KAM disclosure showed a significant positive relationship with increased stock trading volume. These results suggest that KAM information plays a greater role in influencing market activity than in affecting price changes. In other words, KAM disclosures may attract investor attention and drive engagement with financial statements, even if they do not directly alter perceptions of a firm's fundamental value.

Li (2020) found that disclosing KAM helps users understand the audit procedures performed by auditors. This additional insight enhances investor and stakeholder confidence in the audit process, thereby strengthening trust in financial statements. Similarly, Moroney et al. (2021) emphasized that including KAM in the Independent Auditor's Report (LAI) improves audit quality and reinforces auditor credibility. These findings affirm that transparency through KAM adds tangible value to audit report quality.

However, other studies have produced different results. Coram and Wang (2021) found that including a KAM section in the auditor's report has not fully bridged the expectation gap between auditors and financial statement users. This indicates that, although KAM adds valuable information, other factors still influence user expectations and satisfaction. Therefore, both auditors and entities must continually enhance reporting quality and ensure that KAM disclosures are written in clear, comprehensible language to maximize their usefulness to stakeholders.

The implementation of OJK Regulation No. 30 of 2023 concerning the Communication of Key Audit Matters in Public Accountant Reports on Audited Financial Statements in the Capital Market requires Public Accounting Firms (KAP) to include KAM in every issuer's audit opinion. This regulation aims to improve transparency and accountability in capital market audit reports and to provide more valuable information for investors and stakeholders. Through this requirement, financial statement users can better understand the key areas of auditor attention during the audit process.

The application of Auditing Standard (SA) 701 regarding the Communication of Key Audit Matters in the Independent Auditor's Report is particularly relevant for banking issuers listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. The banking sector plays a critical role in the financial system and national economy, with total assets reaching IDR 12,460,995 billion in 2024, while facing high levels of operational complexity and risk. The implementation of SA 701 provides an opportunity to assess how auditors communicate key issues to the public—especially those related to credit risk, liquidity, and regulatory compliance—making KAM disclosures valuable for financial statement users. This study also evaluates the consistency of understanding and application of SA 701 among auditors and bank management, emphasizing that transparency through KAM enhances investor and stakeholder confidence in the quality and integrity of financial reporting. Accordingly, this topic is highly relevant for research as part of efforts to strengthen accountability and transparency within the national financial sector.

This study aims to analyze KAM disclosures among Indonesian banking issuers during the 2022–2024 period and to identify challenges in implementing SA 701 at the Public Accounting Firm (KAP) level. The research is expected to provide both theoretical and practical benefits. Theoretically, it contributes to auditing literature by deepening the understanding of SA 701 implementation in the banking sector, characterized by high regulatory intensity and operational complexity. The findings enrich knowledge of how auditors exercise professional judgment in determining KAM and how transparency through their disclosure enhances the informational value of audit reports. Practically, this research offers valuable insights for KAP in improving audit procedures and documentation related to KAM, for regulators such as OJK and IAPI in assessing SA 701's effectiveness and guiding future policy formulation, and for stakeholders—including investors and financial statement users—in understanding the significance and implications of KAM disclosure. Thus, this study supports the ongoing effort to strengthen accountability and transparency in Indonesia's financial sector.

METHOD

Research Strategy and Design

This study uses a case study method to implement the standard. This method focuses on collecting data about a specific object, event, or activity that the researcher is concerned about. The object of study can be a relevant individual, group, organization, event, or situation. The case study approach allows the collection of qualitative and quantitative data that supports the analysis and interpretation of research results. (Sekaran & Bougie, 2016).

This research began with a review of the Independent Auditor's Report (LAI) from banking companies for the 2022–2024 period. At this stage, the researcher records and identifies the Main Audit Matters (HAU) disclosed by the auditor. The HAU that has been identified is then grouped into several categories, such as the affected accounts, the focus of the audit issue, and the most significant risks. This grouping aims to facilitate the analysis of trends and priorities of audit issues that are of concern to auditors.

