

Key Audit Matters and Audit Report Lag: A Preliminary Evidence from Indonesia

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ABSTRACT

The purpose of this study is to explore the potential influence of key audit matter on audit report lag. The authors analyzed data from key audit matter reporting in Indonesia for Indonesian public companies to test the relationship between the number of key audit matters and audit report lag. Data obtained from annual reports and multivariate linear regressions were employed to test the hypotheses. We find that key audit matters disclosure does not affect audit report lag. This suggests that audit firms in Indonesia may be treating key audit matters reporting superficially, as the selection of reported key audit matters does not appear to be closely linked to the audit efforts required to address these matters. The article focuses only on the Indonesian context, which limits generalizability. The results of this research will be informative for assessing the economic impact of key audit matter disclosures, which should be important for regulators, auditors, and accounting researchers. To the best of the authors' knowledge, no prior study has examined key audit matters and audit report lag in Indonesia. This research contributes to the limited body of work exploring the consequences of key audit matters in developing country markets, particularly in Indonesia. It is also the first study to demonstrate that key audit matters are associated with delays in audit reports in Indonesia following the implementation of key audit matters in 2022.

1. Introduction

One important piece of information in improving decision making in the capital market is financial reports that have been validated by independent auditors. In recent years there have been concerns about

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the timeliness of this validation and audit report lag. The audit report lag refers to the time span between the end of a company's financial year and the issuance date of the auditor's report. In general, investors prefer a shorter audit report lag because it results in a faster release of the auditor's opinion, allowing for a quicker assessment of the company's financial statement credibility (Habib et al., 2019). Timeliness is an indicator of the quality and transparency of financial statements (Rusmin & Evans, 2017).

Various factors are thought to influence the delay in the audit report. Therefore, knowledge about the factors that influence audit report delays can create new perspectives to check the auditor's performance. Due to the significance of the audit report lag as an indicator of the quality of a company's financial statements and the potential challenges auditors may encounter during the audit, numerous researchers have investigated the primary determinants of the audit report lag. In summary, the determinants of the audit report lag can be categorized into three main groups: factors related to the audit client, factors related to the audit firm, and factors related to the audit report.

Audit report lag has been a focal variable in numerous studies because the duration required to complete a financial statement audit significantly impacts the timing of corporate financial report releases (Pizzini et al., 2015). In this study, the authors aim to investigate whether key audit matters, as another characteristic of audit reports, are associated with audit report lag. The inclusion of key audit matters in audit reports is designed to standardize and offer more entity-specific information about clients, thereby increasing the communicative value of the report for users.

Audit reports must contain company-specific information about the most significant risks of material misstatement, an explanation of how the auditor applied materiality when planning and performing the audit, including explicitly stating the materiality level used, and an overview of the audit scope and, in particular, how the scope selected was responsive to the risks included in the audit report. Key audit matters research has covered a range of effects of the new audit report (Gutierrez et al., 2018; Li et al., 2019; Nguyen & Kend, 2021). However, until now there has been limited research in Indonesia that examines the disclosure of key audit matters because the implementation of key audit matters is still very new.

Therefore, this study answers the question of whether there is a significant effect relationship between key audit matters and the timeliness of audit reports. The significant contribution of this paper to the literature is twofold. First, the paper adds understanding of the determining factors for the timeliness of audit reports in emerging markets, especially Indonesia. Second, for the first time, this paper shows the relationship between key audit matters and the timeliness of audit reports. Furthermore, this research provides benefits as evaluation material for public accountants to improve their services to public companies, especially in developing communication values. It is expected that the findings of this research can significantly improve audit quality in Indonesia in the long term.

To the best of the authors' knowledge, this study is among the few published works investigating the potential impact of key audit matters on the audit report lag. As such, it could inspire further research in different contexts and encourage qualitative studies to better understand how the presence and reporting of key audit matters influence audit efforts and audit report lag. Additionally, this study is expected to have significant practical implications for auditors, financial statement users, and regulators.

