

Disclosure Of Key Audit Matters Concerning Audit Quality And Audit Delay On The Indonesia Stock Exchange

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Abstract

This study aims to examine the effect of implementing Key Audit Matters (KAM) on audit quality and auditor independence in companies within the primary and non-primary sectors listed on the Indonesia Stock Exchange (IDX) throughout 2023. Purposive sampling was used to select samples, with 82 companies from the primary and non-primary sectors chosen as the research sample. Data analysis was conducted using the linear regression method, where audit quality was measured using the audit report lag and analyzed through descriptive statistical tests, model tests, and classical assumptions tests, such as normality and multicollinearity tests, with the assistance of Eviews 12 software. Meanwhile, audit delay was evaluated through various statistical tests, including multiple linear regression.

Keywords: Key Audit Matters, Audit Quality, and Audit Delay

INTRODUCTION

The audit report an important role in financial statements. According to (Kumaunang, Salim, and Sumartono 2024), this report provides deeper insights into the assessment of audit clients (Laksmi, Ariwangsa, and Trisna 2023). Several recent studies indicate that although accounting reporting standards have been revised and expanded, including the use of standard information as well as discussions about the duties and responsibilities of auditors, this is still not enough to reduce the expectation gap in audit evaluations. (Kumaunang, Salim, and Sumartono 2024).



Audit reports that require greater disclosure aim to enhance their significance (Laksmi, Ariwangsa, and Trisna 2023). Although new auditors are not burdened much by mandatory audit performance, Key Audit Matters (KAM) are specific disclosures, and auditors have the freedom to assess according to their professional standards. This is stipulated in the International Standard on Auditing (ISA) 701 and (IAASB, 2016): “Auditors must identify KAM explain why they are KAM, and say something about how the KAM were addressed.” The audit report aims to present clearer and more transparent information regarding certain audit processes and their results (Kohler et al., 2016), as mentioned by the External Reporting Board (XRB) in 2017. Although KAM reporting can provide benefits, there are concerns regarding potential negative impacts. For example, auditors may have excessive discretion, reports may become too general and the risk of confidentiality breaches between auditors and clients may increase (Segal, 2017). Hopper, Lassou, and Soobaroyen (2017) stated that the implementation of the International Standard on Auditing (ISA) in developing countries often becomes a subject of debate and raises doubts regarding the level of compliance. Considering the efficiency of capital markets, the level of investor sophistication, the active role of regulators, and the legal system, various important considerations arise. Abdullatif (2016) and Khan, Bradul Muttakin, & Siddiqui (2015) highlighted issues related to audit quality in developing countries. These include ineffective corporate governance, the weak position of minority shareholders, and the dominance of family businesses, which often contribute to lower demand for audit quality and reduced audit expenditures. In this context, compliance with new audit standards may be limited, particularly those standards involving a certain level of auditor judgment (such as ISA 701). Haapamaki and Sihvonen (2019) found that a lack of harmonization in audit reporting across different countries leads to information asymmetry and reduces confidence in the information presented. This potentially exacerbates the issue of heterogeneous audit reports, especially in KAM phrasing that does not conform to standards. This issue may arise more frequently in developing countries due to the aforementioned factors.

The Independent Auditor’s Report (IAR) plays an important role for users of financial statements, as it contains information that serves as the basis for decision-making processes. The IAR also functions as the sole communication channel between the auditor and the users of financial statements. The IAR provides an assessment of



whether the data presented in the financial statements, prepared by the company and audited by the auditor, have been presented accurately or not (Dogan & Arefaine, 2017).

Auditor independence is a crucial attitude in auditing, providing results and delivering opinions without pressure from the client, which is expected to improve audit quality (Natsir et al., 2023). This independent attitude is expected to bridge the interests of financial statement users and those who prepare financial statements. The Independent Auditor's Report (IAR) is prepared based on standards before the revision of SA 700 and SA 701, following a standard format that includes an introduction, audit scope, management and auditor responsibilities, and the auditor's opinion. However, the IAR is often considered unengaging, except for the opinion section, and usually takes only a short time to read. Various criticisms have emerged from financial statement users who feel that the current IAR is still not informative enough and does not provide a sufficiently engaging overview of the auditor's opinion (Natsir et al., 2023).