Data Source

This research utilizes two types of data sources, namely primary data and secondary data. Primary data is information collected directly by researchers from the original source to meet certain research needs (Sekaran & Bougie, 2016). Meanwhile, secondary data is data that has previously been collected by other parties for different purposes, but is still relevant to support this research (Sekaran & Bougie, 2016). The data collection methods used in this study are:

Tabel 1. Jumlah Bank

No	Bank Ownership	Number of banks
1	SOEs	6
2	Private	28
3	Foreigner	13

Interview

Interviews in this study were conducted with participants in two different KAPs, namely engagement partners who were directly involved in the audit process that required the implementation of SA 701. This interview was conducted in a semi-structured method. The following are the profiles of the interviewees who were the subject of interviews in this study:

Tabel 2. Profil Responden Penelitian

No	Nama	Jabatan	Pengalaman Kerja (tahun)	KAP
1	R2*	Rekan Perikatan	30	Big 4
2	R1*	Rekan Perikatan	25	Non Big 4

Data Analysis

This study uses a qualitative descriptive approach. According to Sekaran (2016), qualitative data is data in the form of words, obtained through answers from interviews, questionnaires, observations, or the collection of pre-existing information from various sources, such as the internet. This research will be carried out through interviews and document observation. The following schema illustrates the data analysis framework used in this study.

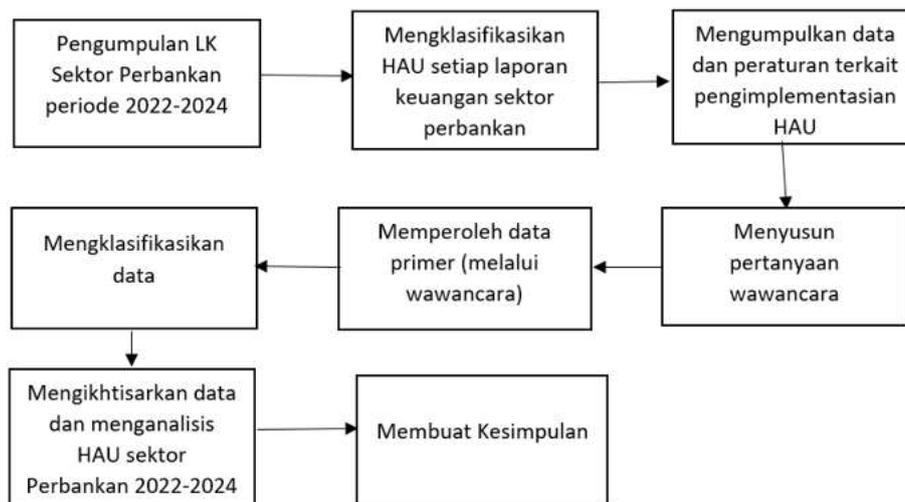


Figure 1. Data Analytics Framework

This research was conducted systematically to evaluate the disclosure of Main Audit Matters (HAU) in the Indonesian banking sector during the 2022–2024 period. Banking financial statements are collected to identify and classify HAUs, while secondary data in the form of regulations and policies related to the implementation of HAU are reviewed to strengthen understanding of context. Primary data is obtained through interviews with auditors or related parties, then all data is analyzed based on the main themes and issues that arise. The results of the research are summarized to provide an overview of the practice of HAU disclosure and at the same time serve as the basis for the preparation of conclusions and recommendations that are useful for KAP, academics, and regulators.

RESULT AND DISCUSSION

Descriptive Statistics of HAU

In this chapter, the analysis of the disclosure of the main audit matters on banking issuers in Indonesia for the 2022–2024 period is discussed. This analysis includes how auditors apply the standards in practice, the extent to which KAM disclosures can add value to stakeholders, and their impact on financial statement transparency. In addition, this chapter also highlights the various obstacles that auditors face in the implementation process.

Regarding the content of the Main Audit Item, an analysis has been carried out of the number of Main Audit Items presented in the audit financial statements, as well as what items are raised as the Main Audit Items. There is a difference between the two types of Key Audit Matter. KAM at the account level focuses on certain items or areas in financial statements that are considered to have a high level of significance and complexity in the audit process, such as revenue, fixed assets, inventory, and asset impairment. Meanwhile, KAM at the entity level covers broader issues that have an impact on the company's overall financial and operational statements, including tax aspects, regulatory or legal provisions, acquisition accounting, and internal controls. From the results of the analysis that has been carried out, a summary is obtained as presented in Table 3 Number of Main Audit Matters in the auditor's report.

