

# Disclosure of Key Audit Matters (KAM) on Audit Quality: A Literature Study

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**Abstract.** This research aims to see the impact of implementing Key Audit Matters (KAM) disclosure based on International Standard on Auditing (ISA) No. 701 on audit quality. The data utilized in this study were derived from several scientific journal articles published between October 2020 until 2024. The research methodology involves classifying and analyzing literature reviews based on theory, methodology, findings, and limitations. Analysis reveals that disclosure of Key Audit Matters (KAM) can increase the value of communication, which impacts improving audit quality. Considering the limited previous research regarding the influence of Key Audit Matters (KAM) disclosure on audit quality, the author was motivated to develop this article. This research contributes to public accountants improving audit quality, especially auditors' knowledge regarding the latest audit standards regarding Key Audit Matters (KAM) disclosures.

**Keywords:** key audit matters, audit quality, communicative value

## 1 Introduction

Audit quality represents the clarity and dependability of a company's financial statements for its stakeholders, including shareholders, investors, and creditors [1]. The phenomenon of audit quality in Indonesia is a topic that continues to be discussed because in reality there are still many cases of audit failures by KAPs which are an indication of low audit quality. In 2015, KAP Ben Ardi was sanctioned for six months for failing to adhere to the Audit Standards and the Public Accountant Professional Standards (SPAP) while performing a general audit of PT Bumi Citra Permai's financial statements for the 2013 fiscal year.

In 2017, KAP Purwanto, KAP Suherman & Surja (Mitra E&Y) was fined US\$ 1 million (around 13.3 billion) by the United States regulator 2017 because it was convicted of failing to audit the financial statements of telecommunications companies (ISAT). Then, at a press conference held with the Financial Services Authority yesterday (28/6/2019), the Ministry of Finance announced sanctions imposed on Public Accountants Kasner Sirumapea and the Public Accounting Firm (KAP) Tanubrata, Sutanto, Fahmi, Bambang & Partners for audit errors in PT Garuda Indonesia Tbk Financial Report for the 2018 financial year.

[2] Audit reports are often regarded as merely a legal formality and of limited value to many stakeholders. Consequently, regulators are revising audit standards to enhance the relevance and transparency of audit reports, aiming to restore user trust in financial statements [3].

To overcome these problems, since 2015, the International Auditing and Assurance Standards Board (IAASB) has introduced ISA 701, titled “Communication of Key Audit Matters in the Independent Auditor's Report.” The standard mandates that key audit matters (KAM) must be included in the new audit reports within a company’s annual report. KAM refers to issues that are deemed the most critical in auditing the financial statements for the current period in the auditor's professional judgment.

Auditing Standard (SA) 701 (2021), “Communication of Key Audit Matters in the Independent Auditor's Report,” was approved on July 13, 2021. It applies to audits of financial statements for periods starting on or after January 1, 2022, for listed entities. The purpose of implementing SA 701 is to enhance the communicative value of audit reports by offering greater transparency regarding the audits conducted.

This aligns with prior research conducted by [4], which suggests that the addition of KAM in new audit reports can enhance both the communicative quality and the informational value, as well as audit quality. In line with this, several studies such as [5][6][7][8][9][10][11][12] also states that reporting of KAM enhances audit reliability, accountability, and transparency, ensuring the presentation of accurate evaluations.

On the other hand, according to [13] [14] there is no significant relationship between KAM and increased audit quality. The use of KAM is seen to help in increasing audit effectiveness which can help audits become more focused and organized, facilitate better collaboration between auditors and managers, and help in balancing the demands of managing workload and audit risk. As a result, the effect of KAM reporting on audit quality remains inconclusive.

Therefore, researchers undertook the initiative to conduct a comprehensive study using a systematic literature review methodology, which entailed a careful analysis of the most contemporary and relevant scientific articles published from 30 October 2020 to 07 July 2024, all of this aims to comprehensively assess the implications of KAM to enhance the transparency and informational value of the auditor's report. As far as the search was supported by extensive searches through leading academic databases such as Google Scholar and Web of Science, it was found that there were only 2 (two) scientific studies related to this topic in the geographical context of Indonesia.

