International Conference on Sustainable Economics, Management, and Accounting (ICSEMA 2026)
Proceedings
Vol. 02 Year 2026, 1549 – 1562
ISSN: 3109-3337

THE EFFECT OF EARNINGS MANAGEMENT, AUDIT QUALITY, AND AUDIT COMMITTEE EFFECTIVENESS ON KEY AUDIT MATTERS WITH CORPORATE COMPLEXITY AS A MODERATING VARIABLE

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Abstract

Key Audit Matters (KAM) have become an important component of auditor reporting by providing additional information regarding issues considered most significant during the audit process. This study examines the effects of earnings management, audit quality, and audit committee effectiveness on KAM disclosure and evaluates the moderating role of corporate complexity. The analysis is based on 204 firm-year observations from consumer non-cyclicals companies listed on the Indonesia Stock Exchange between 2022 and 2025. Secondary data obtained from annual reports and independent auditor reports were analyzed using panel data regression and Moderated Regression Analysis (MRA) under the Random Effects Model. The results show that audit quality is positively associated with KAM disclosure, whereas earnings management and audit committee effectiveness do not exhibit significant direct effects. The findings further demonstrate that corporate complexity strengthens the relationship between earnings management and KAM disclosure but does not significantly moderate the relationships involving audit quality and audit committee effectiveness. These results suggest that auditor-related factors play a more prominent role in explaining KAM disclosure than governance mechanisms. In addition, organizational complexity appears to influence how auditors respond to financial reporting risks associated with earnings management. This study contributes to the emerging literature on KAM by providing evidence from Indonesia and highlighting the relevance of corporate complexity in explaining differences in KAM disclosure practices.

Keywords: Key Audit Matters, Earnings Management, Audit Quality, Audit Committee Effectiveness, Corporate Complexity.

INTRODUCTION

The implementation of Key Audit Matters (KAM) has transformed the way auditors communicate important findings to financial statement users. Following the issuance of ISA 701 and its adoption in Indonesia through SA 701, auditors are required to disclose matters considered most significant during the audit process. These disclosures offer additional information regarding areas that involve substantial auditor judgment, elevated audit risk, and complex accounting estimates. Through this reporting approach, stakeholders are provided with a clearer understanding of issues addressed during the audit, thereby improving the usefulness of audit reports. As a result, KAM has become an increasingly important topic in both auditing practice and academic research.

The process of determining Key Audit Matters involves considerable auditor judgment and professional assessment. Auditors must evaluate various issues encountered during the audit and identify those considered most significant to the engagement. Consequently, KAM disclosures may vary among firms because each company operates under different organizational structures, business conditions, and audit environments (IAASB, 2015). This variation indicates that both corporate characteristics and audit-related factors may shape auditors' decisions regarding KAM reporting, highlighting the need for further research into the determinants of KAM disclosure.

Despite the widespread adoption of KAM reporting, there is still limited consensus regarding the factors that drive variations in KAM disclosure. Prior research indicates that differences in firm characteristics, audit attributes, and governance structures may influence how auditors determine and communicate key audit issues (Vickneswaran, 2026). From the perspective of Audit Risk Theory, earnings management may increase perceived reporting risk and encourage greater auditor attention. Audit quality may also affect the auditor's capability to recognize and report significant audit matters, while an effective audit committee can strengthen oversight of the financial reporting process. Furthermore, organizational complexity may increase audit challenges because companies with more intricate structures and operations often require additional audit effort and professional judgment (Habib et al., 2018; Wuttichindanon & Issarawornrawanich, 2020).

Empirical findings regarding the determinants of KAM disclosure have not yet reached a consistent conclusion. Previous studies have reported varying results concerning the influence of audit quality and audit committee effectiveness, while evidence on the association between earnings management and KAM disclosure remains relatively scarce. Moreover, corporate complexity has frequently been incorporated as a control variable rather than being examined as a factor that may alter the relationships between financial reporting behavior, audit characteristics, governance mechanisms, and KAM disclosure. These inconsistencies and research limitations indicate the need for further investigation to better understand the factors associated with KAM reporting.

Accordingly, this research examines the effects of earnings management, audit quality, and audit committee effectiveness on KAM disclosure and evaluates whether corporate complexity moderates these relationships. The study focuses on consumer non-cyclicals companies listed on the Indonesia Stock Exchange during the 2022–2025 period. By investigating these variables, the study contributes to the auditing and corporate governance literature while providing evidence on factors associated with KAM disclosure in an emerging market environment. The results are expected to offer useful insights for auditors, corporate managers, and regulators seeking to improve the transparency and informativeness of audit reporting.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

Agency Theory

Agency Theory was developed by Jensen and Meckling (1976) to explain the relationship between shareholders and managers within a company. In this relationship, shareholders delegate decision-making authority to managers, who are responsible for operating the business and utilizing company resources. However, managers generally possess more information about the firm's activities and performance than shareholders, creating information asymmetry between the two parties.