Tabel 3. Jumlah Hal Audit Utama

Tahun	2022	2023	2024	Total
Jumlah Bank	47	47	47	141
Jumlah HAU	62	63	62	187
Rata-Rata Jumlah HAU	1,31	1,34	1,31	1,32
Rata-Rata Jumlah HAU Level Akun	1,06	1,08	1,06	1,07
Rata-Rata Jumlah HAU Level Entitas	0,26	0,26	0,26	0,26

KAP Standard Procedures related to the Implementation of SA 701 in Banking Issuers

Based on the results of interviews with respondents R1 and R2, both agreed that KAP already has SOPs related to the implementation of SA 701. The SOP is considered adequate by the respondents so that it can be used as a reference in audit practice. The existence of this SOP is considered important because it provides clear guidance in the implementation of audit standards. Here is an excerpt of the answer from R1 that illustrates this view:

"There is nothing in the nature of written guidelines but there is socialization from the global such as sharing sessions when SA 701 comes out, we have special training and there are also guidelines from associations and so on so we base it on that and there has been training on how we document the working papers, so the process is various because there is no need for this but this is more of a judgement of each partner what kind of partner. In general, we have several training series from global and local."

In line with R1's statement, R2 expressed his views as follows:

"There are guidelines, there are checklists, data bases, KAMs, and there is training as well, quite complete guides and methodologies. At the beginning of this KAM, we must have training and also fill out the checklist and then there is also follow the guidelines. From the beginning, what was the drafting, and what was the procedure. If we are a company under the OJK, there must be an independent quality review, right, on top of that there is another review to review the KAM. This is during the first year, second year, for example, the KAM has not changed, so the wording has not changed much. The KAM reviewer is also tiered, there is a Manager and there is a partner, so it is quite strict. Then later it will be entered into the KAM database later it can be a reference for the next assignment."

Based on the statements of the two speakers, it can be seen that the process of preparing Key Audit Matters (KAM) in the banking sector does not have rigid technical guidelines, but relies heavily on the professional judgment of auditors, especially at the partner level. Nonetheless, auditors still refer to formal knowledge sources such as global socialization, sharing sessions, and training when SA 701 was first issued. This shows that a basic understanding of KAM has been built through structured debriefing, although its implementation can vary according to the risk and complexity of the entity, especially in the banking industry which is full of credit risks, financial instruments, and strict regulations.

On the other hand, the second interviewee described a much more structured internal process. In addition to the judgement partner, auditors also use checklists, KAM databases, methodological guides, and tiered review mechanisms to ensure the quality of the KAM prepared. This process is carried out strictly because the audit process in banking is more careful, given the highly regulated and high-risk characteristics of the industry. The mechanism involves managers, partners, and independent quality reviewers, especially for entities under

the supervision of the OJK. The existence of a KAM database and a layered review process is very relevant in the banking sector because audit risks and issues generally recur from year to year, such as impairment loss reserves, credit risk, and valuation of financial instruments. Thus, historical documentation helps auditors maintain consistency while improving the quality of risk assessments.

If these two views are combined, it can be concluded that the preparation of KAM in the banking sector is a combination of judgement-based flexibility and a strict methodological structure. Flexibility is needed so that auditors can tailor KAM determinations to each bank's unique risk characteristics, while structural aspects are important to maintain quality, compliance with standards and consistency from year to year. The banking industry, which is highly regulated and plays an important role in the stability of the financial system, demands a more rigorous audit process as well as more comprehensive documentation. Therefore, the method used by auditors not only focuses on compliance with SA 701, but also on strengthening internal processes so that the resulting CAMs truly reflect significant risks and provide added value for stakeholders.

Differences in the procedures for documentation of working papers in the audit process before and after the enactment of SA 701 (2021) Based on the results of interviews with respondents, it can be concluded that there are no significant differences in the procedures or documentation of audit working papers before and after the enactment of SA 701 (2021). The audit process basically follows the same flow and stages, including in terms of drafting and filing working papers. Here is an excerpt of the answer from R1 that illustrates this view:

"Actually, there is no one because what is included in SA 701 or Key Audit Matter are things that according to Apnya are the most significant matters, usually it is included in when we plan audits, understanding risks, developing audit strategies, it is actually something routine so it should not exist with the existence of SA 701 so the procedure is different because it is something that has actually been part of the audit planning process from the beginning. So if the bank audit from the beginning has been planned, there is already an understanding of what the risks are, what the strategy is, what the procedures are, and then the understanding of what the client is doing and actually in the disclosure of key audit matters not only reveals what procedures are carried out by the auditor, but also what is done by the client."