The implementation of key audit matters in Indonesia refers to the standards set by the Indonesian Association of Public Accountants (IAPI) and follows guidelines like the International Standard on Auditing (ISA) 701 issued by the International Auditing and Assurance Standards Board (IAASB). In Indonesia, since 1 January 2022, audit reports must contain company-specific information about the most significant risks of material misstatement, an explanation of how the auditor applied materiality when planning and performing the audit, including explicitly stating the materiality level used, and an overview of the audit scope and how the scope selected was responsive to the risks included in the audit report. The new audit reporting regime may expose auditors to greater auditor liability given that it requires auditors to disclose more information. Auditors could potentially be sued if there is a breach of duty and care in disclosing key audit matters. The External Reporting Board (XRB, 2017) documents that one of the concerns auditors have regarding the new requirements is the perceived increase in litigation risk.

In general, key audit matters is an audit issue that is considered the most important by auditors in auditing an entity's financial statements. The implementation of key audit matters in Indonesia aims to increase transparency and audit quality by providing additional information to users of financial reports about the most important issues in the audit. Auditors are required to report key audit matters in their audit reports. Key audit matters must be clearly stated in the audit report, explaining the reasons why the issue is considered important, as well as how the issue was addressed in the audit. Auditors must identify key audit matters based on their assessment of significant risks in the audited entity. This involves evaluating issues that have a material impact on the financial statements.

Key audit matters implementation can affect audit report lag in two main ways. First, key audit matters require auditors to do more work to assess and audit these significant issues, which may extend the audit report lag. Second, a better understanding of key audit matters can help optimize the audit process and reduce the time required to complete an audit. In other words, it can be estimated that disclosure of key audit issues will likely affect the delay in the audit report.

Several previous studies have shown various findings. Lee et al. (2024) found that the adoption of critical audit matters disclosure requirements in the United States reduced audit report lag. In line with Baatwah et al.'s (2022) findings, the results show that auditors significantly increase their fees during the key audit matters period but substantially shorten the audit reporting lag. Findings differ from Alawadhi et al., (2024); the results show a positive relationship between the increase in the number of key audit matters reported and the length of the audit report lag. Certain key audit matter categories, such as those related to investment and the implementation of new standards, also have a significant impact on delays. Bédard et al. (2018) highlighted the reporting of key audit matters and found an increase in audit delays and costs. Moreover, Sulcaj (2021) also stated that the mention of key audit matter in the audit report increases audit costs and delays. Baloglu and Çakalı (2022); Sakin and Kuzu Yıldırım (2022) found that the number of key audit matters does not significantly affect the timeliness of audit reports. Audit report timeliness is not a completely unexplored topic in academic literature. Although there are only a few studies on this subject in the national literature, some research has been conducted in the international literature. This study contributes to the literature by including key audit matters as an independent variable that may influence audit report timeliness.

2. Literature Review

This section utilizes institutional theory as a theoretical framework to elucidate the findings of this study. It also reviews previous research on factors influencing the audit report lag. Furthermore, it examines the regulatory obligations concerning key audit matter reporting according to ISA 701 and synthesizes the findings of prior studies on key audit matter reporting. Finally, it discusses the potential impact of key audit matters reporting on the audit report lag, particularly within the context of Indonesian auditing practices.

2.1 Institutional Theory

The theoretical framework for this study is based on institutional theory, which is crucial for examining accounting and auditing practices. Institutional theory, in particular, helps to understand the global adoption of accounting and auditing standards by analyzing how isomorphic pressures influence and shape this process (Haapamäki, 2022). Isomorphic pressures encompass three main types: Coercive isomorphism: This occurs when organizations adopt practices mandated by law or required by organizations upon which they depend. Mimetic isomorphism: Organizations imitate others, particularly in situations of uncertainty and ambiguity, to reduce risk and uncertainty. Normative isomorphism: Organizations conform to what is considered acceptable or appropriate professional practice within their field. These isomorphic pressures drive organizations to adopt similar structures, behaviors, and practices, thereby seeking legitimacy and acceptance within their institutional environments (DiMaggio & Powell, 1983).

The essence of institutional theory argues that companies strive to attain legitimacy within the societies where they operate. One strategy to achieve this legitimacy is by conforming to established norms and practices, thereby promoting homogeneity in their behaviors and operations. This conformity helps organizations align with societal expectations and gain acceptance and recognition as legitimate entities (Deegan & Unerman, 2011). DiMaggio and Powell (1983) observed that institutional theory aims to provide an explanation for why organizations tend to exhibit similar behaviors. They argue that institutional pressures contribute to the development of more uniform organizational structures within institutional environments. This perspective underscores how external influences such as societal norms, legal regulations, and professional standards shape organizational behavior and practices in predictable ways.

