The Effect of Audit Committee Effectiveness and Audit Firm Size on Key Audit Matters Disclosure: Evidence from Indonesian Manufacturing Companies

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Abstract. The disclosure of Key Audit Matters (KAM) represents a significant innovation in audit reporting aimed at enhancing the transparency of audit information for financial statement users. This study examines the effect of audit committee effectiveness and audit firm size on KAM disclosure. The research objects include audit committee effectiveness proxied by audit committee meeting frequency, audit firm size, and KAM disclosure, with the subjects being manufacturing companies listed on the Indonesia Stock Exchange (IDX). This study employs a quantitative method with a verification approach, based on secondary data from 113 manufacturing companies during the 2022-2024 period, resulting in a total of 339 observational data. The sampling technique was conducted through purposive sampling, with panel data regression analysis using the Random Effect Model (REM) for hypothesis testing. The research findings indicate that audit committee effectiveness has a positive and significant effect on KAM disclosure, while audit firm size does not significantly influence KAM disclosure. The higher the frequency of audit committee meetings, the more KAM items are disclosed in the audit report. This study recommends adding variables such as company complexity, audit quality, or ownership structure for future research.

Keywords: *Audit Committee Effectiveness, Audit Firm Size, Key Audit Matters Disclosure.*

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A. Introduction

The increasing complexity of the business world has driven the need for global audit standard reforms to enhance transparency in financial reporting and audit processes. In response to this need, the International Auditing and Assurance Standards Board (IAASB) established the Key Audit Matters (KAM) framework through ISA 701, which became effective on December 15, 2016. In Indonesia, the adoption of KAM disclosure standards was implemented through Audit Standard (SA) 701, which came into effect on January 1, 2022, for companies listed on the capital market (IAPI, 2021). KAM reflects audit areas that require complex professional judgment selected based on audit risk assessment, with the aim of enhancing transparency and information value for financial statement users and supporting better understanding in decision-making processes (IAASB, 2015).

The results of IAPI (Penerapan Tahun Pertama SA 701 Tentang Pengomunikasian Hal Audit Utama (HAU) Di Indonesia, n.d.) study on 826 Independent Auditor Reports (IARs) of issuers on the Indonesia Stock Exchange revealed an interesting phenomenon in the first year of SA 701 implementation. Although the compliance rate reached 99%, there was wide diversity in the number of KAMs disclosed, with 70% of IARs disclosing only 1 KAM. The average KAM disclosure in Indonesia was only 1.3 per report, significantly lower compared to international practices such as Malaysia disclosing an average of 2.09 KAMs, Singapore disclosing an average of 2.30 KAMs (ACCA, 2018), and three European countries namely the United Kingdom, France, and the Netherlands which reached 3.8 KAMs per report (Pinto & Morais, 2019).

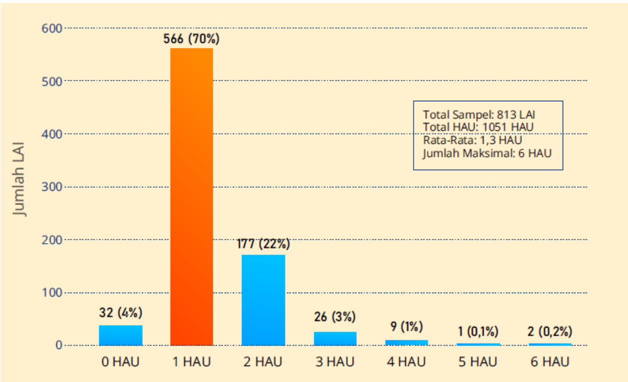

Figure 1. Distribution of KAM Disclosure in Indonesia (IAPI, 2023)

Although the compliance level of SA 701 implementation in Indonesia has been very good, the quality of KAM disclosure remains a significant issue. The Public Accountant Professional Committee (Komite Profesi Akuntan Publik, 2024) in the Pre-Event Financial Profession Expo 2024 webinar stated that although more than 90% of IARs have disclosed KAM for the 2022 fiscal year, the quality of disclosure still requires improvement. Kusumaningsih Angkawijaya from the Public Accountant Professional Committee stated that to provide meaningful understanding and information regarding KAM, education for auditors, preparers, and investors is still needed. Steven Tanggara, Chairman of the Indonesian Public Accountant Professional Standards Board, revealed various obstacles and challenges faced in implementing KAM in Indonesia, including the use of complex technical language, the use of templates not adapted to specific company contexts (boilerplate), and many auditors are still in the learning and adaptation stage considering SA 701 only became effective on January 1, 2022.