This represents a significant gap in the existing literature and requires further exploration. This lack of research not only highlights the need for future empirical investigation in this domain but also underscores the potential implications that such insights could have for improving audit practices and standards in Indonesia, thereby contributing to broader insights into the transparency and accountability of financial reporting. Furthermore, this research focuses on the following problem formulation:

1. What journals distribute the results of this research?
2. What research methods were used in previous research?
3. Main results or findings in previous research?
4. What research limitations were found in previous research?

the systematic literature review method has been recognized as an appropriate approach for gaining a comprehensive understanding of specific topics that stakeholder’s of audit financial statements in Indonesia are examining [15]. This method is considered capable of increasing

information transparency and minimizing information discrepancies, which is essential to assist users in their decision-making process, in line with the main objectives of ISA 701. As a result, this study is expected to provide empirical evidence on the influence of key audit matter disclosures on audit quality. This is characterized by an intensify in the conversational value of the auditor's report.

It is hoped that this research will benefit audit quality analysis and contribute to the development of financial studies related to factors that influence audit quality. Then, it can be used as reference material for actors and practitioners who need to provide input for public accountants to improve audit quality, especially the auditor's knowledge regarding the latest audit standards regarding the disclosure of Key Audit Matters (KAM).

This study is organized as follows: Following the introduction, the research methodology is detailed, explaining how the researcher screened, selected, and analyzed the articles. Next, the discussion section presents the interpretation of the findings. Finally, the study concludes with a summary and recommendations for future research.

## **2 Literature Review**

### **2.1 Key Audit Matters**

Key audit matters (KAM) are matters that, according to the auditor's professional judgment, are most significant in auditing the current period's financial statements [16]. The auditor must communicate with Those Charged With Governance (TCWG) to select matters as key audit matters (KAM). This is important because Key Audit Matters (KAM) inform audit opinion users on sensitive critical areas in the audit process that were previously limited to discussions with management.

### **2.2 Audit Quality**

According to [17] audit quality is the probability that an auditor finds and reports a violation in his client's accounting system. In discovering violations, an auditor must have competence and an attitude of accuracy and prudence. In principle, good audit quality can be achieved if the auditor applies existing audit standards and principles, acts freely without taking sides, obeys the law and complies with the professional code of ethics.

## **3 Research Method**

This research examines articles through several stages, starting with formulating search keywords, followed by database selection and criteria determination [18]. The first step researchers take is to identify search terms and keywords used in a particular database. [18] recommended search terms are based on words and concepts related to the research topic. The search engines for this research are Google Scholar and Web of Science.

The research decided to use articles published from 30 October 2020 to 07 July 2024. The choice of 30 October 2020 was based on previous research conducted by [19] which was the main reference for this research's literature review. The research determined to include articles

published between 2012 and 30 October 2020 with a final result of 9 articles. Therefore, this research was conducted to continue the literature review to add to the existing literature.

Based on the search results, 610 publications were found as a procurement of the search parameters. The keywords “key audit matters” and “hal audit utama” were used in this particular search. Initially, 610 publications were collected during the first stage. The second stage involved a screening process that filtered publications based on type, title, keywords, and abstract. After reviewing more than 610 articles and refining the criteria, only articles (not books or conference proceedings) written in either Bahasa Indonesia or English were considered. Additionally, the articles had to be indexed by Scopus (Q1, Q2, Q3, Q4) or Sinta (Sinta 1, 2, 3, 4), both recognized for their credibility and reliability. Ultimately, nine articles were selected as the basis for this research.

This number is considered sufficient because it was obtained through a series of transparently discussed methods. In addition, the nine articles have been arranged based on the author's year of publication, as shown in Figure 1, which illustrates the article quality-checking process. A summary of each research finding is also presented to answer the research questions. This makes it easier for researchers to understand the study results in all publications reviewed comprehensively.

