The Nexus of Auditor, Firm Characteristics and Governance in Influencing Key Audit Matters: A Study of Financial Firms in Indonesia

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ABSTRACT

This study explored the determinants of Key Audit Matters (KAMs) within the financial sector of Indonesia, an emerging market characterized by distinctive socio-economic and cultural dynamics. It examined the impact of auditor characteristics, firm attributes, and corporate governance mechanisms on KAM disclosures, particularly in the wake of the recent incorporation of International Standard on Auditing 701 (ISA 701) into Indonesian audit practices. The study employed a comprehensive approach, utilizing statistical techniques such as correlation analysis, Ordinary Least Squares (OLS) regression, and descriptive analysis validated by Mann-Whitney test. Drawing upon an exclusive dataset of financial firm observations in 2022—the first period when KAM disclosures were required—the research investigated the associations between KAM disclosures and various risk factors based on firm risk, auditor, and governance characteristics. The findings showed that while Big 4 affiliation, audit fees, and female auditors significantly predicted KAM disclosures, firm risks such as solvency, profitability, liquidity, and cost efficiency also emerged as critical. Surprisingly, governance characteristics showed no significant bearing on KAM disclosures, which underscored the dominance of auditor and firm risk attributes in shaping KAM disclosures within the regulated, scrutinized Indonesian financial sector.

Keywords: Key Audit Matters, Indonesia, Auditor Reporting, Governance, Financial Sector

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INTRODUCTION

Audit reports, ensuring financial transparency and accountability, build trust between companies and stakeholders (Coates & Srinivasan, 2014). They must be clear and relevant due to the 'expectation gap'—the disparity between stakeholder expectations and auditor findings (IAASB, 2011). Addressing this agency dilemma led to revisions in audit reporting, including the introduction of Key Audit Matters (KAMs) as per ISA 701, recently adopted in Indonesia (IAPI, 2021).

External auditors' risk assessments are key in audit reporting, particularly for KAM disclosures. They weigh legal and reputational risks against client loss (Pinto & Morais, 2019). KAM disclosures reduce auditors' legal risks and safeguard their reputation (Brasel et al., 2016; Coram & Wang, 2021; Kachelmeier, 2014, 2020). However, auditors' negotiations on KAMs are influenced by power dynamics with clients, with larger firms having more leverage in fee negotiations, reflecting reporting risks and audit quality.

The introduction of ISA 701 in Indonesia, contrasting with KAM research focused on developed markets, addresses the research gap in the Indonesian financial sector. This study explored the impact of auditor traits, company characteristics, and governance mechanisms on KAM disclosures in Indonesia's complex market and ownership landscape. The adoption of ISA 701 marks a critical juncture in Indonesian auditing (IAPI, 2021), relevant against the backdrop of ongoing corporate fraud (Guild, 2021; Soepriyanto et al., 2021). The novelty of the inaugural implementation of KAM in Indonesia in 2022 is particularly significant within the financial sector, which operates under distinct regulations and heightened scrutiny (Otoritas Jasa Keuangan, 2004; Kementerian Keuangan, 2023), distinguishing it from other industries. Non-compliance with these regulations can result in sanctions and financial penalties. The most recent of these is Law No. 4/2023 (Kementerian Keuangan, 2023), which consolidates various financial regulations from previous years, aiming to strengthen protections for the financial and capital markets.

Our study in the financial sector's inaugural year under the new standard revealed key insights. Big 4 affiliated firms (BIG4), audit fees, and female auditors significantly predicted KAM disclosure, in support of KAM studies on these factors (Abdelfattah et al., 2021; Al Lawati & Hussainey, 2022; Hussin et al., 2022; Mah'd & Mardini, 2022; Murphy et al., 2023; Pinto & Morais, 2019). Firm risks, including solvency, profitability, liquidity, and cost efficiency, were also influential, underscoring the sector's unique post-pandemic recovery challenges. Our investigation on this characteristic offered varying findings compared to other KAM studies, which dominantly investigated mixed sectors (Al Lawati & Hussainey, 2022; Hussin et al., 2022; Mah'd & Mardini, 2022; Murphy et al., 2023; Sierra-García et al., 2019; Pinto & Morais, 2019; Rahaman et al., 2022; Wuttichindanon & Issarawornrawanich, 2020). However, our findings on governance characteristics showed no significant impact, suggesting a shift in risk focus due to the financial sector's regulated nature. Our study showed different results from other KAM studies on these factors (Al Lawati & Hussainey, 2022; Murphy et al., 2023; Rahaman et al., 2022; Wuttichindanon & Issarawornrawanich (2020). Additional descriptive statistics provided deeper insights into KAM disclosures and their determinants.

As one of the first studies to focus on KAM disclosures in Indonesia's emerging market, this research offers valuable insights into KAM within a unique socio-economic and cultural context. It provides stakeholders with an early understanding of the factors influencing KAM disclosures, shedding light on key determinants in this newly implemented reporting standard.

The findings suggested BIG4 and female auditors enhanced critical risk evaluation in KAM disclosures. The identified firm risk characteristics offers financial firms' insights into auditor concerns, influencing stakeholder perceptions.

LITERATURE REVIEW, INSTITUTIONAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

Key Audit Matters

Based on the Agency Theory, financial reports serve to inform shareholders of the wellbeing of their company, and an instrument to reduce information asymmetry (Jensen & Meckling, 1976). To further guarantee this asymmetry as minimal as possible, audits are required to ascertain the reports' transparency, executed by an independent agent, the auditors. Corporate reporting is now more complex as principals are expanded to include various stakeholders (Freeman 1984), which are diverse in nature and heavily rely on the improved communication value of these audit reports (Porter, 1993). The differences of interests, perspectives, and expectations from these diverse stakeholders result in 'expectation gap', the discrepancy between users' expectations and the actual audit scope (IAASB, 2011), which undermines stakeholder confidence (Akther & Xu, 2020) and represents a classic agency problem (Litjens et al., 2015). The revised format aims to improve communication and information distribution (Church et al., 2008), but initial studies investigating the effectiveness of this pre-ISA701 format have shown mixed results (Church et al., 2008; Coram et al., 2011; Mock et al., 2013), This lack of consensus likely influenced IAASB's update of the audit format with the inclusion of KAM in newer standards (IAASB, 2015).

Research findings that KAM reduce litigation risks for auditors (Brasel et al., 2016; Brown et al., 2020) and KAM's use as auditors' disclaimers (Coram & Wang, 2021; Kachelmeier et al., 2014) suggested that KAM disclosures might reduce auditor liability and disappointment in audit reports, although this is dependent on accounting standards (Gimbar et al., 2016). KAM's effectiveness in bridging the expectation gap is debated, as it may widen the gap (Coram & Wang, 2021) and varies among investor types (Köhler et al., 2020), requiring deep understanding to benefit from expanded reports (Coram & Wang, 2021; Köhler et al., 2020). While KAM aims to reduce information asymmetry and improve financial report transparency and quality, its effectiveness varies across markets and stakeholders. This indicates diverse perceptions of KAM, underscoring the need for context-specific research.