Research by Batara et al. (Batara et al., 2024) analyzing 806 audit reports of public companies in Indonesia in 2022 found that the most frequently disclosed KAM topics were allowance for doubtful accounts (231 times or 28.7%), revenue recognition (207 times or 25.7%), and inventory valuation (119 times or 14.8%). The dominance of these topics is highly relevant to the characteristics of the manufacturing sector which has a high financing structure, large capital requirements, and extensive linkages in operational activities, thus requiring good capital and asset management (Utomo & Mawardi, 2024). This complexity creates higher estimation risks, especially related to inventory valuation and fixed assets that require deeper auditor professional judgment in KAM disclosure.

From a theoretical perspective, KAM disclosure can be explained through agency theory as a mechanism to reduce information asymmetry between management (agent) and owners or investors (principal). Jensen & Meckling (Jensen & Meckling, 1976) explain that agency relationships occur when principals delegate authority to agents for managing the company, creating situations where information asymmetry and divergent interests between both parties generate agency costs. KAM disclosure strengthens the monitoring role of auditors through enhanced transparency about significant areas in financial statements, thereby reducing information asymmetry and agency costs (Al Lawati & Hussainey, 2022). The results of IAPI (Penerapan Tahun Pertama SA 701 Tentang Pengomunikasian Hal Audit Utama (HAU) Di Indonesia, n.d.) research confirm the role of KAM in reducing information asymmetry, where 77% of investors agreed that KAM increased their confidence in audited financial statements, and 80% agreed that KAM helped them understand the risks faced by entities.

Within the corporate governance framework, two oversight mechanisms become very important in supporting the effectiveness of KAM disclosure. First, audit committee effectiveness as reflected by audit committee meeting frequency. OJK Regulation Number 55/POJK.04/2015 (Peraturan Otoritas Jasa Keuangan Nomor 55/POJK.04/2015 Tentang Pembentukan Dan Pedoman Pelaksanaan Kerja Komite Audit, 2015) requires audit committees to hold meetings at least 4 times per year. Audit committees that hold meetings regularly and intensively tend to have a deeper understanding of business risks and critical audit areas, thereby encouraging auditors to disclose KAMs more comprehensively (Velte, 2018). Qadrina & Raharja (Qadrina & Raharja, 2024) found that the frequency of audit committee meetings exerts a positive and significant impact on KAM disclosure extent, which aligns with Abbott et al. (Abbott et al., 2004) international findings indicating that heightened audit committee activity correlates with enhanced financial statement transparency.

Second, audit firm size represents a crucial factor in enhancing audit quality and KAM disclosure practices. Major audit firms classified as Big Four (Deloitte, PwC, EY, and KPMG) possess greater resources, employ standardized approaches, and demonstrate extensive expertise, factors that may shape both the scope and characteristics of KAM disclosure (Batara et al., 2024). According to Batara et al. (Batara et al., 2024), notable distinctions exist between Big Four and non-Big Four auditors concerning the mean quantity of KAMs disclosed, where Big Four firms reported an average of 1.38 KAM disclosures compared to 1.27 for non-Big Four firms.

Therefore, this research examines "The Effect of Audit Committee Effectiveness and Audit Firm Size on Key Audit Matters Disclosure (An Empirical Study of Manufacturing Companies on the Indonesia Stock Exchange for 2022-2024)". The objectives of this study are: (1) To analyze the effect of Audit Committee Effectiveness on Key Audit Matters (KAM) Disclosure, and (2) To analyze the effect of Audit Firm Size on Key Audit Matters (KAM) Disclosure.