Information asymmetry may encourage managers to act in ways that prioritize their own interests rather than those of shareholders. Such behavior can include actions that affect the quality and reliability of financial reporting, including earnings management practices. To reduce potential conflicts arising from these differing interests, companies implement various monitoring mechanisms, including external audits, audit committees, and other corporate governance practices.

Within the context of this study, Agency Theory provides a basis for understanding how monitoring mechanisms and managerial behavior may influence the disclosure of Key Audit Matters (KAM). By improving oversight and transparency, KAM disclosures may help reduce information gaps between management and stakeholders while enhancing the credibility of financial reporting.

Audit Risk Theory

Audit Risk Theory describes the possibility that auditors may issue an inappropriate audit opinion when material misstatements in the financial statements are not identified during the audit process. The theory explains that audit risk arises from a combination of inherent risk, control risk, and detection risk, which together determine the overall level of risk faced by auditors (Arens et al., 2017). Accordingly, auditors are required to evaluate these risk components and design audit procedures capable of reducing audit risk to an acceptable level.

Areas characterized by greater uncertainty, estimation complexity, or elevated risk generally demand additional auditor attention. In accordance with ISA 701, matters considered highly significant throughout the audit engagement may be communicated as Key Audit Matters (KAM). Therefore, Audit Risk Theory provides a useful framework for explaining why certain firm characteristics, governance mechanisms, and audit attributes may influence the extent and nature of KAM disclosure.

Key Audit Matters Disclosure

Key Audit Matters (KAM) are matters that auditors consider to be the most significant during the audit of the current period's financial statements based on their professional judgment (IAASB, 2015). These matters originate from issues discussed with those charged with governance and typically involve areas requiring substantial auditor attention, significant judgments, or heightened audit risk.

The introduction of KAM reporting has increased the amount of audit-related information available to users of financial statements. Unlike traditional audit reports, KAM disclosures provide additional explanations regarding important matters encountered during the audit engagement. As a result, KAM reporting is expected to enhance the transparency and communicative value of the auditor's report while helping stakeholders better understand significant audit issues.

Despite its intended benefits, prior studies have produced differing conclusions regarding the effectiveness and implications of KAM disclosure (Velte & Issa, 2019). In addition, the number and content of KAMs disclosed often vary across companies. Such variation suggests that organizational characteristics, governance mechanisms, and audit-related factors may affect auditors' decisions regarding KAM reporting (Vickneswaran, 2026). Consequently, identifying the factors associated with KAM disclosure remains an important area of research in the auditing literature.

Earnings Management and KAM Disclosure

Earnings management occurs when managers exercise discretion in financial reporting to influence reported earnings and achieve particular objectives (Healy & Wahlen, 1999). From an agency perspective, information asymmetry between managers and shareholders creates opportunities for managerial intervention in the reporting process. Such actions may affect the credibility of financial statements and increase concerns regarding reporting quality.

Audit Risk Theory suggests that financial reporting practices associated with earnings management may elevate the risk of material misstatement. Under these circumstances, auditors are likely to devote additional attention to areas considered more susceptible to reporting irregularities. Issues that require extensive audit effort, significant judgment, or heightened professional skepticism may subsequently be considered during the determination of Key Audit Matters (KAM). Prior studies have shown that companies exhibiting greater levels of earnings management often attract increased auditor attention, which may be reflected in KAM disclosures (Haider & Alzeban, 2025). Therefore, higher levels of earnings management are expected to increase the likelihood of KAM disclosure.

H1: Earnings management positively affects KAM disclosure.

Audit Quality and KAM Disclosure

Audit quality refers to the auditor's ability to identify material misstatements in financial statements and communicate those findings appropriately through the audit report (DeAngelo, 1981). High-quality audits contribute to the credibility of financial reporting by providing independent assurance regarding the reliability of accounting information. In the context of Agency Theory, auditors help mitigate information asymmetry between management and shareholders by serving as an external monitoring mechanism.