KAM is a new addition to the standard of audit reporting in Indonesia. The new standard, SA 701, is effectively applicable to audits of financial statements for periods beginning on or after January 1, 2022 (IAPI 2021). The implementation of this new standard emerged following a series of consecutive fraud cases that afflicted various companies in Indonesia (Soepriyanto et al, 2021). This timing suggests that regulatory bodies may have introduced KAM as a tool to address corporate misconduct and strengthen the integrity of financial reporting in the country.

Institutional and Contextual Background

Universally, the financial sector plays an indispensable role in fostering economic development, as leverage for business growth, investments, and savings, keys to foward economic activities. As such, this sector is subject to rigorous oversight to ensure long-term sustainability and protection of stakeholders (Otoritas Jasa Keuangan, 2004). The 104-strong Indonesia's financial service firms are the 3rd-largest sector in 2022, underlining their significance in the economic landscape. This importance likely pushed regulators to implement the new standard (IAPI, 2021), marking a shift in audit reporting (Pratama, 2023), and coincided with the continuous trend of fraud cases affecting various Indonesian firms (Soepriyanto et al, 2021).

Indonesia boasts one of Southeast Asia's largest capital markets, with a market capitalization reaching US$756.742 billion by December 2023 (CEIC Data, 2023). Corporate ownership in Indonesia is less diverse (Claessens & Fan, 2003; Klapper & Love, 2004), composed of domestic (including state-owned enterprises), domestic with foreign intermediaries, and foreign firms (Utama et al., 2017). Despite a recent increase in foreign investment (Utama et al., 2017), ownership diversity still lags behind advanced economies. The socio-economic landscape in Indonesia is profoundly shaped by Javanese norms, which permeate bureaucracy (Irmawan et al., 2013), often resulting in stark power imbalances. Indonesia's financial ecosystem is also distinctive due to the integration of Sharia financing within its banking subsectors. These cultural features shape stakeholder power dynamics, quietly but potentially affecting audit fee negotiations and auditor risk reporting.

Hypotheses Development

Based on the common theme of characteristics on identified factors of KAM from previous studies, we categorized these factors into three characteristics, which are firm risks, auditor characteristics, and corporate governance of the firms. As this is the beginning of ISA701 implementation that includes KAM in Indonesia, we took a more explorative approach on the investigation of these factors and state all 15 hypotheses in default null hypotheses. This approach leveraged the unique context of Indonesia and focused specifically on financial firms, providing a nuanced understanding of how these factors interact in this setting. We placed importance on this approach as KAM studies in Indonesia was minimal and needing a revisit of the common factors against the backdrop of this specific context and sector.

Firm risks

In our review, we identified solvency, profitability, liquidity, and efficiency as indicators of firm risks likely considered by external auditors when disclosing KAMs. The context of the financial sector was also an important encompassing factor, as thick scrutiny and regulations give less room for high risks. Additionally, we recognized other critical determinants, specifically firm size, complexity, and ownership structure, as potential predictors of KAM disclosures. The explorative nature of this study on the early onset of KAM implementations offered an opportunity to revisit these common factors on the backdrop of context specificities of Indonesia's unique regulatory and economic climate and the rigidity of the financial sector.

Solvency signals long-term financial outlook and measure a company's ability to fulfill their obligations. Highly solvent firms afford them to continue their operations and develop sustainable relationships with stakeholders (Batrancea, 2021). Mismanaging solvency risk puts mature enterprises at a danger of default (Attaoui & Poncet, 2013). While a proxy for solvency, debt to equity ratio also indicates financial leverage. In this setting, increasing leverage increases financial risk and audit-related litigation, and consequently auditors reveal more KAMs as a precaution (Pinto & Morais, 2019). However, leverage can boost performance in financial services and banks (Mallinguh et al., 2020) since firms have more funds to manage. Previous studies on the effects of this factor on risk reporting such as KAM have been mixed (Dusadeedumkoeng et al., 2023; Hussin et al., 2022; Mah'd & Mardini, 2022; Murphy et al., 2023; Pinto & Morais, 2019; Sierra-García et al., 2019; Wuttichindanon & Issarawornrawanich, 2020), with one specific focus on financial sector showing no effect (Al Lawati & Hussainey, 2022). We thus proposed the first hypothesis (stated in null hypothesis):

H1: Solvency does not affect KAM in Indonesia.

Profitability serves as a critical determinant of firm performance (Rao et al., 2023; Tanin et al., 2021). Company profitability is linked to a better outlook, which reduces auditor litigation risks (Beasley et al., 1999). Based to this, Pinto and Morais (2019) found that auditors issue less KAMs to profitable organizations. This is confirmed by various studies (Hussin et al., 2022; Pinto & Morais, 2019; Wuttichindanon & Issarawornrawanich, 2020). However, more profitable companies – often more willing to undertake risks (Al-Qudah & Laham, 2013), have higher systematic risks (Wiyono & Mardijuwono, 2020). Profitability was also linked to higher KAM disclosure in the Middle East (Al Lawati & Hussainey, 2022). Additionally, other investigations showed no effect from profitability (Dusadeedumkoeng et al., 2023; Murphy et al., 2023; Rahaman et al., 2022; Sierra-García et al., 2019). We proposed the following hypothesis:

H2: Profitability does not affect KAMs in Indonesia.

Above-average-liquidity firms tend to overlook solvency as a factor of long-term failure (Altman, 1968). However, long-term maintenance of high liquidity has a detrimental effect on profitability (Siddique et al., 2021). As it pertains to short-term financial health, liquidity presents a direct risk to firm's operations. Lower liquidity firms have elevated chance of experiencing financial failures (Li, 2024), while high liquidity is linked to higher financial performance in commercial banks (Siddique et al., 2021). Simunic (1980) recognized liquidity as factor for auditors to determine audit fees. Research into audit fee premiums has shown that auditors consider liquidity risks significant (Van Caneghem, 2010). This implies that heightened liquidity risks lead to more KAM disclosures. However, liquidity does not determine KAMs alone. Auditors also assess additional risks and circumstances that could reduce liquidity's importance. For example, when the company is facing higher borrowing costs, liquidity becomes a positive factor on their cost of debt (Tanin et al., 2024). We formulated our third null hypothesis:

H3: Liquidity does not affect KAMs in Indonesia.