B. Method

This study employs a quantitative method with a verification approach. The research population consists of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2022-2024 period. Through purposive sampling technique, 113 companies were selected as the research sample based on the criteria of having complete audited financial statements and annual reports, resulting in a total of 339 observations. Data collection was conducted using documentation method through secondary data. The analytical techniques employed include descriptive statistical analysis and panel data regression analysis using the Random Effect Model (REM).

C. Result and Discussion

Initial Findings

The Relationship Between Audit Committee Effectiveness (X1) and Audit Firm Size (X2) with Key Audit Matters Disclosure (Y). This section presents the findings regarding the relationship between Audit Committee Effectiveness and Audit Firm Size with Key Audit Matters Disclosure, which was tested using panel data regression analysis. The findings from the testing are displayed in Table 1.

Table 1. Panel Data Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.272902	0.087614	14.52848	0.0000
MEET	0.028868	0.007749	3.725418	0.0002
KAPSIZE	-0.212063	0.117583	-1.803524	0.0722

Source: Eviews 12 results, 2026.

Based on Table 1 above, the panel data regression equation formulated for the research data is as follows:

$$\mathrm{KAM} = 1.272902 + 0.028868\,\mathrm{MEET} - 0.212063\,\mathrm{KAPSIZE} + \varepsilon \qquad \dots (1)$$

The above equation can be interpreted as follows: the constant coefficient of 1.2729 indicates that when Audit Committee Effectiveness (X1) and Audit Firm Size (X2) are at 0, the Key Audit Matters Disclosure (Y) value is 1.2729. The coefficient for Audit Committee Effectiveness (X1) is 0.0288 with a positive direction, implying that each single-unit increase in audit committee meeting frequency leads to a 0.0288-item increase in KAM Disclosure (Y). Conversely, the coefficient for Audit Firm Size (X2) is -0.2120 with a negative direction, suggesting that companies audited by Big Four audit firms exhibit KAM disclosure levels that are 0.2120 items lower compared to companies audited by non-Big Four audit firms.

Descriptive Statistical Analysis

Table 2. Descriptive Statistical Analysis Results

	MEET	KAPSIZE	KAM
Mean	6.864307	0.315634	1.404130
Median	4.000000	0.000000	1.000000
Maximum	80.00000	1.000000	6.000000
Minimum	1.000000	0.000000	0.000000
Std. Dev.	6.902910	0.465455	0.798731
Observations	339	339	339

Source: Eviews 12 results, 2026.

Key Audit Matters (KAM)

The findings demonstrate that Key Audit Matters disclosure has a mean of 1.404, with a minimum value of 0 and a maximum value of 6. Companies with the minimum value of 0 include PT Alkindo Naratama Tbk, PT Ladangbaja Murni Tbk, and PT Sat Nusapersada Tbk in 2022, which did not disclose any KAM. Conversely, companies with the maximum value include PT Kimia Farma (Persero) Tbk which disclosed 6 KAMs in 2022 and PT Phapros Tbk which disclosed 6 KAMs in 2022 and 5 KAMs in 2023 and 2024.

Based on the explanation above, the mean KAM disclosure value of 1.404 indicates that the majority of manufacturing companies in 2022-2024 disclosed 1-2 KAM items in their audit reports. This aligns with IAPI (Penerapan Tahun Pertama SA 701 Tentang Pengomunikasian Hal Audit Utama (HAU) Di Indonesia, n.d.) findings which showed that the mean KAM disclosure in Indonesia was 1.3 per report. Among 113 companies or 339 observations, most companies have properly adopted SA 701, though the quantity of disclosures remains relatively modest compared to international practices.