From the perspective of Audit Risk Theory, auditors with greater expertise, resources, and independence are more capable of recognizing significant audit issues and evaluating areas with elevated audit risk. Since Key Audit Matters (KAM) are intended to communicate issues that required substantial auditor attention, higher audit quality may encourage more informative and entity-specific KAM disclosures. Previous studies have documented that companies audited by Big Four audit firms tend to disclose more KAMs than those audited by non-Big Four auditors (Ferreira & Morais, 2019; Batara et al., 2024). Therefore, audit quality is expected to positively influence KAM disclosure.

H2: Audit quality positively affects KAM disclosure.

Audit Committee Effectiveness and KAM Disclosure

Audit committee effectiveness reflects the committee's capacity to oversee financial reporting activities, monitor internal control systems, and support the external audit process (DeZoort et al., 2002). As one of the key governance mechanisms within a company, the audit committee plays an important role in promoting accountability and reducing potential conflicts arising from the separation of ownership and management.

Effective oversight by the audit committee may contribute to higher-quality financial reporting and strengthen communication among management, auditors, and those charged with governance. From the perspective of Audit Risk Theory, stronger governance structures can assist auditors in identifying and evaluating significant reporting risks more efficiently. Consequently, companies with more effective audit committees may be associated with greater transparency regarding important audit issues, which can be reflected in KAM disclosures. Prior studies have reported that effective audit committees are linked to improved disclosure quality and stronger reporting practices (Alshdaifat et al., 2024; Rahaman & Karim, 2023). Therefore, audit committee effectiveness is expected to positively influence KAM disclosure.

H3: Audit committee effectiveness positively affects KAM disclosure.

Corporate Complexity as a Moderating Variable

Corporate complexity refers to the extent to which a company's organizational structure and business activities become more intricate due to factors such as the existence of numerous subsidiaries, diverse operating segments, and broad operational coverage (Habib et al., 2018). As organizational complexity increases, monitoring and coordinating corporate activities become more challenging, potentially creating greater information asymmetry and increasing the difficulty of the audit process.

According to Audit Risk Theory, companies with more complex operations are generally exposed to higher inherent risk because auditors must evaluate a wider range of transactions, reporting systems, and business activities. Such conditions often require additional audit effort and more extensive professional judgment when assessing financial reporting risks. Previous studies have also identified corporate complexity as an important factor associated with the disclosure of Key Audit Matters, as auditors tend to encounter more significant issues when auditing complex organizations (Vickneswaran, 2026; Wuttichindanon & Issarawornrawanich, 2020).

In highly complex firms, the influence of earnings management on KAM disclosure may become stronger because auditors face greater challenges in assessing the implications of financial reporting decisions. Likewise, audit quality may become increasingly important in ensuring that significant audit issues are properly identified and communicated. The monitoring function of the

audit committee may also be more relevant in complex organizations where oversight demands are greater. Therefore, corporate complexity is expected to influence the relationships between earnings management, audit quality, audit committee effectiveness, and KAM disclosure.
H4: Corporate complexity moderates the effect of earnings management on KAM disclosure.
H5: Corporate complexity moderates the effect of audit quality on KAM disclosure.
H6: Corporate complexity moderates the effect of audit committee effectiveness on KAM disclosure.

RESEARCH METHODS

To investigate the determinants of Key Audit Matters (KAM) disclosure, this study utilizes a quantitative research framework based on secondary data collected from Indonesian consumer non-cyclicals companies. The dataset consists of annual reports and audited financial statements covering the 2022–2025 period. Particular attention is given to the influence of earnings management, audit quality, and audit committee effectiveness, while corporate complexity is examined as a moderating factor.

Sample determination followed a purposive sampling procedure based on data availability and research requirements. From the initial population of 93 firms, 42 were excluded due to several considerations, including the absence of consistent annual reporting, the reporting of losses during the observation period, and incomplete information required to operationalize the study variables. Consequently, the final sample comprised 51 firms. Given the four-year observation horizon, the dataset consisted of 204 firm-year observations. All data were collected from publicly available annual reports and audited financial statements obtained through the IDX repository and the firms' official websites.

To operationalize KAM disclosure, this study employed the natural logarithm of the ratio between the total words disclosed within the KAM section and the number of KAM items reported by the auditor. Earnings management was measured using discretionary accruals derived from the Modified Jones Model. Audit quality was captured through auditor affiliation, distinguishing companies audited by Big Four audit firms from those audited by non-Big Four auditors.

The effectiveness of the audit committee was assessed using the Audit Committee Effectiveness Index (ACEI), which encompasses committee size, accounting expertise, meeting intensity, and independence. Scores were assigned based on median benchmarks, with a value of one indicating performance above the median and zero otherwise. Corporate complexity was represented by the number of subsidiaries owned by the company, which serves as a proxy for the complexity of organizational and operational arrangements.