Operating expense ratio predicts business performance pre- and post-pandemic (Susanti et al., 2023) and positively influenced financial performances of commercial banks (Siddique et al., 2021). This measure, called 'beban operasional terhadap pendapatan operasional' in Indonesia, is a standard performance measure in banking (Otoritas Jasa Keuangan, 2004) and the rest of the financial sector as it compares operational expenses to operational revenue. As efficiency influences profitability and long-term corporate perspective (Beasley et al., 1999), auditors should expect less litigation risks and KAM disclosure. However, this does not account for other risks. We stated our fourth null hypothesis as follows:

H4: Firm operating efficiency does not affect KAMs in Indonesia.

Firm size correlates with risk information quantity (Linsley & Shrives, 2006) and the likelihood of legal action (Kim & Skinner, 2012), leading larger firms to have more KAMs disclosed due to higher risks. Firm size also had an adverse effect on cost of debt in times of great financial crisis (Tanin et al., 2024). However, their greater bargaining power over audit fees (Huang et al., 2007) may influence auditors to reduce KAM disclosures. In Indonesia's unique context, auditors might conform to larger clients' demands. Additionally, studies are not in concensus on the effect of firm size on KAM disclosure (Al Lawati & Hussainey, 2022; Dusadeedumkoeng et al., 2023; Hussin et al., 2022;; Murphy et al., 2023; Pinto & Morais, 2019; Rahaman et al., 2022; Sierra-García et al., 2019; Wuttichindanon & Issarawornrawanich, 2020). Thus, our fifth hypothesis was presented as a null hypothesis:

H5: Firm size does not affect KAMs in Indonesia.

Higher complexity in companies often leads to increased risks and have greater propensity for earnings manipulation due to agency issues, necessitating KAM disclosures (Pinto & Morais, 2019). Large and complex clients also tend to have more risky items to disclose (Hussin et al., 2022). However, auditors' judgment plays a crucial role in assessing if complexity is significant enough to warrant KAM disclosure. Findings of other studies are divided into two camps, one showing negative or no effect in developed contexts (Murphy et al., 2023; Sierra-García et al., 2019), the other showing positive effect in emerging contexts (Hussin et al., 2022; Pinto & Morais, 2019; Wuttichindanon & Issarawornrawanich, 2020). Our sixth null hypothesis was presented as follows:

H6: Firm complexities do not affect KAMs in Indonesia.

Indonesian state-controlled companies are regulated by the capital market and the Ministry of State-Owned Enterprises, enforces corporate governance rules. This suggests stronger governance practices (Utama et al., 2017), often associated with less financial distress (Lee & Yeh, 2004). However, recent scandals involving state-owned firms challenge this, raising questions about their governance effectiveness (Guild, 2021). Indeed, board effectiveness in state-owned enterprises is linked to economic freedom, political democracy, and protection of minority shareholders, which all are tied to contextual uniqueness (Shaat et al., 2023). Thus, we proposed our seventh null hypothesis:

H7: State ownership does not affect KAMs in Indonesia.

Foreign-owned companies positively impact corporate governance, reducing financial difficulties and future stock price volatility, thus lowering investment risks (Lee & Yeh, 2004; Utama et al., 2017; Wang, 2013). More current studies still suggest this tendency of better corporate governance (Cervo et al., 2023). However, this decreased risk does not eliminate all KAM risks. Foreign investors vary in risk tolerance (Le, 2020), and local factors significantly attract foreign investment in developing countries (Paul & Jadhav, 2020). Lack of these factors can mitigate foreign ownership's effect on KAM. Therefore, we established our eighth null hypothesis as follows:

H8: Foreign control does not affect KAMs in Indonesia.

Auditor characteristics

BIG4s are believed to offer higher audit quality, enhancing financial statement reliability (DeFond & Zhang, 2014). They issue more KAMs as a risk mitigation strategy against reputational risks, aided by their extensive knowledge and resources. Conversely, larger, established companies, which often prefer BIG4 auditors (Ireland & Lennox, 2002), tend to receive fewer KAMs due to lower risk and external pressures, revealing a bias in the correlation between audit firm size and KAMs issued. Further, previous studies have shown mixed results on the effect of Big 4 audit firms on KAM disclosure (Dusadeedumkoeng et al., 2023; Hussin et al., 2022; Mah'd & Mardini, 2022; Wuttichindanon & Issarawornrawanich, 2020), while KAM study specific to financial firms have shown negative effects (Al Lawati & Hussainey, 2022). Accordingly, our ninth null hypothesis was proposed as follows:

H9: Big 4 audit firms do not affect KAMs in Indonesia.

Mattar et al. (2023) observed a positive market reaction following announcements of transitions to BIG4 auditors, indicating investors see reduced risks in companies audited by BIG4s. However, perceptions of risk vary among audit firms, with BIG4s showing greater risk awareness, as evidenced by KAM research from Mah'd and Mardini (2022) and Wuttichindanon and Issarawornrawanich (2020). Conversely, some companies chose less reputable auditors to hide financial issues (Joceline & Soepriyanto, 2023), potentially leading to fewer KAMs to obtain favorable audit reports. Based on this, we formulated our tenth null hypothesis as follows:

H10: The change in audit firm does not affect KAMs in Indonesia.

Audit fees correlate with risks posed by clients (Murphy et al., 2023). Audit fee is a reflection of an audit's scale, complexity, and also includes risk premium (Bedard & Johnstone, 2004; Bell et al., 2001; Houston et al., 2005). As a risk disclosure, KAM relates to audit fee, and the findings on this relationship, while not homogenous, none are negative (Hussin et al., 2022; Mah'd & Mardini, 2022; Murphy et al., 2023; Pinto & Morais, 2019; Rahaman et al., 2022; Sierra-García et al., 2019). In Indonesia, corporate ownership is more homogeneous than in developed markets, with dominant control by government and family-owned conglomerates (Claessens & Fan, 2003; Klapper & Love, 2004). These powerful stakeholders often have more influence over auditors. The socio-economic environment in Indonesia significantly influences auditor-client relationships, suggesting power dynamics may more strongly affect audit fees than risk levels. Accordingly, our eleventh null hypothesis was proposed as follows:

H11: Audit fee does not affect KAMs in Indonesia.

Women are perceived to be more perceptive in business decision-making than men (Miller & Ubeda, 2012), and gender influences negotiation behaviors and audit quality (Dobrijević, 2014; Hardies et al., 2010). In UK, female auditors disclose more KAMs with greater detail (Abdelfattah et al., 2021), yet in Thailand, auditor gender shows no significant effect on KAM quantity (Wuttichindanon & Issarawornrawanich, 2020), suggesting that perceptions of women's risk aversion may be more stereotype-based than empirical (Nelson, 2015). Based on these diverse findings, we formulated our 12th hypothesis as follows:

H12: Female auditors do not affect KAMs in Indonesia.