Audit Committee Effectiveness

Audit committee effectiveness, measured through meeting frequency in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for 2022-2024, shows a minimum value of 1 time and a maximum value of 80 times. The company with the minimum value was PT Sinergi Inti Plastindo Tbk in 2022, conducting only 1 audit committee meeting, whereas the company with the maximum value was PT Krakatau Steel (Persero) Tbk, conducting 80 audit committee meetings in 2022, 55 meetings in 2023, and 56 meetings in 2024. The mean audit committee meeting frequency of 6.864 times with a median of 4 times indicates that most companies have met the minimum requirements of OJK Regulation Number 55/POJK.04/2015 (Peraturan Otoritas Jasa Keuangan Nomor 55/POJK.04/2015 Tentang Pembentukan Dan Pedoman Pelaksanaan Kerja Komite Audit, 2015), which requires audit committees to conduct meetings at least 4 times per year. Furthermore, among 113 sample companies, 62 companies exceed the mean and 51 companies fall below the mean. This demonstrates that overall, audit committee effectiveness in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for 2022-2024 shows strong performance in executing oversight functions.

Audit Firm Size

Regarding Audit Firm Size in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for 2022-2024, findings reveal that 31.6% of companies (107 observations) use Big Four audit firm services, whereas 68.4% of companies (232 observations) use non-Big Four audit firm services. Examples of companies using Big Four audit firm services include PT Unilever Indonesia Tbk, PT Kalbe Farma Tbk, PT Semen Indonesia (Persero) Tbk, PT Indocement Tunggal Prakarsa Tbk, and PT Astra Otoparts Tbk. Conversely, the majority of manufacturing companies such as PT Alkindo Tbk, PT Mayora Indah Tbk, PT Nippon Indosari Corpindo Tbk, and PT Kimia Farma (Persero) Tbk employ non-Big Four audit firm services. This demonstrates that most manufacturing companies prefer non-Big Four audit firm services for auditing their financial statements, which may be attributed to audit fee considerations and company size characteristics.

Simultaneous Test (F-test)

Table 3. Simultaneous Test (F-Test)

Root MSE	0.448960	R-squared	0.044468
Mean dependent var	0.544515	Adjusted R-squared	0.038780
S.D. dependent var	0.459967	S.E. of regression	0.450960
Sum squared resid	68.33058	F-statistic	7.818317
Durbin-Watson stat	1.585429	Prob(F-statistic)	0.000480

Source: Eviews 12 results, 2026.

Based on the F-test findings in Table 3, the F-statistic coefficient is 7.818317 with a probability value (Prob F-statistic) of 0.000480. Compared to the significance level of 0.05, this probability value of $0.000480 < 0.05$ demonstrates that audit committee effectiveness and audit firm size simultaneously have a significant effect on Key Audit Matters (KAM) disclosure, thereby justifying further testing.

Partial Test (t-Test)

Table 4. Partial Test (t-Test)

Root MSE	0.448960	R-squared	0.044468
Mean dependent var	0.544515	Adjusted R-squared	0.038780
S.D. dependent var	0.459967	S.E. of regression	0.450960
Sum squared resid	68.33058	F-statistic	7.818317
Durbin-Watson stat	1.585429	Prob(F-statistic)	0.000480

Source: Eviews 12 results, 2026.

Interpretation of partial test (t-test) findings:

1. The Audit Committee Effectiveness variable shows a probability value of 0.0002, which is below the significance level of 0.05 or 5% (0.0002 < 0.05). This can also be observed through the comparison between the t-statistic of 3.7254 and the t-table of 1.967, indicating t-statistic > t-table (3.7254 > 1.967). Therefore, it can be concluded that the Audit Committee Effectiveness variable has a significantly positive effect on the Key Audit Matters (KAM) Disclosure variable.
2. The Audit Firm Size variable shows a probability value of 0.0722, which exceeds the significance level of 0.05 or 5% (0.0722 > 0.05), and the absolute t-statistic value of 1.8035 is below the t-table of 1.967, indicating t-statistic < t-table (1.8035 < 1.967). Hence, it can be concluded that the Audit Firm Size variable does not have a significant effect on Key Audit Matters (KAM) Disclosure.

Coefficient of Determination

Table 5. Coefficient of Determination Test Results (R^2)

Root MSE	0.448960	R-squared	0.044468
Mean dependent var	0.544515	Adjusted R-squared	0.038780
S.D. dependent var	0.459967	S.E. of regression	0.450960
Sum squared resid	68.33058	F-statistic	7.818317
Durbin-Watson stat	1.585429	Prob(F-statistic)	0.000480

Source: Eviews 12 results, 2026.