Further, the relevant coercive isomorphic pressure on key audit matters includes the influence from regulators such as Otoritas Jasa Keuangan (OJK) and Insitut Akuntan Publik Indonesia (IAPI). In line with the new and revised auditor reporting standards issued in 2015 by the International Auditing and Assurance Standards Board (IAASB), the Indonesian Institute of Certified Public Accountants (IAPI) responded by issuing an auditing standard regarding the communication of key audit matters in the auditor's report for a complete set of financial statements of listed entities. Considering that this auditing standard only applies to listed entities, OJK regulations aim to eliminate the inequality in communicating Key Audit Matters in the auditor's report for financial statements of non-listed entities and to regulate its application.

The Financial Services Authority (Otoritas Jasa Keuangan, OJK), as the regulator, has issued Regulation No. 30 of 2023 on the communication of key audit matters in the Auditor's Report on Audited Financial Statements in the Capital Market. This regulation includes general provisions containing definitions used within this regulation and classifications of entities with public accountability in the capital market. It also stipulates disclosure and communication obligations related to determining matters selected as key audit matters, prohibits the disclosure of key audit matters in certain cases, and requires written explanations if no matters are selected as key audit matters. Additionally, it outlines the first-time implementation requirements for communicating key audit matters in the auditor's report. Furthermore, this regulation also provides administrative sanctions and closing provisions.

In the context of audit firms and the implementation of the latest audit standards (ISA 701), audit firms may establish formal mechanisms to give the impression that they have implemented international standards in the financial sector reporting and auditing as a form of compliance with regulations. ISA 701 contains rules regarding communicating key audit matters in the independent auditor's report. Regarding ISA 701, internal audit firms must report and disclose key audit matters in their audit reports, which may be a little loose in the early years of implementing key audit matters rules.

2.2 Factors Influencing of the Audit Report Lag

Audit quality and credibility of the client's financial reports are assessed from the audit report lag. Various studies globally have examined various determinants of audit report lag. These studies typically investigate client characteristics and audit firm characteristics as potential factors influencing audit report lag (Abdullatif et al., 2023).

Concerning client characteristics, Durand (2019) found that audit clients with larger sizes and higher profitability tend to have shorter audit report lags. Khelif and Achek (2016) found that the implementation of new accounting standards, such as International Financial Reporting Standards (IFRS), allows for increased audit report lag. Reporting under IFRS is also found to be associated with a longer audit report lag compared to reporting based on US Generally Accepted Standards of Accounting Principles because the former is more principles-based and therefore more complex (Zhou et al., 2022). Additionally, other client factors linked to a longer audit report lag include having numerous subsidiaries (Rusmin & Evans, 2017), engaging in related party transactions (Habib & Muhammadi, 2018), implementing new accounting standards (Habib, 2015), and practicing tax avoidance (Gontara & Khelif, 2021).

The characteristics of the board of directors were found to have a larger board size associated with shorter audit report lag in several studies (Alfraih, 2016; Kusin & Kadri, 2020; Chalu, 2021), while this is associated with longer audit report lag in other research findings (Hassan, 2016; Mathuva et al., 2019). Regarding the potential effects of audit committee characteristics on the audit report lag, audit committee existence (Afify, 2009; Hassan, 2016) and audit committee effectiveness (Abdillah et al., 2019) were found to be associated with a shorter audit report lag. The audit committee's number of meetings and audit committee member expertise were found to be associated with a longer audit report lag by Hamdallah et al. (2021) and Mathuva et al. (2019), whereas no significant relation was reported by Puat Nelson and Norwahida Shukeri (2011) and Aljaaidi et al. (2015) found a negative relation between audit committee number of meetings and the audit report lag.

The characteristics of audit companies were also discovered by several people studies to influence audit report lag. In particular, the use of Big Four audit firms was discovered by some studies associated with shorter audit report lag (Kusin & Kadri, 2020; Puat Nelson & Norwahida Shukeri, 2011; Rusmin & Evans, 2017), although Afify (2009) did not find this relationship. Rusmin and Evans (2017) found that the auditor industry specialization was associated with shorter audit report lag, whereas Abdillah et al. (2019) found nothing of the sort associations regarding the auditor's industry specialization or auditor reputation.