Firm's governance characteristics

A U.S. study by Agrawal & Chadha (2005) found no significant link between the inclusion of independent directors and a reduction in financial restatements, a driver of risk reporting. This is supported by a KAM study in an emerging context (Rahaman et al., 2022). In slightly different tone, concentrated-governed firms often found in Indonesia require higher board independence to maintain accounting conservatism (Nguyen et al., 2023). In contrast, another similar context by Wuttichindanon & Issarawornrawanich (2020) observed a positive relationship between independent directors and increased KAM disclosure. The latter seem to be in support of risk-seeking hypothesis as board independence positively influence stock return volatility, failed to drive down risk and subsequently risk disclosures (Doku et al., 2023). These findings led to our proposed 13th null hypothesis.

H13: Number of independent commissioners does not affect KAMs in Indonesia.

Audit committee (AC) size has a positive correlation with earnings management levels (Kateb, 2023). Bepari (2023) identified AC size as a factor influencing KAM disclosure, paralleling Alshirah et al.'s (2021) findings of AC size's positive impact on risk disclosure in Jordan. In another study investigating firm performance, AC size negatively contributed to lower profitability (Ahmed et al., 2024). In Indonesia, due to uniform AC sizes under Peraturan Otoritas Jasa Keuangan No. 55/POJK.04/2015 (Otoritas Jasa Keuangan, 2015), as shown in our descriptive analysis, effect on KAM may be minimal. Furthermore, smaller AC size but with more independent members enhances stability in commercial banks rather than larger AC (Nguyen 2022). Contextual differences also contribute to the variance of findings (Al Lawati & Hussainey, 2022; Rahaman et al., 2022). Therefore, we offered our null hypothesis as follows:

H14: Audit committee size does not affect KAMs in Indonesia.

Velte (2018) found that gender diversity in audit committees (AC), specifically the inclusion of women, improves KAM disclosure clarity in the UK, suggesting that a diverse AC can better bridge communication gaps. This aligns with Aldamen et al. (2018) and Ittonen et al. (2010), who reported that female AC members enhance external audit quality and reduce dependence on external audit assurances. Women in AC also contribute to lower audit fee, suggesting lower firm risk (Luh, 2023), and has positive impact on profitability (Ahmed et al., 2024). However, the impact of gender dynamics, as studied by Dobrijević (2014), could introduce variability. Findings from previous KAM studies support this variance (Murphy et al., 2023; Wuttichindanon & Issarawornrawanich, 2020). We proposed our final null hypothesis:

H15: Number of women in audit committee does not affect KAMs in Indonesia.

RESEARCH DESIGN

Regression Model

We used OLS regression analysis to explain the variances in the dependent variables to assess their connection to KAM. We checked for multicollinearity and heteroscedasticity issues with statistical software such as Stata. And as heteroscedasticity did become an issue, we used robust standard errors in our regression analysis. As for heterogeneity concern, our investigated determinants were already double as control variables commonly included in previous studies such as leverage, profitability, firm size, and firm complexity. As reflected by the regression result below in section 4, our regression model was sufficient to explain the significance (0.0199, rounded to 0.020), with 38.82% the explained variances.

We estimated the following robust OLS regression model to examine the determinants of KAMs:

$$NUMKAM = \alpha + \beta 1DER + \beta 3ROA + \beta 4CURRENTRATIO + \beta 5BOPO + \beta 6ASSETLOG + \beta 2SUBS + \beta 7STATE + \beta 8FOREIGN + \beta 9BIG4 + \beta 10AUDFIRMCHANGE + \beta 11AUDFEELOG + \beta 12AUDGENDER + \beta 13INDCOMMS + \beta 14AUDCOMMS + \beta 14FAUDCOMM + \varepsilon$$

NUMKAM was number of KAM identified in 2022 financial statements, aligning with approaches in previous KAM research (Al Lawati & Hussainey, 2022; Murphy et al., 2023; Pinto & Morais, 2019; Wuttichindanon & Issarawornrawanich, 2020). DER (Debt-Equity Ratio) was used as a solvency proxy, following Sierra-Garcia et al. (2019). ROA (Return on Assets) was the proxy for firm profitability, as used in various studies (Mah'd & Mardini, 2022; Murphy et al., 2023; Pinto & Morais, 2019; Sierra-García et al., 2019). CURRENTRATIO was the proxy for firm liquidity, following Sierra-Garcia et al. (2019). BOPO (Operating Efficiency Ratio) was the variable to measure firm efficiency, based on Susanti et al. (2023). ASSETLOG was the logarithm of total assets, representing firm size. SUBS was number of subsidiaries, indicating firm complexity (Sierra-García et al., 2019; Wuttichindanon & Issarawornrawanich, 2020). STATE was a dummy variable indicating government-controlled firms. FOREIGN was dummy variable for firms with foreign ultimate beneficiaries. BIG4 was a dummy variable for firms audited by Big 4 affiliates (Ernst & Young, PriceWaterhouse-Cooper, KPMG, Deloitte). AUDITFIRMCHANGE was a dummy variable for changes in audit firms compared to the previous year. AUDITFEELOG was the logarithm of audit fees paid to the auditor. AUDITORGENDER was a dummy variable for female auditors. INDCOMMS was number of independent commissioners in the firm. AUDCOMMS was number of Audit Committee (AC) members. FAUDCOMM was number of female members in the AC.

Table 1: Variable Description

Variable Name	Variable Description
NUMKAM	Number of Key Audit Matters
DER	Debt to equity ratio
ROA	Return on Assets
CURRENTRATIO	Current ratio
BOPO	Operating efficiency ratio
ASSETLOG	Log of firm's total asset
SUBS	Number of subsidiaries
STATE	State-controlled firm
FOREIGN	Foreign-controlled firm
BIG4	Big 4 audit firm
AUDITFIRMCHANGE	Audit firm different from last year
AUDITFEELOG	Log of audit fee
AUDITORGENDER	Auditor's gender

Variable Name	Variable Description
INDCOMMS	Number of independent commissioners
AUDCOMMS	Number of Audit Committee members
FAUDCOMM	Number of women as Audit Committee members
ALRKAM	Accounting-level Key Audit Matters
ELRKAM	Entity-level Key Audit Matters
KAMLENGTH	Length of Key Audit Matters, in word count
AUDITLAG	Days of auditing process
AUDITFEESALESRATIO	Ratio of audit fee divided by total revenue or sales
BANK	Banking firm

Sample

This study focused on Indonesian financial firms listed in 2022, analyzing financial statements and annual reports for data collection. The year 2022 marked the first implementation of KAM in Indonesia. The financial sector was singled out due to its unique regulatory environment and the heightened scrutiny it receives from stakeholders. Auditor attributes were verified using the official 2022 roster of audit firms and auditors, and audit firm websites. 720 non-financial firms were excluded to concentrate on the financial sector. 27 samples lacking audit-fee information were omitted. Two firms with extreme values were also excluded, with a final sample size of 75 firms.