Table 1. Operational Variable

Variabel	Measurement	Scale	Source
Key Audit Matters	$KAM = LN\left(\frac{WC}{KAMI}\right)$	Ratio	Amin & Handayani (2025)
Earnings Management	$\boldsymbol{DA_{it} = \frac{TA_{it}}{A_{it} - 1} - NDA_{it}}$	Ratio	Usman &Yahya (2025)
Audit Quality	$AQ = Audit\ Firm\ Affiliation$	Nominal	Khaerunnisa, et al., (2025)
Audit Committee Effectiveness	$ACEI = Sum\ of\ ACEI\ Score$	Interval	Qaderi, et al., (2024)

Variabel	Measurement	Scale	Source
Corporate Complexity	$CC = Number\ of\ Subsidiaries$	Ratio	Christansy & Ardianti (2018)

Statistical procedures were performed using Stata 17. The analysis began with descriptive statistics to summarize the distribution of the variables. Panel regression techniques were subsequently employed to test the proposed relationships. Model selection was based on the Chow, Hausman, and Lagrange Multiplier tests. To evaluate the moderating role of corporate complexity, interaction-based moderated regression analysis was conducted. Statistical decisions were made using significance thresholds of 1%, 5%, and 10%. The regression models are specified as follows:

1. $KAM = a + \beta_1 EM + \beta_2 AQ + \beta_3 ACE + \varepsilon$ .... (1)
2. $\mathrm{KAM} = \mathrm{a} + \beta_1\mathrm{EM} + \beta_2\mathrm{AQ} + \beta_3\mathrm{ACE} + \beta_4\mathrm{CC} + \beta_5(\mathrm{EM^*CC}) + \beta_6(\mathrm{AQ^*CC}) + \beta_7(\mathrm{ACE^*CC}) + \varepsilon$ .... (2)

RESULTS AND DISCUSSION

Descriptive Statistics

Descriptive statistics were employed to provide an overview of the characteristics of the research variables. The results of the descriptive statistics are presented in Table 2.

Table 2. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Key Audit Matters	204	244.851	66.027	0	493
Earnings Management	204	1.231	2.705	.004	18.64
Audit Quality	204	.603	.490	0	1
Audit Committee Effe~s	204	3.485	.557	2	4
Corporate Complexity	204	10.583	13.494	0	61

Source: Author's calculation

Table 2 summarizes the distribution of the variables used in this study based on 204 firm-year observations. The average KAM disclosure score is 244.851, with values ranging from 0 to 493, indicating considerable differences in disclosure practices among sample firms. A minimum value of zero suggests that certain audit reports did not contain any disclosed KAMs, whereas the highest value reflects extensive KAM reporting.

Earnings management records a mean value of 1.231 and exhibits substantial dispersion, as reflected by its standard deviation of 2.705. This pattern indicates that the level of earnings management varies considerably across firms. Audit quality has an average value of 0.603, implying that a majority of the observations were audited by Big Four audit firms.

The mean score of audit committee effectiveness is 3.485, suggesting that most firms demonstrate relatively strong audit committee characteristics. Meanwhile, corporate complexity reports an average value of 10.583 and reaches a maximum of 61 subsidiaries, highlighting significant differences in organizational complexity among the sampled companies.

Panel Data Model Selection

The selection of the panel data estimation technique was based on the sequential application of the Chow, Lagrange Multiplier (LM), and Hausman tests. The Chow test rejected the Common Effect Model due to its probability value of 0.0000, while the LM test confirmed that the Random Effect Model provided a better fit than the Common Effect Model, as indicated by a probability value of 0.0000.

Furthermore, the Hausman test generated a probability value of 0.1667, exceeding the 0.05 threshold and supporting the acceptance of the null hypothesis. These findings indicate that the Random Effect Model was the most suitable specification for the dataset and was therefore adopted as the primary model for subsequent hypothesis testing and moderation analysis.

Multicollinearity Test

To ensure that the independent variables are not highly correlated with one another, a multicollinearity test was conducted using the Variance Inflation Factor (VIF). The results are presented in Table 3.

Table 3. Variance Inflation Factor

Variable	VIF	1/VIF
Audit Quality	1.267	.789
Earnings Management	1.132	.884
Corporate Complexity	1.130	.885
Audit Committee Effectiveness	1.108	.903
Mean VIF	1.159	.