A longer audit report lag arises because of the requirement for greater audit efforts. These increased audit efforts can stem from various factors. In relation to the specific focus of this study, it could be hypothesized that if auditors dedicate substantially more effort to each reported key audit matter, there would likely be a positive association between the number of key audit matters reported and the audit report lag.

2.3 Key Audit Matter: A Regulatory Background

Over time, several notable changes have been made worldwide to both the form and content of the auditor's report. Fuelled by a series of accounting scandals, continuous debate on the expectation gap has led to this much-needed transformation (Rahaman et al., 2022). The IAASB executed the most recent reform in 2015 with the incorporation of ISA 701: Communicating Key Audit Matters in the Independent Auditor's Report, as well as modifications to extant standards to provide more entity-specific and audit-specific information in the audit report. Realizing the benefits of key audit matters disclosure, a growing number of countries, such as Australia, New Zealand, China, Singapore, Hong Kong, the United Kingdom, Malaysia, Thailand, and Spain, have adopted ISA 701, and firms in these countries now disclose KAMs to stakeholders (Suttipun, 2022).

The Indonesian Institute of Certified Public Accountants has adopted ISA 701. According to ISA 701, auditors must determine and disclose key audit matters that are, in the auditor's professional judgement, the most significant issues in the audit of the financial statement. In this context, auditors must choose which key audit matters to disclose in their report each year (Pinto & Isabel, 2018). The expanded audit report with key audit matters was expected to improve the informative value of auditor reports along with audit quality by increasing an auditor's accountability and leverage over management (Reid et al., 2019). The requirement to disclose key audit matters increases an auditor's leverage in instances where management prefers that an auditor not highlight a specific area, especially a high-risk one. The requirement to disclose key audit matters also increases an auditor's accountability, commitment to transparency and responsibility to present an accurate assessment.

2.4 The identification of key audit matters as a possible factor influencing the Audit Report Lag

In the context of this study, several perspectives on key audit matter reporting's impact on audit efforts and audit report lag are highlighted. Yamin Zeng et al. (2022) observed that key audit matter reporting in China enhances audit quality but requires increased audit efforts for implementation. Reid et al. (2019) reported no significant increase in audit delay or cost due to key audit matter reporting. Nguyen and Kend

(2021) found that key audit matter reporting increases audit costs and is time-consuming due to internal consultations, independent reviews, and client interactions. In Oman, Baatwah et al. (2022) found that key audit matter reporting is associated with a shorter audit report lag but higher audit fees, especially for entity-based key audit matters.

Abdullatif and Al-Rahahleh (2020) conducted interviews with Jordanian auditors, who indicated that key audit matter reporting necessitates greater effort to substantiate reported key audit matters. However, some auditors perceive key audit matter reporting as procedural, potentially leading to minimal changes in audit efforts and an insignificant effect on audit report lag. This study aims to empirically test these arguments using data from audit reports of Indonesian firms, examining whether increased key audit matter reporting correlates with extended audit report lag due to heightened audit efforts or whether it is perceived more as a procedural formality. This means that auditors may spend more time on an audit engagement, given the expansion of audit responsibilities, the work involved, negotiating the audit findings, and preparing the audit report.

Next, audits tend to be more time-consuming and costly for firms with a greater number of key audit matters. Several factors may explain this phenomenon. First, the Institut Akuntan Publik Indonesia (IAPI) does not provide a definitive list of what qualifies as a key audit matter, nor does the standard specify how many key audit matters are expected or required. Auditors must perform additional procedures to determine both what constitutes a key audit matter and how many should be reported. Establishing a clearer definition of key audit matters could reduce auditor uncertainty and improve audit efficiency. Alternatively, this trend could stem from audit opinion shopping, where firms anticipating more key audit matters seek auditors willing to provide favorable opinions, ultimately contributing to longer audit report lags. Considering the importance of key audit matters and audit report lag in offering insights into the role of auditors and their associated attributes, along with the limited and inconsistent findings regarding the relationship between key audit matters and audit report lag, this study presents the following hypothesis to explore the dynamics between these elements:

H₁: Key audit matter disclosure is likely to affect audit report lag.