R2's statement expressing his views is as follows:

"Substantially nothing, in terms of audits, the program remains the same. For the working paper, there may be something different or it may be added after going through the QA process, there may be less of this and it must be added. So for the working paper there are additions, but for the program audit, nothing has changed."

From the two speakers' answers, it can be seen that SA 701 does not fundamentally change the audit process, including in the banking sector. The determination of Key Audit Matters (KAM) is considered a natural part of the series of audit procedures that have been carried out since the planning stage. In the planning process, the auditor has identified significant risks, understood the client's business processes, developed an audit strategy, and determined the relevant procedures—all of which are the basis for determining the most significant and potentially KAM areas. Therefore, for the speakers, the existence of SA 701 is more of a clarification of the communication of audit results, rather than changing the

established audit structure, especially in bank audits which from the beginning are indeed risk-oriented.

Both speakers emphasized that there were no meaningful changes in the program's audit, even after the implementation of SA 701. Audits at banks continue to follow the same stages: risk assessment, substantive testing, internal control evaluation, and credit risk analysis and financial instruments. However, what has undergone adjustments is the documentation aspect or working paper. The addition of this documentation mainly comes after going through a quality assurance (QA) or independent review process, which asks the auditor to clarify the justification for why an area is designated as KAM and how the audit procedures carried out have addressed the risk. This is important in banking audits because areas that are often KAM such as Expected Credit Loss (ECL), asset quality, and valuation of financial instruments have high complexity and require more detailed documentation.

Linking the two views, it can be concluded that in banking audits, SA 701 does not change the structure of the audit process, but rather deepens the aspects of transparency and documentation quality. Risk assessments and audit strategies remain as they were before, but auditors are now required to articulate more systematically why certain areas are considered the most significant and explain the actions taken by bank management to address those risks. As the banking industry is a highly regulated and high-risk industry, the addition of this documentation is essential to ensure that the KAM presented truly reflects the material risks to the stability and reliability of financial statements. Thus, KAM is not a change in procedures, but rather an improvement in the quality of audit communication that demands greater accuracy in documentation and risk assessment in the banking sector.

Implementation of quality control and monitoring in maintaining the quality of SA 701 Based on the results of interviews with respondents, it can be seen that the aspect of review and quality control is one of the important elements in the implementation of SA 701, especially for entities engaged in the banking industry and issuers. Both respondents agreed that the implementation of SA 701 requires additional oversight mechanisms to ensure compliance with audit standards, given the complexity and legal and compliance risks inherent in the sector. The first respondent highlighted the existence of a team structure that includes an engagement quality review partner, independent review partner, and a quality assurance team whose role is to ensure that each stage of the audit is carried out according to global methodologies and applicable standards. Meanwhile, the second respondent emphasized the importance of review in terms of professional risk and the quality of report presentation, especially related to how the auditor describes the KAM procedure so that it is easy to understand by report users who do not have an audit background. Here is an excerpt of the answer from R1:

"There is, in the office for issuers and banks themselves, it is a highly regulated industry, so in the audit engagement it must involve the so-called independent. In our partner, there is a name called engagement quality review partner, so what is more, the issuer, the capital market is a must-have. So in the team structure there is an engagement partner, then there is an engagement quality partner, then in you there is also a quality assurance team. The quality assurance team is not day to day in the audit but ensures that the audit process has been implemented in accordance with audit standards. And if in ABC global audit methodology means the same as ABC. So the team will have partners, there will be a team that supports and

quality assurance. So starting from the training stage, the audit progress stage to closing will be reviewed and cannot be released if you have not received clearance from quality assurance. Independent review partner is different from quality assurance. The independent review partner will independently review what has been done by the engagement team, it ensures that the audit stages have been completed, the issues have been resolved."