The coefficient of determination test findings in Table 5 reveal that the Adjusted R-squared value is 0.038780, indicating that the explanatory power of the independent variables in this study, namely audit committee effectiveness and audit firm size, can explain the dependent variable, namely Key Audit Matters (KAM) disclosure, by 3.88%, while the remaining (100% - 3.88%), or 96.12%, is explained by other variables beyond those examined, including company complexity, company size, profitability, leverage, and audit quality for improved research outcomes.

Analysis and Discussion

The Effect of Audit Committee Effectiveness on Key Audit Matters (KAM) Disclosure

Based on the t-test analysis conducted using EViews 12 as displayed in Table 4, the Audit Committee Effectiveness variable (X1) shows a probability value of 0.0002, which is below the 0.05 significance level. Therefore, the hypothesis that Audit Committee Effectiveness has a positive and significant effect on Key Audit Matters (KAM) Disclosure is supported. This study reveals that audit committees play a critical role in enhancing information transparency and maintaining financial reporting quality. Abbott et al. (Abbott et al., 2004) assert that proactive and well-functioning audit committees can perform monitoring duties more effectively, thereby reducing the risk of material misstatements and ensuring accurate presentation of financial statements to stakeholders. A relevant interpretation of this relationship indicates that higher frequency of audit committee meetings provides greater opportunities for committee members to identify and discuss critical matters and business risks with external auditors, consequently facilitating the disclosure of the most significant issues as KAMs. This evidence is consistent with empirical studies by Qadrina & Raharja (Qadrina & Raharja, 2024) and Boonlert-U-Thai & Suttipun (Boonlert-U-Thai & Suttipun, 2023), who found that audit committee meeting frequency positively and significantly influences the extent of KAM disclosure.

The Effect of Audit Firm Size on Key Audit Matters (KAM) Disclosure

Based on the t-test analysis conducted using EViews 12 as illustrated in Table 4, the Audit Firm Size variable (X2) shows a probability value of 0.0722, which exceeds the 0.05 significance level. Consequently, the hypothesis is rejected, indicating that Audit Firm Size does not have a significant effect on Key Audit Matters (KAM) Disclosure. This result suggests that the implementation of SA 701 in Indonesia has introduced standardized procedures that all independent auditors must comply with, regardless of their affiliation with Big Four or non-Big Four firms. This finding is supported by Qadrina & Raharja (Qadrina & Raharja, 2024) study, which revealed that auditor classification as Big Four or non-Big Four does not determine the quantity of KAM disclosures, as professional standards and regulatory compliance outweigh firm size considerations. Consistent with Baatwah (Baatwah, 2023) perspective, auditors associated with Big Four firms generally do not emphasize the volume or quantity of KAM items, but rather focus on the qualitative aspects and communicative effectiveness of disclosure to ensure greater transparency for audit report users. This interpretation is further validated by studies by Shao (Shao, 2020) and Rahaman et al. (Rahaman et al., 2023), who found that neither Big Four nor non-Big Four audit firms significantly influence the number of KAMs reported.

D. Conclusion

Based on the empirical evidence and analysis examining the effect of audit committee effectiveness and audit firm size on Key Audit Matters (KAM) disclosure in manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2022-2024, the following conclusions are drawn: (1) Audit Committee Effectiveness has a significantly positive effect on Key Audit Matters (KAM) disclosure. This finding indicates that intensive audit committee activities, characterized by higher meeting frequency, enable better identification of material areas requiring disclosure in audit reports, thereby enhancing the transparency and quality of KAM reporting. The higher the frequency of audit committee meetings, the more KAM items are disclosed in the audit report. (2) Audit Firm Size does not have a significant effect on Key Audit Matters (KAM) disclosure. This is attributed to the standardization of KAM disclosure requirements through SA 701, which mandates uniform compliance by all independent auditors. Therefore, professional standards and regulatory compliance are more important than firm size in determining disclosure practices. Both Big Four and non-Big Four audit firms demonstrate comparable disclosure levels, indicating that adherence to professional standards is more critical than firm size in determining the extent of KAM reporting.

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