THEORETICAL INSIGHT

Agency Theory

A study by Eisenhardt (2018) outlines agency theory, which views the contractual relationship between the party granting authority, known as the "principal," and the entity receiving the task, referred to as the "agent." In this study, Eisenhardt reveals that agency conflict occurs when there are differences in objectives between the principal and the agent, and when the principal cannot ensure whether the agent has fulfilled their responsibilities according to the agreed-upon terms. When the agent engages in moral hazard or makes decisions contrary to the principal's objectives, Eisenhardt suggests that the principal can improve the information system or include expected outcomes in a results-based contract.

Key Audit Matters.

A study by IAASB (2015) emphasizes that Key Audit Matters (KAM) are aspects considered most crucial by the auditor based on their professional judgment during the audit of financial statements for the current period. The regulation regarding KAM is found in ISA 701, which addresses the communication of KAM in the independent auditor's report and is fully adopted by INTOSAI through ISSAI 1701. Additionally, INTOSAI has issued a practice note that serves as supplementary guidance for the application of ISA

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IJEBIR, Volume 03 Issue 06, 2024



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701 in the public sector, indicating that auditors in this sector may need to communicate KAM, such as the significance of government regulations on the economy and the substantial impact of government decisions and policies on the communities they serve (INTOSAI, 2015).

The communication of KAM in the audit report, as mentioned by IAASB (2015), aims to improve communication and transparency in the audit process, provide additional information, and assist users of the report in understanding the critical judgments and assumptions in the financial statements. However, KAM does not serve as a substitute for disclosures already present in the financial statements. Auditors also do not use KAM to express a modified opinion, disclose events or conditions that may raise substantial uncertainty about the entity's ability to continue as a going concern or provide a separate opinion on specific issues.

Audit Opinion

According to (Sinaga and Gonawan 2023), the audit report or audit opinion is the official means used by auditors to convey a conclusion regarding the financial statements that have been audited to stakeholders. The auditor's opinion is crucial for investors who require information from audited financial statements. (Arif and Hikmah 2023)

Financial Audit Process

According to (Rachma et al. 2021) the audit process is divided into several stages, including audit planning, which involves performing risk assessments, testing controls, and conducting substantive testing on transactions. Additionally, the auditor performs substantive analytical procedures and detailed testing of balances, concluding with the audit completion stage and the preparation of the auditor's report.

In the initial phase of the audit, the auditor strives to thoroughly understand the client. According to Arens et al. (2017, p. 429), the first step in the entire audit process is to recognize the client's business and industry sector, perform a preliminary analysis of the financial statements, establish initial materiality, and evaluate various risks, including reporting error risk, internal control risk, and inherent risk. This phase, known as the initial audit planning, aims to produce a comprehensive audit strategy and plan, as well as a more detailed audit program for conducting the audit.



In the second phase, the auditor performs tests to assess the effectiveness of the company's internal controls and conducts substantive testing of transactions. This stage aims to gather the necessary evidence for evaluating control risk. Additionally, during this stage, the auditor examines the accuracy of transactions, such as sales transactions (Arens et al., 2017).

The third and final phase in the audit process is the completion phase. In this phase, the auditor assesses and reviews all the tests that have been conducted to ensure compliance with applicable audit standards. The objective of the audit completion stage is to produce an audit report that reflects the auditor's view on the fairness of the financial statements, based on the audit evidence collected and analyzed. Before the audit report is released, the auditor typically presents the audit findings to the audit committee or company management. Additionally, during the audit completion stage, the auditor refers to the guidelines in ISA 701 to prepare and communicate their opinion regarding the audit report. (Arens et al., 2017).

RESEARCH METHODS

Type of Research

This study adopts a quantitative approach, aimed at exploring a specific population or sample. Data analysis is conducted quantitatively and is measurable, allowing for hypothesis testing. Additionally, the data is analyzed using the multiple linear regression analysis method.

Population and Sample

In this study, the data population consists of 52 companies from the primary and non-primary sectors listed on the Indonesia Stock Exchange (IDX) in 2023. The sampling process was conducted using a purposive sampling method, where the sample was selected based on criteria set by the researcher. From these criteria, 34 companies met the requirements to be included as the sample, with the following details.