R2's statement expressing his views is as follows:

"Yes, there is a review because the increased professional risk is legal, compliance, and increased risk. We disclose the procedure for this Audit Matter in the report, so it must be written so that it is not too wrong later and will also cause a different perception because the readers of this report also do not all have an auditor background, so I don't know what is actually meant by the procedure carried out, so it is better to write it that everyone can understand."

Based on the opinions of the two speakers, the process of preparing Key Audit Matters (KAM) in the banking sector shows a stricter level of supervision and review than other sectors. This is mainly due to the characteristics of the banking industry which is classified as a highly regulated industry and the status of issuers that require the involvement of independent parties in the audit process. The audit team structure for banks not only consists of engagement partners and implementation teams, but also involves engagement quality review partners and quality assurance teams that ensure that each stage of the audit is carried out in accordance with the professional standards and global audit methodologies of public accounting firms. Thus, since the audit planning phase, significant issues that have the potential to become KAM have gone through layered evaluations from various independent parties.

This statement shows that the high risk in banking audits has a direct impact on the Main Audit Review Process (KAM). Any disclosure related to audit procedures has the potential to pose legal risks or negative perceptions if not carefully prepared. Therefore, the finalization of the KAM requires a layered review to ensure there are no errors, ambiguities, or information that could be misunderstood by non-auditor readers. With the increasing demands for public transparency and capital market regulation, these additional oversight mechanisms are essential to maintain the quality and credibility of KAM.

Overall, the two speakers showed that although the substance of the program audit has not changed significantly due to SA 701, the verification, review, and approval process for KAM in the banking sector has become much more comprehensive. The involvement of independent review partners and quality assurance creates a more rigorous KAM manufacturing process than the non-banking sector, as every procedure and description in KAM must be accurate, aligned with the audit results, and easy to understand by the public. This emphasizes that the main challenge is not the difference in audit procedures, but rather the strengthening of the quality control process and the accuracy of auditors' communication in presenting sensitive and high-risk information in the banking industry.

Auditor communication determines matters that need to be communicated to the TCWG in determining matters that require significant attention Auditor communication with Those Charged With Governance (TCWG) in determining matters that require significant attention of the auditor is a process of formal interaction between the auditor and the managing or supervisory party of the entity, such as the board of commissioners or the audit committee, to discuss the most complex audit areas, is high risk, or requires in-depth professional

consideration. Through this communication, the auditor conveys initial findings, key risks, and material issues that have the potential to affect the financial statements, as well as obtain input or clarification from the TCWG. The process not only aims to ensure transparency and accountability in the implementation of audits, but also serves as the basis for determining whether something is worthy of being categorized as Key Audit Matters (KAM) according to the provisions of SA 701. Here is an excerpt from R1's answer:

"In communication with TCWGs in the banking sector, auditors typically focus on areas that users of financial statements are most concerned about, such as investors, or that potentially contain fraud risks. Significant issues are generally related to areas with high levels of judgement and estimation, such as expected credit loss, collectibility, and CKPN. Some auditors also consider the aspect of information technology, but it is not always a priority. The determination of Key Audit Matters is done by selecting the most critical issues, which generally require a lot of discussion with the board of directors, board of commissioners, and audit committees, and take up significant audit time."

Here is the answer from R2:

"From the beginning, the auditor held an internal audit meeting to determine the issues that would be communicated to the TCWG, such as the risk of material misrepresentation, areas with high management judgment, or complex issues that had arisen in the previous year. These issues are then compiled into an audit plan and presented to TCWG as KAM candidates, although not all of them are determined. Throughout the audit process, KAM candidates continue to be updated through planning, progress, and closing meetings until finally the final KAM to be disclosed is determined."

The first statement emphasizes that the areas that are the focus of communication are usually things that are considered significant by users of financial statements, such as investors, or areas that are at high risk of material misrepresentation, including the potential for fraud. Auditors generally prioritize issues that contain complex judgments and estimates, for example expected credit loss, collectibility, and impairment loss reserves (CKPN). This suggests that the selection of KAM is based on a combination of the report's user perspective, audit risk, and professional complexity, all of which demand intensive discussions with the TCWG.