Table 2: Sample Selection and Distribution

Panel A: Sample Selection	N
Total firms listed in IDX on 2022	824
Less: firms from non-financial sector	(720)
Less: firms without audit fee disclosure	(27)
Less: firms with outlier	(2)
Unique firms	75

Panel B: Distribution of Firm Observations, by Industry Sector		
Sector	**N**	**%**
Banking	36	48.00%
Holding & Investment	8	10.67%
Financing Service	12	16.00%
Insurance	15	20.00%
Investment	4	5.33%
TOTAL	75	100%

Descriptive Statistics

Table 3 presents the sample's statistical characteristics for regression analysis, while Table 4 details statistics for descriptive analysis and reports the descriptive statistics of 75 firms in 2022, and 26 firms audited by Ernst & Young and Price Waterhouse Cooper, specific for descriptive analysis needs.

Table 3: Summary Statistics

Variable	N	Mean	Std. Dev.	Min	P25	Median	P75	Max
NUMKAM	75	1.47	0.68	1	1	1	2	4
DER	75	3.07	2.89	0.00	0.99	2.07	4.45	13.56
ROA	75	0.01	0.06	-0.27	0.00	0.02	0.03	0.12
CURRENTRATIO	75	4.11	10.29	0.12	0.34	1.19	2.01	61.73
BOPO	75	0.90	0.87	0.04	0.66	0.82	0.94	7.93
ASSETLOG	75	10.11	0.98	8.21	9.32	10.18	10.71	12.30
SUBS	75	3.19	6.44	0	0	0	3	32
STATE	75	0.09	0.29	0	0	0	0	1
FOREIGN	75	0.41	0.50	0	0	0	1	1
BIG4	75	0.44	0.50	0	0	0	1	1
AUDITFIRMCHANGE	75	0.07	0.25	0	0	0	0	1
AUDITFEELOG	75	9.00	0.59	7.72	8.52	9.04	9.37	10.41
AUDITORGENDER	75	0.16	0.37	0	0	0	0	1
INDCOMMS	75	2.28	1.37	1	1	2	3	7
AUDCOMMS	75	3.47	0.92	3	3	3	4	7
FAUDCOMM	75	0.77	0.88	0	0	1	1	3

Table 4: Summary Statistics for Descriptive Analysis

Panel A Variables	N	Mean	Std. Dev.	Min	P25	Median	P75	Max
ALRKAM	75	1.33	0.60	1	1	1	2	4
ELRKAM	75	0.13	0.34	0	0	0	0	1
KAMLENGTH	75	701.21	308.30	217	518	640	766	2244
AUDITLAG	75	70.03	21.71	20	53	74	88	104
AUDITFEESALESRATIO	75	0.01	0.04	0.00	0.00	0.00	0.00	0.36
BANK	75	0.48	0.50	0	0	0	1	1

Panel B Variables	N	Mean	Std. Dev.	Min	P25	Median	P75	Max
EY_PWC	26	0.38	0.50	0	0	0	1	1
NUMKAM	26	1.42	0.64	1	1	1	2	3
ALRKAM	26	1.12	0.33	1	1	1	1	2
ELRKAM	26	0.31	0.47	0	0	0	1	1
KAMLENGTH	26	767.31	388.11	370	559	625	917	2244
AUDITLAG	26	61.35	24.71	20	47	59.5	88	96
AUDITFEELOG	26	9.44	0.45	8.76	9.16	9.29	9.73	10.41
AUDITFEESALESRATIO	26	0.00	0.00	0.00	0.00	0.00	0.00	0.01

Table 5 reports the correlation matrix for 75 firm in 2022. The Spearman correlation is presented above the diagonal, and Pearson correlation below. The Appendix provides detailed description of the variables. * Indicates statistical significance at 5%. There was no evidence of multicollinearity affecting the estimation of the test model.

Table 5: Correlation Matrix

Variable	1	2	3	4	5	6	7	8
1 NUMKAM		0.0397	-0.0786	-0.0479	-0.0718	0.124	0.3631*	0.0806
2 DER	-0.0068		-0.3267*	-0.8160*	0.1533	0.7300*	0.0361	0.3091*
3 ROA	-0.0455	-0.0746		0.3822*	-0.6704*	-0.0545	0.0978	-0.0212
4 CURRENTRATIO	0.2687*	-0.3467*	0.2318*		-0.1785	-0.6823*	0.0744	-0.3091*
5 BOPO	-0.0874	-0.0441	-0.6832*	-0.152		-0.0648	-0.1801	-0.0233
6 ASSETLOG	0.1698	0.6867*	0.0811	-0.2179	-0.1121		0.3043*	0.3769*
7 SUBS	0.2098	0.0661	0.0486	0.1234	-0.0874	0.3233*		0.2423*
8 STATE	0.1169	0.3576*	0.0049	-0.1003	-0.0369	0.4415*	0.1696	
9 FOREIGN	-0.1779	-0.0647	0.0201	-0.1356	-0.0189	0.0455	-0.219	-0.2693*
10 BIG4	-0.0158	0.1287	0.1404	-0.1655	-0.1426	0.4558*	0.0623	0.2696*
11 AUDITFIRMCHANGE	-0.0262	0.0025	-0.0052	-0.0589	0.0048	-0.0492	-0.0495	0.2817*
12 AUDITFEELOG	0.1403	0.5980*	0.1642	-0.3233*	-0.1827	0.8545*	0.2385*	0.4311*
13 AUDITORGENDER	0.1819	-0.0371	0.096	-0.1344	-0.0486	0.0924	-0.0184	-0.015
14 INDCOMMS	0.2045	0.5665*	0.0329	-0.2577*	-0.0871	0.6828*	0.1271	0.6408*
15 AUDCOMMS	0.143	0.5578*	0.0015	-0.1775	-0.03	0.5841*	0.1287	0.7388*
16 FAUDCOMM	-0.0015	-0.1133	0.073	0.3368*	-0.1341	-0.031	-0.0282	-0.0217