Table 1. Sample of Companies

Number	Description	Total
1	Primary and Non-Primary Consumers on the IDX in 2023	82



2	Does not include the number of key audit matters.	(14)
3	This does not include the cost of audit services	(10)
4	This does not include the financial statements for 2023	(20)
	Amount Analyzed	52

Data Collection Method

The approach used for data collection in this study is the documentation technique. To gather this data, annual financial reports from companies in the primary and non-primary consumer sectors for the year 2023 that have been audited by independent auditors were compiled. These financial reports were obtained from the official website (Indonesia Stock Exchange, 2023) as well as from the official websites of the respective companies.

DISCUSSION

Descriptive statistics serve to explain the characteristics of the variables studied in numerical form, including the lowest value, highest value, mean, and standard deviation. The results of this statistical analysis are shown in the table below:

Table 2. Descriptive Statistics Data

Mean	87.12506	1.689867	0.785683	19.41783
Median	72.00000	2.000000	1.000000	19.42148
Maximun	192.0000	4.000000	1.000000	21.12632
	A. DELAY	KAMS	OP	KU
Minimum	46.00000	2.000000	0.000000	14.42488
Standard Curves.	24.52214	1.162463	0.145314	0.662764
Slope of Curves.	6.461969	1.933154	-2.605697	-0.462242
Sharpness of Curves	24. 08264	6.566622	3.260208	4.4543253
Normality	408. 4257	42.63624	112.5227	3.234203
Probability	0.000000	0.000001	0.000000	0.557550
Total	3303. 000	58.00000	31.000000	694.1760



Deviation	68437.42	44.06442	3.824482	44.28847
Observations	52	52	52	52

Based on the analysis results in the table above, it was found that the key audit matters variable has a minimum value of 2.000 and a maximum value of 4.000, with a mean of 1.689 and a standard deviation of 1.162. For the audit quality variable, the minimum recorded value is 0.000 and the maximum value is 1.000, with a mean of 0.785 and a standard deviation of 0.145. Meanwhile, the audit quality variable has a minimum value of 14.424 and a maximum value of 21.126, with a mean of 19.417 and a standard deviation of 0.667. On the other hand, the audit delay variable has a minimum audit value of 46 and a maximum value of 192, with a mean of 87.125 and a standard deviation of 24.522.

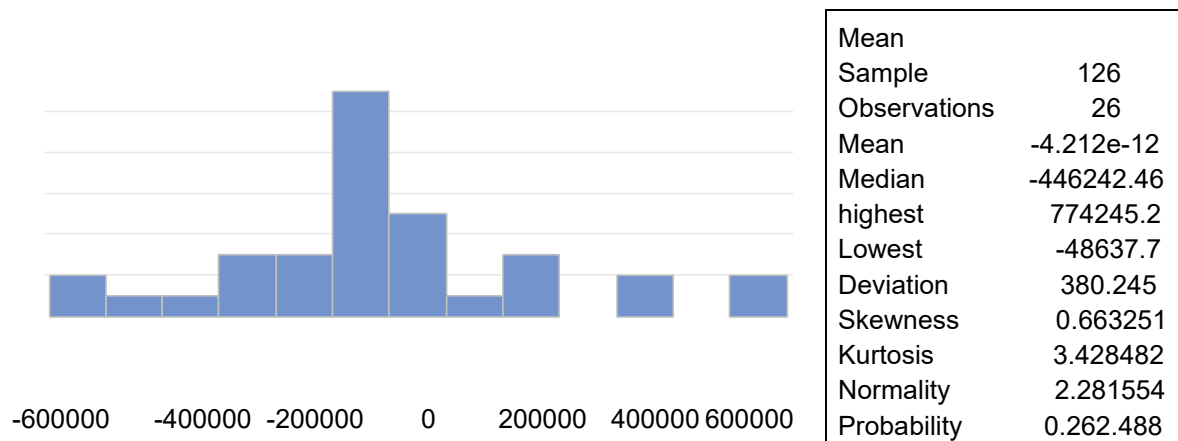
Classical Assumption Test

Classical assumption testing, according to (Khotimah 2017), is intended to ensure that the obtained regression is valid and does not violate basic assumptions, such as linearity, absence of autocorrelation, homoscedasticity, and absence of multicollinearity.