Source: Author’s calculation

Based on Table 3, all variables exhibit VIF values below the threshold of 10 and tolerance values above 0.10. The highest VIF value is 1.27, while the mean VIF is 1.16. These results indicate that there is no multicollinearity problem among the independent variables. Therefore, the regression model is considered appropriate for further analysis and hypothesis testing.

Robust Standard Error Estimation

The Modified Wald test for groupwise heteroscedasticity and the Wooldridge test for autocorrelation indicate the presence of heteroscedasticity ($\chi^2 = 17{,}541{,}121.73$; $p < 0.001$) and first-order autocorrelation ($F = 164.707$; $p < 0.001$), respectively. Therefore, the Random Effect Model was estimated using robust standard errors to obtain consistent and reliable statistical inferences despite these violations of classical assumptions.

Multiple Linear Regression

Table 4 presents the results of the multiple linear regression analysis examining the effects of earnings management, audit quality, and audit committee effectiveness on key audit matters.

Table 4. Multiple Linear Regression Result

Key Audit Matters	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
Earnings Management	-2.528	2.65	-0.95	.340	-7.723	2.667	
Audit Quality	39.706	13.845	2.87	.004	12.571	66.842	**
Audit Committee Effectiveness	5.267	6.097	0.86	.388	-6.682	17.216	
Constant	205.665	23.299	8.83	.000	160	251.329	

Mean dependent var	244.851	SD dependent var	66.027
Overall r-squared	0.122	Number of obs	204
Chi-square	11.766	Prob > chi2	0.008
R-squared within	0.010	R-squared between	0.170

**** p<.01, ** p<.05, * p<.1*

Source: Author’s calculation

The regression model is statistically significant, as indicated by the Prob > chi² value of 0.008, which is below the 5 percent significance level. This result suggests that the independent variables jointly explain variations in key audit matters. The model produces an overall R-squared value of

0.122, indicating that 12.2 percent of the variation in key audit matters can be explained by earnings management, audit quality, and audit committee effectiveness, while the remaining 87.8 percent is attributable to other factors outside the model.

The coefficient of earnings management is negative (-2.528), indicating an inverse relationship with key audit matters. Meanwhile, audit quality and audit committee effectiveness have positive coefficients of 39.706 and 5.267, respectively, suggesting a positive relationship with key audit matters.

Moderated Regression Analysis

To examine the effect of Earnings Management, Audit Quality, and Audit Committee Effectiveness on Key Audit Matters disclosure, as well as the moderating role of Corporate Complexity, a Random Effect Model with robust standard errors was employed. The regression results are presented in Table 5.

Table 5. Regression results

Key Audit Matters	Coef.	St.Err	t-value	p-value	[95% Conf	Interval]	Sig
Earnings Management	-13.607	6.874	-1.98	.048	-27.081	-.133	**
Audit Quality	31.98	18.513	1.73	.084	-4.306	68.266	*
Audit Committee Effectiveness	12.581	7.34	1.71	.087	-1.805	26.966	*
Corporate Complexity	.153	1.855	0.08	.934	-3.482	3.788	
EM_CorpComp	.961	.466	2.06	.039	.048	1.875	**
AQ_CorpComp	1.086	.851	1.28	.202	-.583	2.754	
ACE_CorpComp	-.69	.442	-1.56	.119	-1.557	.177	
Constant	200.123	27.28	7.34	0	146.656	253.59	***

Mean dependent var	244.851	SD dependent var	66.027
Overall r-squared	0.173	Number of obs	204
Chi-square	40.248	Prob > chi2	0.000
R-squared within	0.031	R-squared between	0.234

**** p<.01, ** p<.05, * p<.1*

Source: Author's calculation

The moderated regression model is statistically significant, as indicated by the Prob > chi² value of 0.000, which is below the 5 percent significance level. This result suggests that the model is appropriate for explaining variations in Key Audit Matters (KAM) disclosure. The model produces an overall R-squared value of 0.173, indicating that 17.3 percent of the variation in KAM disclosure can be explained by earnings management, audit quality, audit committee effectiveness, corporate complexity, and the interaction terms included in the model. The remaining 82.7 percent is explained by other factors outside the scope of this study.

Compared with the multiple linear regression model, the explanatory power increased from 12.2 percent to 17.3 percent after the inclusion of corporate complexity and the interaction variables. This improvement suggests that corporate complexity provides additional explanatory power in explaining variations in KAM disclosure, although the increase is relatively modest. The increase in R-squared also indicates that the moderating model offers a better fit than the baseline model.