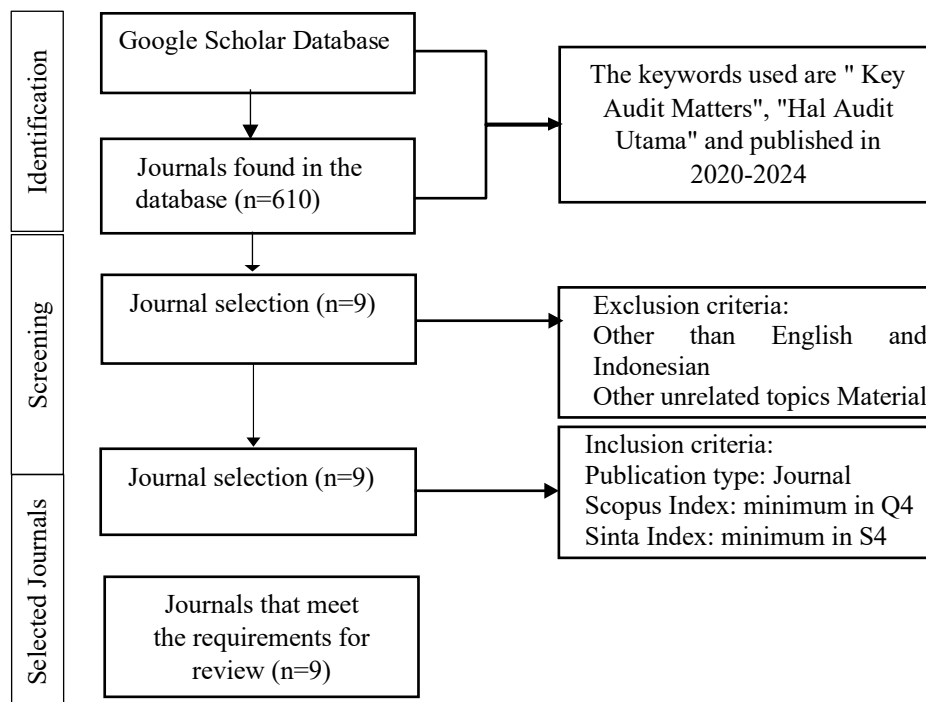


Fig. 1. Article Selection Process

## 4 Discussion

The methodology section explains the screening procedures for the eleven articles that passed. Table 1 contains a list of selected article titles, the author's name and year of publication, the name of the journal publisher, and its ranking.

**Table 1.** List of Articles Selected for Review

No	Journal Name	Journal Ranking	Article Title	Author and Year of Publication
1	Accounting Horizons	Q1	“Key Audit Matters Reports in China: Their Descriptions and Implications of Audit Quality”	Yamin Zeng, Joseph Zhang, Junsheng Zhang, Mengyu Zhang (2020)
2	Journal of Applied Accounting Research	Q1	“Impact of key audit matters (KAMs) reporting on audit quality: evidence from Thailand”	Muttanachai Suttipun (2021)
3	Accounting Horizons	Q1	“Do key audit matters (KAM) matter? Auditors' perceptions of KAM and audit quality in Finland”	Antti Rautiainen, Jani Saastamoinen, and Kati Pajunen (2021)
4	Managerial Auditing Journal	Q1	“The impact of key audit matter reporting on analyst forecast accuracy and forecast dispersion: evidence from Chinese listed firms”	Zhiying Hu, Yan Li, Beixin Lin, Gary Kleinman (2021)
5	PLoS ONE	Q1	“Does the disclosure of key audit matters improve the audit quality for sustainable development: Empirical evidence from China”	Jintian Lin (2023)
6	Qualitative Research in Accounting Management	Q2	“Perceived effects of key audit matters reporting on audit efforts, audit fees, audit quality, and audit report transparency: stakeholders' perspectives”	Khokan Bepari, Shamsun Nahar, and Abu Mollik (2024)
7	Applied Mathematics and Nonlinear Sciences	Q3	“Research on the influence of key audit matters on the audit quality of commercial banks- Evidence from China”	Xiaoyan Wei, Lifang Zhang, Jing Li, Thomas Zhou (2023)
8	JMKSP (Jurnal Manajemen, Kepemimpinan, dan Supervisi Pendidikan)	S3	“Audit Quality and Earning's Management After the Implementation of Key Audit Matters”	Muhammad Fakhri, Fitriany (2024)