The second statement provides a more operational picture of how the communication is carried out. The auditor from the outset conducts internal audits to identify significant issues that need to be communicated to the TCWG. These issues were then presented as KAM candidates in a meeting with the TCWG, although not all candidates were ultimately designated as KAM. Furthermore, the communication process is carried out continuously throughout the audit cycle through planning meetings, progress meetings, and closing meetings, before finally the auditor determines the final KAM that will be disclosed in the audit report. In comparison, the first statement emphasizes the substance of the significant areas of concern of the auditor and the TCWG, while the second statement emphasizes the process and communication mechanism carried out by the auditor throughout the audit stage. The two complement each other: the substance of significant areas forms the basis for determining KAM candidates, while communication mechanisms serve as a means of clarifying, updating and ensuring that such issues are understood and agreed upon with the TCWG.

Thus, communication between auditors and TCWGs in the implementation of SA 701 takes place in an interactive and continuous manner, not just the delivery of information. The

auditor is in charge of ensuring that the determination of Key Audit Matters (KAM) truly reflects the most material and relevant issues for stakeholders. This approach helps to increase transparency, strengthen accountability, and improve audit quality in the banking sector, making auditor reports more informative and reliable by investors, regulators, and other related parties.

The presentation of Key Audit Matters (KAM) in the Independent Auditor's Report on banking issuers does not directly improve or change the substance of the disclosures made by management in the financial statements. Based on the results of interviews with two auditor respondents (R1 and R2), issues raised as KAM—such as Reserve for Impairment Losses (CKPN) or Expected Credit Loss (ECL)—have generally been adequately disclosed and in detail in accordance with applicable accounting standards. Therefore, the role of the auditor is more focused on ensuring consistency between the KAM and the disclosure of financial statements, rather than adding new information or making substantial changes. These findings show that the implementation of SA 701 in the banking sector has a greater impact on improving the transparency and quality of audit communication to stakeholders, compared to changes in the content of the financial statements themselves. The auditor ensures that the significant issues communicated in the KAM are properly supported by adequate audit procedures and documentation, thereby strengthening auditor accountability.

In the preparation of the KAM, the auditor does not just copy the previous year's template. Despite the consistency of writing and wording styles, especially for general banking issues, each KAM is still evaluated and adjusted to the conditions and risks of each client through an internal review and Quality Assurance (QA) process. In terms of effectiveness, KAM is considered to improve audit quality because it encourages the accuracy and depth of audit procedures. However, in terms of efficiency, especially in the early stages of implementation, KAM requires more time and resources and increases the risk of lawsuits for auditors. The main obstacle to the implementation of KAM lies in the perception of stakeholders who often consider KAM as an indication of a problem. Through continuous socialization and education by auditors, OJK, and IAPI, stakeholder understanding can be improved so that KAM is understood as a means of transparency, not a negative signal.

CONCLUSION

This study evaluates the application of SA 701 on Key Audit Matters (KAM) among banking issuers for the 2022–2024 period, aiming to describe implementation practices and identify auditor challenges through document analysis and partner-level interviews. The KAM drafting process combines professional judgment with structured methodologies, utilizing global training, checklists, databases, and tiered reviews to ensure quality and consistency. This approach enables auditors to tailor KAM to each bank's risk characteristics, making the process both technical and strategic in reflecting issues relevant to stakeholders. SA 701 does not fundamentally change the audit process but strengthens communication and documentation, requiring clearer justification for KAM designation in areas such as Expected Credit Losses (ECL) and financial instrument valuation. Communication between auditors and those charged with governance (TCWG) focuses on high-risk issues requiring complex judgment, with ongoing discussions ensuring that KAM appropriately reflect material risks.

KAM in the banking sector generally align with existing financial statement disclosures, so no significant changes to the statements themselves are required; instead, auditors ensure consistency to prevent misinterpretation. Each KAM is carefully reassessed annually rather than repeated mechanically, with its content adjusted to reflect current risks and audit procedures through multi-layered quality reviews. While KAM implementation improves audit quality by promoting thoroughness and prudence, it also increases complexity and time requirements due to stricter documentation and review processes, potentially reducing efficiency in the early stages of adoption. The main challenge arises from stakeholder misperceptions of KAM as indicators of problems rather than as transparency tools. Although OJK and IAPI socialization programs have improved issuer understanding, non-issuers frequently continue to misinterpret KAM. Continuous education and active auditor–stakeholder communication throughout the audit process can help minimize these barriers and achieve KAM’s primary objective as a mechanism for enhancing transparency.

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