The coefficient of the interaction term between earnings management and corporate complexity (EM × CC) is positive and significant ($\beta = 0.961$, $p = 0.039$), indicating that corporate complexity strengthens the relationship between earnings management and KAM disclosure. In contrast, the interaction terms between audit quality and corporate complexity (AQ × CC) and between audit committee effectiveness and corporate complexity (ACE × CC) are statistically insignificant, with p-values of 0.202 and 0.119, respectively. These findings suggest that corporate complexity does not significantly moderate the effects of audit quality and audit committee effectiveness on KAM disclosure.

Hypothesis Testing and Discussion

H1: Earnings management positively affects KAM disclosure.

The multiple linear regression results indicate that earnings management has a coefficient of -2.528 with a p-value of 0.340. Since the significance value exceeds 0.05, earnings management does not significantly affect Key Audit Matters (KAM) disclosure. Therefore, H1 is rejected.

These findings suggest that earnings management practices do not necessarily lead to greater KAM disclosure. Although earnings management may increase concerns regarding the quality of financial reporting, auditors do not automatically disclose such issues as KAMs. Under ISA 701, KAMs consist of matters that required significant auditor attention and were considered the most important during the audit engagement. Consequently, the existence of earnings management alone may not be sufficient to warrant disclosure as a Key Audit Matter.

According to Audit Risk Theory, auditors assess various audit risks when determining matters to be communicated in the KAM section. While earnings management may increase the possibility of material misstatement, auditors may address this risk through appropriate audit procedures without including it in KAM disclosures. Therefore, the decision to disclose a matter as KAM depends on the auditor's overall professional judgment regarding its significance during the audit process.

This result is inconsistent with Haider and Alzeban (2025), who found a positive relationship between earnings management and KAM disclosure. The difference suggests that the association between earnings management and KAM disclosure may vary depending on audit environments and auditors' professional judgments.

H2: Audit quality positively affects KAM disclosure.

The regression results reveal that audit quality has a positive coefficient of 39.706 and a p-value of 0.004. Since the significance level is below 0.05, audit quality is found to have a positive and statistically significant effect on Key Audit Matters (KAM) disclosure. Accordingly, H2 is supported.

This finding indicates that firms audited by higher-quality auditors tend to exhibit more extensive KAM disclosure within their audit reports. Under ISA 701, KAMs represent matters that required considerable auditor attention and were regarded as the most significant issues encountered during the audit engagement. The purpose of KAM reporting is to enhance the communicative value of the auditor's report by providing additional information regarding important audit matters. Therefore, auditors with higher levels of expertise and audit capability may be more inclined to communicate significant audit issues through more detailed and informative KAM disclosures.

The result can also be interpreted through the lens of Audit Risk Theory. Auditors possessing greater competence, independence, and professional resources are generally better positioned to identify areas associated with elevated audit risk and significant judgment. Because KAM disclosures are intended to communicate issues considered important during the audit process, higher audit quality may improve the auditor's ability to recognize, evaluate, and report such matters appropriately. Consequently, companies audited by higher-quality auditors are more likely to provide richer KAM disclosures.

The finding is consistent with the evidence reported by Ferreira and Morais (2019) as well as Batara et al. (2024), who documented that Big Four audit firms tend to disclose a greater number of KAMs than non-Big Four auditors. This tendency may be attributable to the broader resources, stronger methodological support, and greater industry expertise available within large international

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ISSN: 3109-3337

audit firms. As a result, higher audit quality contributes to a more comprehensive communication of significant audit matters through KAM reporting.

H3: Audit committee effectiveness positively affects KAM disclosure.

The multiple linear regression results show that audit committee effectiveness has a positive coefficient of 5.267 with a p-value of 0.388. Although the coefficient indicates a positive relationship, the effect is not statistically significant. Therefore, H3 is rejected.

The findings suggest that audit committee effectiveness does not significantly influence Key Audit Matters (KAM) disclosure. This result implies that a more effective audit committee does not necessarily lead to greater KAM disclosure. While the audit committee plays an important role in overseeing the financial reporting process and supporting audit quality, the responsibility for determining KAMs remains with the external auditor. Under ISA 701, KAMs are identified based on matters that required significant auditor attention and professional judgment during the audit engagement.

From the perspective of Audit Risk Theory, effective governance mechanisms may support the audit process by improving oversight and facilitating communication regarding financial reporting risks. However, the final decision regarding which matters are disclosed as KAMs depends primarily on the auditor’s assessment of significant audit issues. Consequently, audit committee effectiveness may not directly affect the extent of KAM disclosure.