No	Journal Name	Journal Ranking	Article Title	Author and Year of Publication
9	Riset Jurnal Akuntansi	S3	“The Effect of Due Professional Care and Key Audit Matters on Audit Quality: The Moderating Role of Work Experience”	Aisha Amaraneyasa, Muhammad Amin (2024)

Based on this table, it is known that there are 7 journals accredited by Scopus, and 2 journals accredited by Sinta. After that, the researcher made a summary of the journal with certain points such as the theory used, research methods, main results/findings, influence on audit quality, and main limitations contained in the related article.

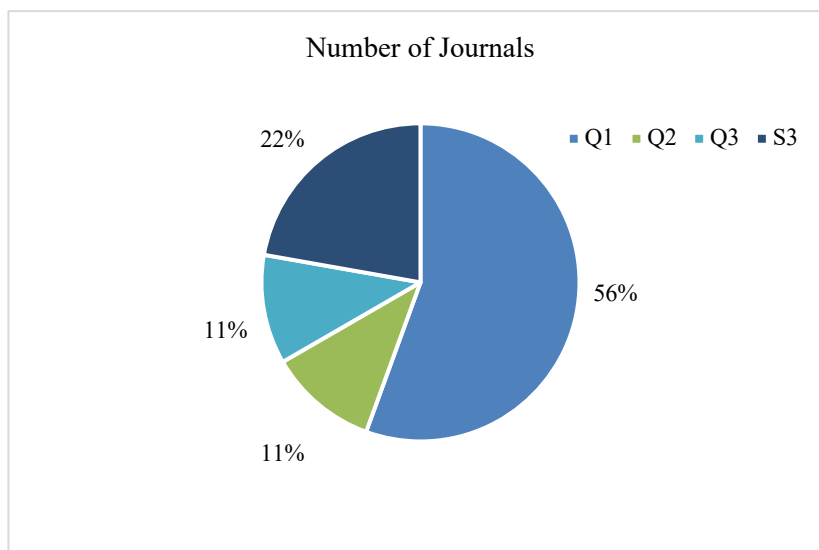


Fig. 2. Distribution of Journal Index

**Table 2.** Summary of Research on Key Audit Matters (KAM)

No	Research Method	Main Results/Findings	Does it Increase Audit Quality	Limitations
1	This study involves empirical investigation through pre-post and variance analysis to assess the impact of KAM rules on audit quality. In addition, this study uses a cross-sectional regression model to analyze the relationship between audit quality and KAM characteristics, such as the number of KAMs reported, reasons for reporting, and textual features.	Results Cross-sectional analysis shows that greater KAM disclosure results in lower earnings quality, higher discretionary accruals, and a greater likelihood of receiving an unclean audit opinion and higher audit fees.	Yes	Disclosure characteristics are subjective and international KAM standards may not be fully effective under China's weak laws.
2	This research uses company annual reports from 2016 to 2019, analyzing 400 company-year observations from 100 companies listed on the Stock Exchange of Thailand (SET). KAM reporting is measured based on the number of words of the KAM paragraph in the audit report, while audit quality is assessed using the Modified Jones Model.	The results show a positive relationship between KAM reporting and audit quality. They highlight the importance of KAM reporting for investors in making informed decisions due to its association with high audit quality.	Yes	The limitations is the small sample size of 100 companies from the Stock Exchange of Thailand and the exclusion of internal audit characteristics such as corporate audit committees. In addition, this study only focuses on external audit characteristics, limiting a comprehensive analysis of audit quality factors. The proxies used for Key Audit Matters (KAM) reporting and audit quality were considered limitations, indicating the need for other measurement tools in future studies.
3	Survey-based research methodology to collect data from auditors in Finland. The survey questionnaire was sent to 1,408 auditors, with 283 responses received, resulting in a response rate of 20.2%. Statistical analysis involved exploratory principal	This study found that auditors in Finland have two dominant views about audits related to Key Audit Issues (KAM): quality and efficiency. While most respondents do not believe KAM improves quality of audit, those who focus on	No	The study's limitations include using a relatively short and new survey instrument to maximize response rates and potentially ignoring important aspects related to KAM reporting that auditors consider significant but need help to