3. Research Method

3.1 Population and Sample

The research population used to test the impact of key audit matter on audit report lag is the entire population of companies listed on the Indonesia Stock Exchange (IDX). The author accesses the IDX website and downloads annual reports for all listed companies. Key audit matter and audit report lag data were collected manually from the annual report. All other explanatory variable data were also collected from the annual report. Samples will be taken using purposive sampling from various corporate sectors and include financial statements reported in audit reports for 2023 (i.e., financial reports for the year ending December 31, 2023).

3.2 Measurement of variables

The dependent variable in this study is the audit report lag. The authors followed prior research (Baatwah & Stewart, 2019; Khelif & Samaha, 2014; Lajmi & Yab, 2022; Toumi et al., 2022) by measuring the audit report lag as the number of days between the statement of financial position date and that of the audit report (i.e., January 1 to the audit report date, given that all Indonesian public listed companies use a December 31 financial year-end).

The main independent variable in this study is the key audit matter. The authors collected key audit matters information from the annual reports of all companies listed on the IDX during the study period (2023). Following several previous studies (Baatwah et al., 2022; Fera et al., 2022; Kitiwong &

Sarapaivanich, 2020; Pinto & Isabel, 2018; Reid et al., 2019), the authors measure the dependent variable as the number of individual key audit matters reported in each audit report for each reporting year.

Prior research has suggested that the size of a company can substantially influence audit report lag. Larger organizations may have more intricate structures and processes, potentially resulting in audit report lags that differ from those of smaller companies (Owusu-ansah & Leventis, 2006; Firnanti & Karmudiandri, 2020). According to Rusmin and Evans (2017), larger audit clients are likely to have shorter audit report lags because they can apply more pressure on auditors to expedite the audit process. Furthermore, large companies generally possess more efficient internal control systems that facilitate the auditing process, thereby reducing the time and effort required from external auditors. Larger clients also tend to have more resources, enabling them to hire auditors capable of delivering high-quality audit work more quickly.

3.3 Regression model

To determine if a key audit matter has a statistically significant impact on audit report lag, the following multiple regression model is employed. In this model, audit report lag is the dependent variable, while the independent variables include key audit matter and the control variables:

$$ARLit = \alpha + \beta_1 KAMt + \beta_2 Size_t + \varepsilon_t \quad (1)$$

Description:

ARL= Audit Report Lag (the number of days between the end of a firm's fiscal year and the date of the firm's audit report)

KAM= Key Audit Matter (the number of key audit matters)

Size = Ln Total Asset (Natural logarithm of the Total Assets)

ε = Error term

4. Empirical Results

4.1 Descriptive Statistics

The total number of companies listed on the IDX is 926, spanning across 11 business sectors. We obtained 779 annual reports by downloading them from the IDX website as well as the respective companies' websites on June 24, 2024. Table 1 displays our data.

Table 1. Populaces & samples

No.	Sector	Listed Companies	Data is not available	Data is available
1	Basic Materials	107	16	91
2	Consumer Cyclical	157	27	130
3	Consumer non-cyclical	125	13	112
4	Energy	87	27	60
5	Financials	105	7	98
6	Healthcare	33	2	31
7	Industrial	66	11	55
8	Infrastructure	70	15	55
9	Property & Real Estate	92	19	73
10	Technology	47	6	41
11	Transportation & Logistic	37	4	33
Total		926	147	779

Table 2 displays the descriptive analysis. On average, the companies in the sample disclose approximately one significant key audit matter issue annually in their extended audit reports. The highest number of key audit matters reported by a financial firm is seven, while the lowest is zero. This pattern closely resembles the disclosure practices of Malaysian companies, which report a maximum of seven key audit matters and a minimum of one, as noted by Abu and Jaffar (2020). In addition, the research results show that the audit report lag overlapping on IDX averages 83.74 days, with a maximum of 170 days and a minimum of 15 days.

Table 2. Descriptive Statistics

Variables	Minimum	Maximum	Mean	Std. Deviation
KAM	0.00	7.00	1.36	0.70
ARL	15.00	170.00	83.74	16.58
Ln Total Asset	19.24	35.32	28.16	2.16

The analysis shows how the sample companies implement the new requirements and disclose several key audit matters in their audit reports. Various types of key audit matters are reported in the auditor's reports of various public companies in Indonesia, there were at least 75 types of key audit matter and 1.061 key audit matter disclosures from 779 companies. We summarize 75 types of key audit matter disclosed into several categories of key audit matter related to assets, liabilities, stocks, accounting policies and internal control, taxation, sales, and other categories. As explained in Table 3.