This finding indicates that KAM disclosure is influenced more by the auditor’s professional judgment than by the effectiveness of the audit committee. The result is consistent with Abu and Jaffar (2020), who found that several dimensions of audit committee effectiveness were not significantly associated with KAM disclosure and that only audit committee meeting frequency had a significant effect on the number of KAMs reported.

H4: Corporate complexity moderates the effect of earnings management on KAM disclosure.

The results of the moderated regression analysis indicate that the interaction term between earnings management and corporate complexity produces a positive coefficient of 0.961 with a p-value of 0.039. Since the significance value is below the 5 percent threshold, corporate complexity is found to significantly moderate the relationship between earnings management and Key Audit Matters (KAM) disclosure. Therefore, H4 is supported.

This result suggests that the impact of earnings management on KAM disclosure becomes stronger as the level of corporate complexity increases. In other words, the association between earnings management and KAM reporting is not uniform across firms but depends on the complexity of the company’s organizational structure and operational activities. Companies characterized by a greater number of subsidiaries, more diverse business operations, or more complicated reporting environments tend to present additional challenges for auditors when assessing financial reporting risks. Under such circumstances, earnings management practices may attract greater auditor scrutiny and become more relevant in determining matters that warrant disclosure as KAMs.

The finding can be explained through Audit Risk Theory, which argues that more complex organizations are generally exposed to higher inherent risk due to the wider range of transactions, business processes, and reporting systems that must be evaluated during the audit. As organizational complexity increases, auditors are required to exercise greater professional judgment when assessing the implications of financial reporting decisions. Consequently, when indications of earnings management arise within a complex organizational setting, auditors may perceive a higher level of audit risk and devote greater attention to the issue. This condition increases the likelihood that such matters will be reflected in KAM disclosures.

The significant moderating effect observed in this study highlights the importance of considering organizational characteristics when examining the determinants of KAM reporting. The result supports the view that auditor reporting decisions are influenced not only by financial reporting behavior but also by the complexity of the environment in which the audit is conducted.

This finding is consistent with Wuttichindanon and Issarawornrawanich (2020), who reported that corporate complexity is positively associated with KAM disclosure. Their evidence suggests that auditors tend to communicate a greater number of significant audit matters when auditing firms that exhibit higher levels of organizational complexity and audit risk.

H5: Corporate complexity moderates the effect of audit quality on KAM disclosure.

The moderated regression results show that the interaction term between audit quality and corporate complexity has a positive coefficient of 1.086 with a p-value of 0.202. Since the significance value exceeds 0.05, corporate complexity does not significantly moderate the effect of audit quality on Key Audit Matters (KAM) disclosure. Therefore, H5 is rejected.

The findings suggest that corporate complexity does not significantly influence the relationship between audit quality and KAM disclosure. This result indicates that the effect of audit quality on KAM reporting remains relatively stable regardless of the level of organizational complexity. Although firms with more complex structures generally involve more complicated transactions and reporting processes, auditors with higher audit quality are expected to apply audit standards and procedures consistently across different organizational environments.

From the perspective of Audit Risk Theory, auditors are required to perform appropriate risk assessments and audit procedures irrespective of the complexity of the audited entity. Consequently, the ability of high-quality auditors to identify and communicate significant audit matters may not depend on the degree of corporate complexity. As a result, corporate complexity does not appear to significantly alter the relationship between audit quality and KAM disclosure. This finding implies that audit quality contributes directly to KAM disclosure, while the level of organizational complexity does not significantly strengthen or weaken this relationship.

H6: Corporate complexity moderates the effect of audit committee effectiveness on KAM disclosure.

The moderated regression results show that the interaction term between audit committee effectiveness and corporate complexity has a negative coefficient of -0.690 with a p-value of 0.119. Since the significance value is greater than 0.05, corporate complexity does not significantly moderate the effect of audit committee effectiveness on Key Audit Matters (KAM) disclosure. Therefore, H6 is rejected.

The findings indicate that corporate complexity does not significantly influence the relationship between audit committee effectiveness and KAM disclosure. This result suggests that differences in the level of organizational complexity do not alter the effect of audit committee effectiveness on KAM reporting. Although complex firms may face greater challenges in financial reporting and auditing, the monitoring role performed by the audit committee remains relatively similar across companies.

According to ISA 701, the determination of KAMs is based on matters that require significant auditor attention and professional judgment during the audit process. Therefore, even when an audit committee functions effectively, the decision regarding which matters are disclosed as KAMs ultimately remains the responsibility of the external auditor. As a result, corporate complexity does not appear to significantly affect the relationship between audit committee effectiveness and KAM disclosure.