No	Research Method	Main Results/Findings	Does it Increase Audit Quality	Limitations
	components factor analysis (PCFA) and ordinary least squares (OLS) regression analysis using Stata 15 software to analyze the data and understand auditors' perceptions of Key Audit Issues (KAM).	efficiency feel that KAM makes the audit process smoother. Additionally, using KAM facilitates audit effectiveness and collaboration between auditors and managers, balancing value-added demands while managing workload and audit risk. They concluded that KAMs matter to some extent, with KAM-related efficiency positively correlated with effectiveness. However, they are not significantly related to audit quality or selected based on audit risk.		express their views. Another area for improvement is that the survey was collected from one country, Finland, which may not represent a random sample of the global auditor population.
4	This study employs a quasi-natural experiment and a difference-in-differences (DID) approach to examine the effect of Key Audit Matters (KAM) on analyst forecasts. Textual analysis is conducted on both management disclosures and KAM content to evaluate their influence on forecast errors and dispersion. A Tobit DID regression model is utilized to estimate the impact of KAM on forecast errors and dispersion, incorporating various control variables such as the number of analysts, forecast horizon, company losses, return on assets, company size, and others.	This study finds that disclosure of Key Audit Matter (KAM) significantly reduces forecast error and dispersion for companies that disclose KAM compared to companies without such disclosure. KAM disclosures result in increased management disclosure and audit quality, which play an essential role in improving investor information and decision-making processes.	Yes	This research focuses solely on the Chinese market, potentially influenced by unique factors specific to the Chinese economy and financial markets. This study acknowledges the limited role of financial analysts in capital markets due to their incentive structure and potential conflicts of interest, which impact the interpretation of the properties of analysts' forecasts. Enforcement of accounting and auditing regulations may vary across national settings due to cultural and other factors, indicating caution in generalizing results outside the Chinese context.



No	Research Method	Main Results/Findings	Does it Increase Audit Quality	Limitations
5	This research uses the information entropy value of KAM disclosure as a proxy indicator to analyze the relationship between KAM disclosure and audit quality. The equation is used to calculate the entropy value of the information contained in the KAM disclosure in each audit report.	This study finds that KAM disclosure can improve audit quality. With a regression coefficient of 0.1785 at the 1% significance level, the information entropy value of KAM disclosure is used as a proxy indicator, providing new insights compared to previous research.	Yes	Limitations mentioned in this study include commonality in KAM disclosures, limited information value due to the small number of KAM disclosures, and routinization in content descriptions and KAM audit countermeasures, reducing their information value. The research also notes that existing studies often need more cross-year, industry-wide, and extensive sample analysis, limiting the ability to demonstrate the impact of KAM disclosures on audit quality.
6	This research collects data regarding the impact of Key Audit Matters (KAM) reporting on audit efforts, costs, quality and report transparency through in-depth interviews with 21 stakeholders. A semi-structured interview approach was used to provide flexibility in question design while allowing for deeper insight. Thematic analysis was conducted to interpret the responses and relate them to the influence of KAM reporting on various audit-related aspects.	Auditors in Bangladesh experience an increase in audit quality due to KAM reporting. While introducing KAM has increased audit efforts, requiring additional procedures and planning hours, this study also highlights the paradox of transparency in audit reporting, where decoupling strategies can lead to the concealment of material information despite additional disclosures.	Yes	A limitation mentioned in this study is that KAM reporting may need to meet the intended transparency objectives because local institutional factors act as a deterrent to increasing the transparency of audit reports. Auditors in Bangladesh may need help reporting KAMs independently due to pressure from management, potentially leading to compromised disclosures that do not reflect the client's actual risk areas.
7	This study uses multiple linear regression models to predict and test the effects of audit policy changes on capital markets, focusing on the impact of KAM on the audit quality of China's commercial banks. This study involves empirical quantitative analysis and	Research shows that disclosure of Key Audit Matters (KAM) has a significant impact in improving reserves for credit impairment losses at commercial banks. This also contributes to reducing management's opportunities to	Yes	This study's limitations include focusing on Chinese commercial banks only, which limits the generalizability of the findings to broader contexts outside China. Another limitation is the reliance on quantitative data analysis, which