Variable (continued)	9	10	11	12	13	14	15	16
1 NUMKAM	-0.1612	-0.0109	-0.0029	0.1216	0.1978	0.1498	0.1048	-0.0244
2 DER	0.05	0.1787	0.0198	0.6438*	0.0454	0.5835*	0.4965*	-0.1656
3 ROA	-0.0525	0.0955	-0.0469	-0.1003	0.1042	-0.0156	-0.079	0.1807
4 CURRENTRATIO	-0.1051	-0.2407*	0.0346	-0.6257*	-0.1176	-0.5612*	-0.4831*	0.1627
5 BOPO	0.1563	-0.1253	0.1457	0.0175	-0.0185	-0.1218	-0.012	-0.1315
6 ASSETLOG	0.0725	0.4256*	-0.0444	0.8197*	0.1008	0.6010*	0.5114*	0.0253
7 SUBS	-0.2237	0.1	-0.096	0.2363*	0.154	0.1824	0.1601	0.0695
8 STATE	-0.2693*	0.2696*	0.2817*	0.3917*	-0.015	0.4646*	0.5895*	0.0000
9 FOREIGN		0.1833	-0.0072	0.0788	0.0768	0.148	-0.0111	0.0934
10 BIG4	0.1833		0.0861	0.6601*	0.2726*	0.2574*	0.1928	0.1933
11 AUDITFIRMCHANGE	-0.0072	0.0861		0.042	-0.1166	-0.0026	0.1864	-0.1376
12 AUDITFEELOG	0.0822	0.6479*	0.0215		0.131	0.5000*	0.4729*	0.0184
13 AUDITORGENDER	0.0768	0.2726*	-0.1166	0.1469		0.1839	0.1353	0.2290*
14 INDCOMMS	0.0461	0.3108*	-0.0157	0.6029*	0.1239		0.5952*	0.0664
15 AUDCOMMS	-0.1027	0.2527*	0.1559	0.5280*	0.1353	0.7518*		0.0235
16 FAUDCOMM	0.0939	0.1379	-0.1143	-0.0619	0.1967	-0.0139	0.0156	

EMPIRICAL RESULTS

This section examines the correlation between KAM and various test variables, with results organized into subsections corresponding to our formulated hypotheses. Findings are shown in Table 7.

Results from Firm Risks

For H1, DER negatively affected KAM by 5%. Auditors considered low-DER financial organizations were riskier and disclosed more KAM. Despite being less solvent, external auditors regarded high DER on the financial industry as a degree of consumer trust and confidence, since firms had more capital to manage and a greater outlook for future operations.

On H2, ROA had a negative relationship with KAM at the 1% level. This supported the idea that increasing profitability improves the company's outlook and reduces auditor litigation concerns. In keeping with UK KAM studies (Pinto & Morais, 2019), which encompassed both financial and non-financial sectors, business profitability predicted KAM disclosure across all sectors.

On H3, CURRENTRATIO positively impacted KAM at the 5% level, indicating that auditors issued more KAMs to liquid companies. A higher current ratio reflected better liquidity but was seen as inefficient in financial operations, potentially reducing profitability. Financial services gained more from long-term lending, leading auditors to perceive high current ratios as riskier, resulting in more KAM disclosure.

For H_4, BOPO negatively influenced KAM at the 1% level. A high BOPO ratio, indicating low profitability even before other costs and taxes, led to less KAM issuance in less-efficient financial service firms, while more KAMs were issued for firms with higher operating efficiency. This suggested that auditors viewed higher operating costs as indicative of lower risk. Uniformity of firm's efficiency likely inclined regression analysis to the other direction. Furthermore, with the Indonesian economy recovering from the Covid-19 pandemic, firms' efficiency ratios may reflect resource utilization for recovery, with low efficiency attributed to pandemic effects rather than operational inefficiency.

For H_5, ASSETLOG did not influence KAM. This added to the mixed evidence on firm size's impact on KAM issuance, as seen in various studies across both developed (Pinto & Morais, 2019; Sierra-García et al., 2019) and emerging markets (Al Lawati & Hussainey, 2022; Hussin et al., 2022; Mah'd & Mardini, 2022; Rahaman et al., 2022; Wuttichindanon & Issarawornrawanich, 2020). In Indonesia, larger firms had enough influence over auditors to dampen KAM disclosure.

For H_6, SUBS did not affect KAM disclosure. This suggested that auditors did not consider the complexity of financial firms in KAM disclosures, possibly due to the inherently complex nature of their financial operations and rigorous regulatory oversight. Descriptive analysis supported this lack of significance.

On H_7, test showed that STATE did not impact KAM disclosure. This result supported a balanced view encompassing two perspectives. Firstly, as Utama et al. (2017) suggested, state-controlled firms often adhered more strictly to governance standards. However, Guild (2021) countered that this perceived robust governance in Indonesian state-owned companies was often overshadowed by fraud and controversies.

For H_8, FOREIGN had no significance on KAM. This result suggested that in the financial sector, foreign-controlled firms did not affect auditors' perceived risks, as they prioritized other factors. Despite Wang (2013) associating foreign control with lower perceived risks and better governance, this did not seem to lead to fewer KAM issuances.

Firm risk analysis revealed financial sector-specific significances and non-significances. Traditional risk indicators like DER, ROA, ASSETLOG, and SUBS differed in significance from other KAM studies on other sectors (Murphy et al., 2023; Sierra-García et al., 2019) or when the finance sector was included (Hussin et al., 2022; Mah'd & Mardini, 2022; Pinto & Morais, 2019; Rahaman et al., 2022; Wuttichindanon & Issarawornrawanich, 2020). Similar exclusive studies of the financial sector also revealed some differences (Al Lawati & Hussainey, 2022). BOPO, variable unique to our study and the Indonesian context, yielded intriguing insights into auditor perspectives, the impact of the Covid-19 pandemic, and the economic recovery processes.

Auditor Characteristics

On H_9, BIG4 was negatively significant on KAM at 5%, aligning with findings in Oman (Al Lawati & Hussainey, 2022) but contrasting with Thailand (Wuttichindanon & Issarawornrawanich, 2020) and the Middle East (Mah'd & Mardini, 2022). This diverse outcome underlined the context-specific nature of factors influencing KAM disclosures, even within similar sectors. This suggested that Big 4 auditors disclosed fewer KAMs in Indonesia's financial sector. Coupled with the positive correlation between BIG4 and ASSETLOG, this implied that Big 4 auditors gave less KAM to larger firms, likely due to perceived lower risks (Ireland & Lennox, 2002). These indications suggested self-selection bias - larger firms being more financially capable, hire Big 4 auditors which in turn discloseless KAM due to perceived stability and lower risks, also a likelihood of the pressure to keep their clients.

On H_{10}, AUDITFIRMCHANGE did not affect KAM. This was likely due to the stringent regulations in the financial sector, where all audit firms faced significant responsibilities in risk identification. Consequently, switching audit firms did not alter KAM quantity. This result aligned with previous research (Murphy et al., 2023; Sierra-García et al., 2019).

For H_{11}, AUDITFEELOG positively influenced KAM at the 5% level, aligning with most KAM studies across various sectors (Hussin et al., 2022; Mah'd & Mardini, 2022; Murphy et al., 2023; Pinto & Morais, 2019). This suggested that audit fees reflected efforts to mitigate risks (Murphy et al., 2023).