Table 3. Summary of Key Audit Matter Disclosures

No.	Categorial	Subtotal
1	Asset	618
2	Liabilities	49
3	Stocks	14
4	Accounting Policies & Internal Control	112
5	Taxation	10
6	Sales	246
7	Others	12
	Total	1061

4.2 Correlations Analysis

Our correlation analysis is shown in Table 4. The table shows no correlation between key audit matters disclosure (not significant at 0.05) and audit report lag. However, only the healthcare sector has a significant correlation.

Table 4. Pearson's Correlation Analysis.

No.	Sectors	Sig. (2-tailed)	Companies
1	Basic Materials	0.69	91
2	Consumer Cyclical	0.48	130
3	Consumer non-cyclicals	0.47	112
4	Energy	0.80	60
5	Financials	0.28	98
6	Healthcare	0.01	31
7	Industrial	0.34	55
8	Infrastructure	0.09	55
9	Property & Real Estate	0.09	73
10	Technology	0.74	41
11	Transportation & Logistic	0.85	33
	Total	0.60	779

4.3 Multivariate Analysis

One unique aspect of the implementation of key audit matters in Indonesia is that it was only implemented in 2022 so that auditors can add communication value to stakeholders. In this analysis, we examine whether key audit matters disclosure can increase audit work time, thereby increasing audit report lag. Shorter audit report lags facilitate timely decision-making for users. To answer the above, we present and explain the empirical results for our regression model in the multivariate section in Table 5.

Table 5. Impact of key audit matters on audit report lag

No.	Sectors	Coefficient Regression	Coefficient Std. Error	Sig.	t	R Square	Adjusted R Square	F
1	Basic Materials	-0,52	3,77	0,89	-0,14	0,01	-0,01	0,41
2	Consumer Cyclical	-1,01	1,54	0,52	-0,65	0,01	0,00	0,73
3	Consumer NonCyclicals	1,66	2,19	0,45	0,76	0,06	0,04	3,26
4	Energy	-0,51	2,41	0,83	-0,21	0,00	-0,03	0,06
5	Financials	6,34	3,12	0,05	2,03	0,22	0,20	13,36
6	Healthcare	9,76	3,62	0,01	2,70	0,21	0,15	3,68
7	Industrial	2,86	2,49	0,26	1,15	0,18	0,15	5,80
8	Infrastructure	-3,10	3,11	0,32	-1,00	0,19	0,16	6,01
9	Property & Real Estate	-4,28	2,33	0,07	-1,83	0,06	0,03	2,08
10	Technology	0,72	2,38	0,76	0,30	0,01	-0,05	0,09
11	Transportation & Logistic	0,41	4,27	0,93	0,10	0,00	-0,06	0,04
	Total	0,99	0,82	0,23	1,20	0,08	0,07	31,45

Our analysis results show that disclosure of key audit matter in public companies in Indonesia does not affect the audit report lag (Sig. 0.23). For the role of key audit matters in determining the variability in audit reporting delay, the findings show that there is a positive but statistically insignificant relationship between key audit matters and audit report lag, indicating that key audit matters are not a key factor in explaining the audit report lag for Indonesia listed companies. A study by Abdullatif et al. (2023) also reported similar findings in the case of Jordan. Key audit matters disclosure has become a standard part of the audit report of public companies in Indonesia, so auditors may not experience significant delays even though they add this disclosure. Auditors may have established efficient procedures to guarantee timely completion of these disclosure. To aid in visualization, the figure below summarizes the relationship between key audit matters and audit report lag.