This finding implies that KAM disclosure is driven more by the auditor’s assessment of significant audit matters than by the interaction between audit committee effectiveness and organizational complexity. Consequently, the effectiveness of the audit committee may contribute to governance quality, but its influence on KAM disclosure is not strengthened by higher levels of corporate complexity.

Overall Discussion

Overall, the findings of this study should be interpreted within the Indonesian context of KAM implementation. Although ISA 701 has been applied internationally since 2016 and was adopted considerably earlier in jurisdictions such as Malaysia, the United Kingdom, China, and Australia, the

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ISSN: 3109-3337

implementation of SA 701 in Indonesia only commenced for financial reporting periods beginning in 2022. Consequently, the practice of disclosing Key Audit Matters remains relatively new, and its application may not yet have reached the same level of maturity observed in countries with longer implementation experience.

The relatively recent adoption of SA 701 may also provide an explanation for why several hypothesized relationships were not statistically supported. In practice, the determination of KAMs continues to depend substantially on auditors' professional judgment when evaluating matters encountered during the audit engagement. As auditors and reporting entities continue adapting to the requirements of SA 701, variations in disclosure practices may still occur across firms. Therefore, the findings reported in this study should be understood within the broader context of the ongoing development of KAM reporting in Indonesia.

This section is the main section of a research article and is usually the longest section of an article. Data analysis processes such as statistical calculations and hypothesis testing processes do not need to be presented. Only the results of the analysis and the results of the hypothesis test must be reported. Tables and graphs can be used to clarify the presentation of research results verbally. Tables and graphs should be commented on or discussed.

For qualitative research, the results section contains detailed sections in the form of sub-topics that are directly related to the research focus and its category.

The discussion in this article aims to: (1) answer the formulation of research problems and questions; (2) show how the findings were obtained; (3) interpreting/interpreting findings; (4) linking research findings with existing knowledge structures; and (5) giving rise to new theories or modifications to existing theories.

In answering the formulation of research problems and questions, the results of the research must be concluded explicitly. The interpretation of the findings is carried out using existing logic and theory. Field reality findings are integrated with previous research results or with existing theories. For this purpose, there must be a reference. In bringing in new theories, old theories can be confirmed or rejected, some may need to modify theories from old theories (Calibri 11, spacing 1, spacing before 0 pt, after 0 pt).

CONCLUSION

This study examines whether earnings management, audit quality, and audit committee effectiveness influence Key Audit Matters (KAM) disclosure and further evaluates the moderating effect of corporate complexity. The empirical evidence shows that audit quality is the only variable that directly and significantly affects KAM disclosure. In contrast, neither earnings management nor audit committee effectiveness demonstrates a significant direct relationship with KAM reporting. The moderation analysis further indicates that corporate complexity strengthens the relationship between earnings management and KAM disclosure, whereas its interactions with audit quality and audit committee effectiveness are not statistically significant. These findings suggest that differences in KAM disclosure are explained not only by audit-related factors but also by the complexity of the organizational environment in which the audit is conducted.

Several contributions can be derived from this study. First, the research enriches the growing literature on KAM disclosure by presenting evidence from the Indonesian setting, where SA 701 has only recently been implemented. Second, the results provide additional support for Audit Risk Theory by demonstrating the relevance of audit quality in shaping KAM reporting practices. Third, the significant moderating role of corporate complexity in the relationship between earnings management and KAM disclosure highlights the importance of organizational characteristics when investigating factors associated with auditor reporting decisions. Taken together, these findings offer further insight into how KAM disclosure is determined within emerging market environments.

The findings also carry practical implications. Auditors may improve the usefulness of KAM disclosures by presenting information that more clearly reflects entity-specific circumstances and significant audit considerations. At the same time, regulators can continue encouraging the refinement of KAM reporting practices to enhance the transparency, relevance, and decision usefulness of audit reports issued in Indonesia.

Several limitations should be considered when interpreting the results. The study is limited to consumer non-cyclicals companies listed on the Indonesia Stock Exchange, which may restrict the generalizability of the findings to other sectors. In addition, the observation period covers the early years of SA 701 implementation, a period during which KAM reporting practices may still be developing. Furthermore, the analysis focuses only on earnings management, audit quality, audit committee effectiveness, and corporate complexity, while other potentially relevant determinants of KAM disclosure were not incorporated into the model.

Future studies may broaden the scope of analysis by examining firms from other industries and extending the observation period. Additional research may also consider incorporating governance-related variables, audit-specific attributes, or other firm characteristics to provide a more comprehensive understanding of the factors influencing KAM disclosure.

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