On H12, AUDITORGENDER positively influenced KAM at the 5% level, indicating that female auditors tended to report more KAMs, even though only 12 samples were audited by females. This finding diverged from trends in Thailand (Dusadeedumkoeng et al., 2023; Wuttichindanon & Issarawornrawanich, 2020), but aligned with UK (Abdelfattah et al., 2021). It supported the assertion of Hardies et al. (2010) that auditor gender influenced audit quality, with female auditors identifying more risks due to higher risk aversion.

Auditor characteristics significantly influenced KAM in Indonesia's financial sector. Our research showed consensus on the impact of audit firm change and audit fees and adds complexity with context-specific factors like BIG4 and auditor gender. These findings suggested that global auditing trends, like expanded audit reports and KAM, were influenced by local context and individual auditor traits in Indonesia's financial sector.

Firm's Governance Characteristics

For H_{13}, INDCOMMS did not t influence KAM, this suggested that Indonesia's concentrated governance impacted disclosures differently than in developed markets (Karamanou & Vafeas, 2005). Referring to the descriptive statistics, the common practice of firms appointing only the minimum two independents required by law indicated that their role is more compliance-oriented than focused on oversight. For H_{14}, AUDCOMMS did not influence KAM. This is consistent with the uniform size of AUDCOMMS typically around three members. Similar to findings with INDCOMMS, this suggested that in Indonesian firms, governance structures are more compliance-driven than impactful. Finally, on H_{15}, FAUDCOMM did not influence KAM, mirroring the trends seen in INDCOMMS and AUDCOMMS. On average, AC had 0.77 women, 35 firms lacked female members on AC, and 26 had only one. This limited female representation likely influenced the non-significance of our results, highlighting a lack of gender diversity.

Governance traits exploration showed a uniform pattern: INDCOMMS, AUDCOMMS, and FAUDCOMM did not notably impact KAM disclosures. This indicated that governance roles tended to focus on meeting basic compliance, underscoringthe tokenistic nature of corporate governance in Indonesian firms.

Table 6: OLS Regression Result; *, **, and *, Indicate Statistical Significance at 10, 5, and 1 Percent Levels**

Variables	Coefficient	t-stat	P>t
DER	-0.0730991	-2.02	0.047**
ROA	-4.906962	-4.44	0***
CURRENTRATIO	0.0324988	2.4	0.02**
BOPO	-0.1822353	-3	0.004***
ASSETLOG	0.0097097	0.05	0.959
SUBS	0.0007577	0.05	0.96
STATE	-0.2117291	-0.57	0.568
FOREIGN	-0.2184081	-1.45	0.154
BIG4	-0.4463336	-2.26	0.028**
AUDITFIRMCHANGE	0.0428207	0.15	0.883
AUDITFEELOG	0.6672719	2.23	0.03**
AUDITORGENDER	0.5286035	2.33	0.023**
INDCOMMS	0.1703184	1.35	0.182
AUDCOMMS	-0.0680401	-0.41	0.682
FAUDCOMM	-0.1095651	-1.23	0.223
_cons	-4.170714	-1.72	0.091
Prob > F	0.020		
R-squared	0.388		
Root MSE	0.060		

Descriptive Analysis

We provided additional descriptive statistical analysis focused on the distribution of KAM, average KAM, accounting-level KAM (ALRKAM), and entity-level KAM (ELRKAM), following the approach of Sierra-García et al. (2019), and the nature of KAM disclosures. We also provided additional insights like average audit lag (AUDITLAG) to provide context of complexity, and average audit fee ratio (AUDITFEELOG and AUDITFEESALESRATIO) for risk.

Table 7: Additional Descriptive Statistics: KAMs Distribution

KAMs Distribution	BIG4s	Non-BIG4s	EY	PWC	Deloitte	KPMG	STATE	Non-STATE
Firms	33	42	16	10	4	3	7	68
Banks	22	14	10	9	1	2	6	30
NUMKAM	48	62	17	20	4	7	12	98
Average KAM	1.45	1.48	1.06	2.00	1.00	2.33	1.71	1.44
ALRKAM	38	62	17	12	4	5	9	91
Average ALRKAM	1.15	1.48	1.06	1.2	1	1.67	1.29	1.34
ELRKAM	10	0	0	8	0	2	3	7
Average ELRKAM	0.30	0	0	0.8	0	0.67	0.43	0.10
Average KAM Length	800.18	623.45	590.56	1050.1	786	1104	1014.86	668.93
Average Audit Lag	60.06	77.86	72.13	44.1	55.5	55	45	72.65
Average Audit Fee - Sales Ratio	0.0012	0.0097	0.0013	0.0012	0.0016	0.0005	0.0005	0.0066
Firms	31	44	36	39	12	63	5	70
Banks	18	18	-	-	7	29	2	34
NUMKAM	41	69	53	57	21	89	7	103
Average KAM	1.32	1.57	1.47	1.46	1.75	1.41	1.40	1.47
ALRKAM	37	63	43	57	17	83	6	94
Average ALRKAM	1.19	1.43	1.19	1.46	1.42	1.32	1.2	1.34
ELRKAM	4	6	10	0	4	6	1	9
Average ELRKAM	0.13	0.14	0.28	0	0.33	0.10	0.2	0.13
Average KAM Length	694.48	705.95	809.50	601.26	963.58	651.24	740.20	698.43
Average Audit Lag	67.42	71.86	60.72	78.62	60.83	71.78	73.6	69.77
Average Audit Fee - Sales Ratio	0.0015	0.0092	0.0010	0.0106	0.0007	0.0070	0.0021	0.0063

Table 8: Additional Statistics: Nature of KAM Disclosure

Nature of KAM Disclosure	Counts
ALRKAM	
Asset Impairment	60
Valuation of Liability	18
Valuation of Financial Assets	17
Intangibles	2
Revenue Recognition	1

Nature of KAM Disclosure	Counts
Property, Plant, Equipment	1
Complex Accounting	1
ELRKAM	
IT Control & Dependency	10