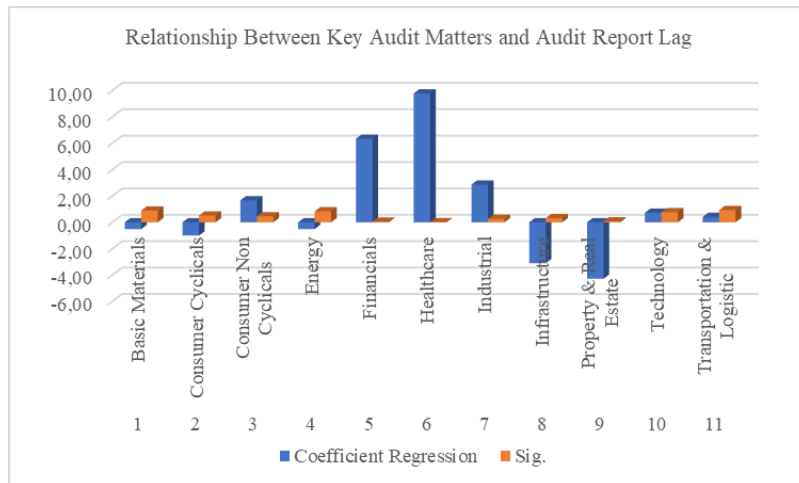


Figure 1. Relationship between key audit matters on audit report lag

Our analysis provides practical implications for the Indonesian Public Accountants Association to further investigate the implementation of key audit matters whether it will really improve communication value or just compliance with audit standards. On the other hand, the regulation requiring issuers to report their financial statements to the public encourages auditors to carry out audit procedures effectively and efficiently. Regulation of the financial services authority of the republic of Indonesia number 14/pojk.04/2022 on the submission of periodic financial statements by issuers or public companies, Article 4 explains that annual financial statements must be submitted to the Financial Services Authority and disclosed to the public no later than the end of the third month following the date of the annual financial statements.

Although the overall results show that there is no relationship between key audit matters and audit report lag, the results are different in the healthcare sector where key audit matters have a significant positive effect on audit report lag (sig. 0.01). This may put auditors under greater pressure to report their opinions in a shorter time. This pressure may force auditors to sacrifice audit quality to meet tight deadlines (Li et al., 2019). These findings also offer new evidence that auditors may tend to allocate effective and efficient audit partners and teams, rather than expanding audit time. Companies in the healthcare sector often have complex operational processes, including medical services and pharmaceuticals, requiring intricate accounting measurements such as contingent liability valuation, revenue recognition, and asset measurement. This complexity leads auditors to spend more time evaluating significant areas that are then identified as key audit matters, resulting in longer audit completion times and increasing audit report lag. Identified key audit matters frequently involve topics requiring substantial judgment, such as revenue recognition based on insurance claims and contractual agreements with insurers. This is evidenced by statistical data showing that revenue recognition was disclosed as a key audit matter by 11 out of 31 companies, fair value and asset impairment by 8 out of 31 companies, expected credit losses by 11 out of 31 companies, and inventory valuation by 7 out of 31 companies.

Overall, this study finds no statistically significant relationship between audit report lag and the number of key audit matters selected and reported by audit firms. This suggests that audit firms in Indonesia may be treating key audit matter reporting superficially, as the selection of reported key audit matters does not appear to be closely linked to the audit efforts required to address these matters. Research investigating the impact of critical audit matter disclosures on audit report lag has found that these disclosures did not influence the audit report lag in non-US countries (Reid et al., 2019; Abdullatif et al., 2023).

Things are different from Lee et al. (2024) findings in US. They found that the adoption of key audit matters disclosure requirements in the US reduced audit report lag, but did not significantly affect audit fees. This suggests that key audit matters disclosure requirements can enhance cooperation between auditors and managers and improve the efficiency of the audit process. These studies generally conclude that larger audit firms possess greater resources and expertise, allowing them to conduct audits more efficiently and complete them in a shorter time frame. In line with Baatwah et al. (2022) findings, the results show that auditors significantly increase their fees during the key audit matters period but substantially shorten the audit reporting lag. Meanwhile, Alawadhi et al. (2024) found evidence in Kuwait that an increased number of key audit matters was associated with longer audit report lags. This finding emphasizes the complexity and thoroughness of audit procedures when addressing a more extensive audit scope. Additionally, the substantial effects of key audit matters related to investments, financial health, and accounting standards on audit report lag underscore the importance of these factors in the auditing process. Bédard et al. (2018) highlighted the reporting of key audit matter and found an increase in audit delays and costs. Moreover, Sulcaj (2021) also stated that the mention of key audit matter in the audit report increases audit costs and delays. Baloğlu and Çakalı (2022); Sakin and Yildirim (2022) found that the number of key audit matters does not significantly affect the timeliness of audit reports.