No	Research Method	Main Results/Findings	Does it Increase Audit Quality	Limitations
	regression models to explore the relationship between KAM disclosure and audit quality.	manipulate earnings and improving the quality of the financial information presented. In addition, the level of loan impairment provisions acts as an intermediary factor that supports improving the quality of bank audits in accordance with the new reporting standards.		may ignore qualitative aspects that provide a more comprehensive understanding of the impact of KAM on audit quality.
8	Thematic analysis was employed to examine and interpret data collected through interviews during the research process. In-depth interviews were conducted with practitioners and auditors directly involved in auditing, with a focus on audit quality and revenue management concerning key audit matters. The interview questions were categorized into three main themes: perceptions of KAM, audit quality post-implementation, and perspectives on revenue management.	Effective audit quality practices including the implementation of KAM can increase the reliability of financial reports, detect inappropriate revenue management practices, increase corporate accountability, encourage business sustainability, increase understanding of business risks, and ensure compliance with local regulations.	Yes	A limitation mentioned in this research is the pressure that may arise from clients if auditors develop a certain closeness to company management, which could potentially impact the audit quality.
9	This research uses quantitative research methods. A purposive sampling technique was used to collect data from auditors in Jakarta. Multiple regression analysis was carried out using IBM SPSS 25 to analyze data obtained from questionnaires distributed to public accounting firms.	Professional Care and Key Audit Issues significantly influence Audit Quality, with Work Experience strengthening this relationship. This study uses primary data from 120 auditors in DKI Jakarta, analyzed through multiple regression analysis in IBM SPSS 25.	Yes	The research did not address its limitations.

## 5 Conclusion

The studies above show that disclosure of Key Audit Matters (KAM) generally positively impacts audit quality with various nuances and limitations encountered. Most studies show that disclosure of Key Audit Matters (KAM) improves audit quality. KAM is thought to increase reporting transparency, reduce analyst forecast errors, reduce earnings manipulation, and encourage auditors to make additional efforts, all of which lead to better audit quality. Several studies show that KAM improves audit quality by reducing misinformation and improving loan impairment provisions in banks. However, there are differing views, especially among efficiency-focused auditors who feel that KAM helps in the audit process, but does not significantly improve audit quality.

Research shows that although KAM disclosure can improve audit quality, there are issues related to transparency, subjective interpretation, and potential conflicts of interest. Some studies note that KAM may not always be effective in local contexts or under weak monitoring standards. Findings also indicate that local context plays an important role. For example, in Bangladesh, local institutional factors may influence the effectiveness of KAM transparency, while in China, analysis focusing on the role of financial analysts and local regulations suggests a positive KAM impact but is limited by local market structure.

This research has significant limitations, namely that there still needs to be more research discussing Key Audit Matters (KAM). This limitation shows that researchers in Indonesia still need to inquire the study of Key Audit Matters (KAM) in depth. Therefore, future researchers are expected to conduct further research on this topic. Considering this research can provide new insights into improving audit practices and standards.

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