Table 9: Mann-Whitney Rank-Sum Test

Sample of 74 firms	NUMKAM	ALRKAM	ELRKAM	KAMLENGTH	AUDITLAG	AUDITFEELOG	AUDITFEE-SALESRATIO
Mean	1.466	1.333	0.133	701.213	70.027	8.998	0.006
BIG4	0 - Non-BIG4: 42; 1 - BIG4: 33					Mean: 0.44	
Prob>|z|	0.9253	0.0232*	0.0001**	0.0311*	0.0030**	0**	0.7732
STATE	0 - Non-STATE: 68; 1 - STATE: 7					Mean: 0.093	
Prob>|z|	0.4880	0.9722	0.0165*	0.1836	0.0036**	0.0008**	0.0558
FOREIGN	0 - Non-FOREIGN: 44; 1 - FOREIGN: 31					Mean: 0.413	
Prob>|z|	0.1656	0.1324	0.9272	0.8254	0.3974	0.4979	0.4385
BANK	0 - Non-BANK: 39; 1 - BANK: 36					Mean: 0.48	
Prob>|z|	0.8086	0.0879	0.0004**	0.0050**	0.0021**	0**	0.1994
AUDITORGENDER	0 - Male: 63; 1 - Female: 12					Mean: 0.16	
Prob>|z|	0.0888	0.3189	0.0272*	0.0256*	0.0681	0.2596	0.3049
AUDITFIRMCHANGE	0 - No Change: 70; 1 - Firm Change: 5					Mean: 0.066	
Prob>|z|	0.9801	0.6544	0.6521	0.5954	0.6704	0.7180	0.2180
Sample of 26 firms audited by EY and PWC	**NUMKAM**	**ALRKAM**	**ELRKAM**	**KAMLENGTH**	**AUDITLAG**	**AUDITFEELOG**	**AUDITFEE-SALESRATIO**
Mean	1.423	1.115	0.308	767.300	61.350	9.438	0.0012
EY vs PwC	0 - EY: 16; 1 - PWC: 10					Mean: 0.385	
Prob>|z|	0.0002**	0.2951	0**	0.0013**	0.0083**	0.0009**	0.2254

After validation with the Mann-Whitney Test to demonstrate significant comparisons, we arrived at the following findings. Significant differences were found in audit-related metrics between BIG4 and non-BIG4. BIG4-audited firms reported fewer ALRKAM but more ELRKAM, more detailed

KAM disclosures (KAMLENGTH), and do quicker audits (AUDITLAG). This reflected the BIG4's focus on ELRKAM, detailed descriptions, and efficient work. Despite higher fees, the BIG4s' charges were proportional to clients' revenues, as indicated by ratio and non-significance in Mann-Whitney Test. Comparisons between EY and PWC showed that PWC audits involved more and lengthier KAM disclosures and were completed faster, with PWC highlighting most ELRKAMs in our sample. This suggested PWC's thorough risk evaluation and efficient auditing.

For STATE, we observed a higher ELRKAM rates and faster audits, likely due to BIG4s' expertise and resources, as evidenced by statistic's BIG4-audited STATEs. Statistics also suggested that STATEs were riskier than private firms but did not significantly impact the number of KAMs. In the banking subsector, all observed ELRKAMs pertained to banks, with auditors providing more detailed and faster KAM disclosures, likely aided by stringent regulations. Female auditors disclosed more KAMs, however only ELRKAM was confirmed in Mann-Whitney test. They also wrote more descriptive KAM. These results aligned with the regression analysis. AUDITFEELOG's analysis revealed significant differences. However, when fees were ratioed against total revenue, they were proportional to client revenue. Lastly, asset impairmentwas the most common KAM (60). We identified 100 ALRKAMs and 10 ELRKAMs related to IT. These statistics are detailed in the appendix.

CONCLUSION

The introduction of ISA701 in Indonesia in 2022 provided a novel context to investigate KAM disclosures early in their implementation as a mandated regulation in financial reporting. Centering on the financial sector in emerging markets, this study provides contextual insights into auditors' risk assessments for financial service companies, contributing to KAM literature where few studies focus on this sector (Al Lawati & Hussainey, 2022). The findings revealed the prominence of auditor characteristics in KAM disclosure, contrasting with mixed-sector studies where firm characteristics were more dominant (Dusadeedumkoeng et al., 2023; Wuttichindanon & Issarawornrawanich, 2020). Key firm risk factors like solvency, leverage, profitability, liquidity, and efficiency significantly influenced KAM disclosures, while size, complexity, and ownership types show less effect. Odd results in efficiency and liquidity metrics suggest a nuanced risk evaluation post-pandemic. Auditor characteristics, particularly Big 4 affiliations, audit fees, and female auditors, emerged as more predictive of KAM disclosure. BIG4-audited firms received fewer, but more detailed ELRKAM, with differences in approach among BIG4s. Governance factors, however, showed no significant impact on KAM in Indonesia's financial sector, likely due to the sector's standardized regulation and governance uniformity.

Overall, this study provides new empirical analysis of the determinants of KAM in Indonesia, contributing to the literature of audit reporting examination within the contextual frame of concentrated governance, emerging economy and unique regulation system of financial sector. The findings of previous studies havebeen varied, and this study contributes to the richness of this variance, as every context is unique and open for examination both broad and specific. These variances are evident in our findings in solvency (Al Lawati & Hussainey, 2022; Dusadeedumkoeng et al., 2023; Hussin et al., 2022; Mah'd & Mardini, 2022; Murphy et al., 2023; Pinto & Morais, 2019; Wuttichindanon & Issarawornrawanich, 2020), profitability (Al Lawati & Hussainey, 2022; Dusadeedumkoeng et al., 2023; Mah'd & Mardini, 2022; Murphy et al., 2023; Sierra-García et al., 2019; Rahaman et al., 2022), firm size (Al Lawati & Hussainey, 2022; Dusadeedumkoeng et al., 2023; Mah'd & Mardini, 2022; Murphy et al., 2023; Pinto & Morais, 2019; Rahaman et al., 2022), complexity (Hussin et al., 2022; Pinto & Morais, 2019; Sierra-García et al., 2019; Wuttichindanon & Issarawornrawanich, 2020), Big 4 (Dusadeedumkoeng et al., 2023; Hussin et al., 2022; Mah'd & Mardini, 2022; Rahaman et al., 2022; Wuttichindanon & Issarawornrawanich, 2020), audit fee (Rahaman et al., 2022; Sierra-García et al., 2019), auditor's gender (Dusadeedumkoeng et al., 2023; Murphy et al., 2023; Wuttichindanon & Issarawornrawanich, 2020), AC size (Rahaman et al., 2022), and AC gender diversity (Murphy et al., 2023). Our findings on other factors such as liquidity, cost efficiency, and state and foreign ownership add further insights on measurements not as commonly used in the determinants of risk reporting.

The study highlights the regulated nature of the financial sector influencing risk assessment distribution among firm, auditor, and governance characteristics. Auditors' professional judgment is crucial in determining KAM disclosures, with governance factors less influential due to regulatory oversight. Limitations include the study's focus on Indonesia, potentially limiting applicability to other contexts. It relies on subjective auditor-generated reports and secondary financial data, suggesting the need for further research on auditors' risk evaluation and the influence of governance and market dynamics in regulated sectors.

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Data Availability Statements. We collected the data from the Indonesian Stock Exchange website, company websites, and annual reports. Additional calculations were performed by the authors. The data and necessary code are available upon request.

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