Normality Test

Normality testing is used to determine whether the data distribution of the research variables follows a normal distribution or not, based on the normality probability value, which should be greater than 0.05. The results of the normality testing in this study are presented below.





The normality test in the study showed a probability value of 0.26. Since the significance value is greater than 0.04, this indicates that the residuals follow a normal distribution.

Multicollinearity Test

The multicollinearity test aims to identify whether there is a correlation between independent variables in a regression model, with the criteria being a correlation value > 0.7. Based on the regression test results, the values of each variable can be seen in the table below.

Table 3. Multicollinearity Test Results

	KAMS	OP	KU
KAMS	1.000000	0.0724682	-0.124440
OP	0.07464882	2.000000	-0.214866
KU	-0.117770	-0.3142488	2.000000

Source: Processed Data (2024)

Based on the table above, it can be seen that the correlation value

Multiple Linear Regression

Multiple linear regression is used to evaluate the relationship between several variables simultaneously, as well as to determine how the independent variables affect



the dependent variable. The results of the multiple linear regression analysis can be found in the table below:

Table 4. Results of Multiple Linear Regression

Variable	koefisien	Std. Error	t-Statistik	Probability.
C	320.4564	125.0460	1.828255	0.0452
KAMS	9.860466	6.628488	1.64734	0.0423
OP	-75.19220	20.84646	-3.688282	0.0012
KU	-3.426278	4.0034878	-0.43442	0.2182

Source: Processed Data (2024)

Referring to the table below, the equation is based on the multiple regression analysis applied in this study: $Y = 320,4564 + 9,860466X_1 - 75,19220X_2 - 3,426278X_3 + e$

Table 5. Results of the Coefficient of Determination

Coefficient of Determination	0.56494	Mean of Dependent Variable	98.28709
Adjusted Coefficient of Determination	0.285714	S.D. of Dependent Variable	43.84102
Regression Standard Deviation	34.62302	Information Criterion	6.645527
The sum of Squared Residuals	34.474.24	Schwarz Criterion	7.11732
Logarithm	-132.9417	Hannan Quinn Criterion	6.664644
Statistics	4.424664	Durbin – Watson Criterion	1.402044
Probability	0.004245		

Hypothesis Testing (T-Test)

Hypothesis testing was conducted using the t-statistic test to evaluate the impact of the independent variables, namely Key Audit Matters (X1), Audit Opinion (X2), and Audit Quality (X3), on variations in the dependent variable, Audit Delay (Y). In this test, if the probability value ($\alpha = 4\%$) is less than 0.04, the null hypothesis (H_0) is accepted. This



indicates that, individually, the independent variables do not significantly contribute to the dependent variable.

Based on the information presented in Table 4, the Key Audit Matters variable recorded a positive regression coefficient of 9.860, indicating a positive impact. However, the significance value obtained is 0.042, which is greater than 0.021, so the null hypothesis (H0) is accepted, and H1 is not supported. For the audit opinion variable, a negative regression coefficient of -75.19920 indicates a negative influence, with a significance value of 0.0012, which is less than 0.02; therefore, H0 is rejected, and H2 is accepted. Meanwhile, for the audit quality variable, the coefficient obtained is 3.426278, indicating a negative effect, but the significance value of 0.5192 is greater than 0.04; thus, H0 is accepted, and H3 is rejected.

CONCLUSION

Based on the findings and explanations presented in the previous chapter, it can be concluded that:

1. Key Audit Matters do not have a significant impact on audit delay. The inclusion of Key Audit Matters in the audit report influences the duration of the audit process.
2. Audit Opinion has an impact on audit delay. Companies that receive an unmodified opinion tend to publish their financial statements earlier.
3. Audit quality significantly affects audit delay, which in turn does not impact audit delay.

Research Limitation

The limitation of this study is that the observation period lasted only 6 months. It is recommended for future researchers to consider a longer observation period and to include additional variables.

Research Benefits

This study's benefits include enhancing knowledge in the field of accounting. Additionally, audit quality significantly influences the disclosure of key audit matters in audit delay.



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