The disclosure of key audit matters can contribute to the development of public trust, transparency, and communicative value. This is in line with institutional theory, which focuses on legitimacy, where companies seek legitimacy from users by adopting the relatively new key audit matter standards in Indonesia. The implementation of key audit matters can lead to changes in the relationship between auditors and auditees, as well as risk management practices and internal controls, which will later contribute to more comprehensive institutional changes within the business industry environment.

In addition to supporting transparency, key audit matter also encourages high-quality audit reporting. Therefore, regulators should develop requirements for the implementation of key audit matters, not only for listed companies but also for all institutions in Indonesia. Regulators also play a role in promoting the adoption of key audit matters, such as by designing training programs for auditors. Auditors can more effectively integrate key audit matters into their audit reporting, communicate their findings in a clear and understandable way, and ensure that the identified key audit matters reflect the actual risks and challenges faced by the company, rather than just meeting minimum reporting requirements.

5. Conclusion

This paper investigates key audit matters disclosure and audit report lag in companies listed on the Indonesian stock exchange in 2023. We chose Indonesia because the implementation of key audit matters has just been implemented in 2022 for listed companies. Indonesia implements the new ISA 701 requirement to disclose key audit matters more transparently in the audit report regarding material risks that can threaten the company's processes. ACCA (2018) also mandates that companies communicate key audit matters in their reports to encourage better governance, support better auditor quality, encourage better corporate reporting, and help investors better distinguish between companies that have received audit reports that are free from material misstatements. This will directly have a positive impact on audit quality.

As a result, we find no relationship between key audit matters disclosure and audit reporting delay. The overlap and key audit matters disclosure are caused by knowledge spillover resulting from serving on multiple committees within a firm. We argue that key audit matters disclosure has become a standard part of public company audit reports in Indonesia, so auditors may not experience significant delays even though they add this disclosure. Auditors may have implemented efficient procedures to ensure that this disclosure is completed on time. Our study provides new empirical evidence on key audit matters and audit report lag.

We contribute to the audit literature in several ways. First, we respond to the call for research to explore key audit matters disclosure and its impact on audit completion time. Second, we offer a methodological contribution by examining the 2023 audit reports of Indonesian public companies where key audit matters require financial firms to disclose key audit matters in their expanded audit reports. Indonesia therefore provides an interesting context to examine the determinants and consequences of the adoption of key audit matters disclosure. Our findings provide important policy implications that Indonesian regulators should be aware of the effectiveness of audit implementation in improving key audit matters disclosure so that audit reports can be timely. On the other hand, from a professional perspective, key audit matters disclosure will encourage better communication between auditors and users, which will lead to better corporate governance and reduced information asymmetry.

Our paper has several limitations and offers interesting ideas for future research. First, this study focuses solely on the Indonesian context, which limits the generalizability of its findings to other jurisdictions with different regulatory environments and cultural factors affecting audit practices. Second, the study relies heavily on publicly available data, such as financial reports and audit opinions, which may introduce potential biases since the determination of audit opinions is highly dependent on auditors' judgment. This limitation highlights the risk of overlooking the subjective considerations and contextual factors auditors weigh when determining Key Audit Matters or completing the issuance of audit reports.

Future research should include qualitative perspectives from key stakeholders involved in or affected by the audit process. Upcoming studies can strengthen the robustness of findings by integrating primary data collection methods, such as interviews or surveys with auditors, regulators, and financial statement users, to better understand their expectations and informational needs regarding Key Audit Matters disclosures and audit report timeliness. Integrating these qualitative insights would provide a more comprehensive understanding of the decision-making frameworks and challenges faced by auditors, enhancing the practical implications of audit reporting standards. Finally, future studies could explore cross-country analyses to examine how different regulatory frameworks and market dynamics influence Key Audit Matters disclosures and audit report lag, thereby broadening the applicability of findings across diverse contexts.

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Conflict of interest statement

The authors agree that the research was conducted without any personal, commercial, or financial conflict of interest and declare that there is no conflict of interest with the funders.

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Authors' contributions

Ahmad Rudi Yulianto carried out the research, wrote and revised the article. Both Assoc. Prof. Norziana Lokman and Dr. Fazlida Mohd Razali supervised research progress, review, revisions and approved the article submission.



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