International Journal of Accounting and Economics Studies, 12 (7) (2025) 797-805

International Journal of Accounting and Economics Studies

Website: www.sciencepubco.com/index.php/IJAES
https://doi.org/10.14419/ff0dh157
Research paper

The Effect of Key Audit Matters on Audit Cost in Indonesia

Seevaniska Amand *, Jovan Axel, Surya Raharja

Department of Accounting, Faculty of Economics and Business, Universitas Diponegoro, Indonesia
**Corresponding author E-mail: seevaniskaamanda64@gmail.com*

Received: September 8, 2025, Accepted: October 24, 2025, Published: November 28, 2025

Abstract

The purpose of this research is to see the effect caused by the application of Key Audit Matters (KAMs) and Board of Commissioners Size on audit costs in Indonesia and moderated by the Board of Commissioners Size variable. The population and sample are companies listed on the Indonesia Stock Exchange (IDX) in 2022 that meet the research requirements. The Partial Lease Square (PLS) method was chosen as the research method. This study proves that there is a significant relationship between board size and audit fees which explains that the more boards of commissioners, the more audit fees will increase. However, the authors did not find a significant relationship between KAMs and audit fees and board size as moderation. This literature is useful for companies and independent auditors in making future decisions and is practically and theoretically useful for future research references. This study has a contribution to the literature which is considered as an assessment of the changes in regulations regarding the application of Key Audit Matters (KAMs) to audit fees. This study also uses corpo-rate governance variables to serve as moderating variables in the relationship between Key Audit Matters (KAMs) and audit fees.

Keywords: *Indonesian; Key Audit Matters (KAMs); Audit Cost; Board Size.*

1. Introduction

Global auditing standard setters have taken initiatives to enhance the information content and value relevance of the audit report beyond the conventional "pass-or-fail" model by requiring auditors to communicate information on audit scope, financial reporting quality, materiality thresholds, and key audit matters (KAMs) to investors. Auditing and financial reporting scandals like Enron and WorldCom have brought audit quality and governance mechanisms into the spotlight. External auditors serve a monitoring role to ensure the quality of financial reporting. [1], reduce agency costs arising from managers' opportunistic behavior, and lessen asymmetric information between firms and stakeholders. Financial reports aim to provide useful information for interested users. The communicative quality and informative value of audit reporting depend on the audit expectation gap between financial statements users' expectations and auditors' perceptions of their responsibilities and performances. [2]The recent financial scandals and crises have given rise to much debate about the value of audits and the role of auditors, especially regarding the need to improve the quality. Of communication between auditors and users of their reports. In Indonesia, the application of regulations regarding Key Audit Matters (KAMs), which are broadly outlined in SA 701 (2021), is still a new item in the world of auditors, which certainly raises new problems as well. One of the problems caused by the new regulations regarding Key Audit Matters (KAMs) is the emergence of additional audit fees. [3]. With the new regulations, recently, some literature shows that audit firms that comply with the new audit regulations on KAMs will require auditors to perform additional procedures, implement further compliance training, and implement ongoing quality control checks. [4]. Referring to the regulations in Indonesia, the audit findings are represented as the results of the evaluation of the external auditor (The Audit Board of Indonesia) on the condition of financial management, internal control structure, and compliance of the government with financial management and reporting regulations. [5].

Audit fees will increase as demand increases, which encourages auditors to disclose more information. Audits, in general, are part of agency costs. Likewise, with KAMs, agency theory suggests that companies with good governance practices will increase management involvement to disclose more information for the benefit of stakeholders. [6]. The discussion regarding governance in the company aims to explain whether there is a relationship between the size of the board of commissioners that affects the relationship between the dependent and independent variables. [7]. The reason for choosing corporate governance practices as a moderating role between audit disclosure and corporate disclosure is based on rational agency theory. The level of corporate governance mechanisms will determine how a company will disclose information about related matters. [8]. Therefore, management can take advantage of weak governance to disclose information for the benefit of management, while good governance practices will reduce agency problems. [9],[10],[3].

Companies with strong governance mechanisms expect a lot of effort from auditors [11]. With good governance, it will propose that auditors face additional challenges to fulfill the needs in governance as an agent for stakeholders, and they will disclose at least more risk-related information, which will cause additional audit costs. So the existence of such a mechanism will lead to additional costs to meet stakeholder standards. Therefore, the topic of audit fees in the implementation of Key Audit Matters (KAMs) is still debatable and is still a topic of discussion, because of the classified implementation, there are still many pros and cons on the issue. This study will see if there is a relationship between audit fees with Key Audit Matters (KAMs) and board size. With the board size variable representing corporate governance as an independent variable, and also moderation [12 - 15].

To solve this problem, the International Auditing and Assurance Standards Board ((IAASB), 2011) has launched the International Standard on Auditing No. 701 as "Communicating Key Audit Matters in the Independent Auditor's Report" since 2015, which requires that the new audit report must be communicated by key audit matters (KAMs) in annual company reports (Kitipong, 2020). The KAMs are defined as those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period[16]. Thus, the new audit reporting with KAMs reporting is able to improve communicative quality and informative value, including audit quality [17 - 19]. 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 purpose of this study is to see if there is a relationship between Key Audit Matters (KAMs) and the size of the board of commissioners with audit fees, and the second is to test whether the size of the board of commissioners influences the relationship between Key Audit Matters (KAMs) and audit fees. With this research which discusses the relationship between Key Audit Matters (KAMs) and the size of the board of commissioners with audit costs along with the size of the board of commissioners as a moderating variable, it is hoped that it can be a reference for field application as well as a source for further research so that research on the effect of Key Audit Matters (KAMs) on audit costs can be further developed because at the time the authors conducted the research there was still a lack of information and sources that discussed Key Audit Matters (KAMs). Of course, this research also wants to find out whether the relationship between Key Audit Matters (KAMs) and audit fees is positive, negative, or insignificant [19 - 21]. Furthermore, whether the size of the board of commissioners and audit fees are positively, negatively, or insignificantly related. Whether the size of the board of commissioners moderates the relationship between KAMs and audit costs is positively, negatively, or insignificantly related [22 - 24].

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.

After this introduction, the paper is organized as follows. First, a literature review of agency theory is presented. The next section describes the formulation of the hypothesis, while the section after that explores the research method. The findings are then discussed in the next discussion. Finally, the conclusions of the study are presented.

2. Literature Review

Key Audit Matters (KAMs) are defined as matters that, according to the auditor's professional judgement, are the most significant in the audit of the financial statement for the current period. Key Audit Matters are selected from those communicated to those charged with governance. KAMs are the disclosure of issues (things) that are considered by the auditor to be most significant in influencing the audit process. Key Audit Matters are part of communications with those charged with governance. Auditors identify matters that require significant attention and communicate them to management. [25], [26]. Of the matters that require significant attention, the most significant can be identified as KAMs [27], [28].

Audit fees are the amount of costs or imbalance of services charged by public accountants to companies for audit services carried out by public accountants on financial reports. Determination of audit costs carried out by KAP is based on a calculation of the basic audit costs, which consist of direct and indirect costs, assignment risk, complexity of services provided, level of expertise required to carry out these services, the related KAP fee structure, and other professional considerations [29 - 31].

Hypotheses: Key audit matter disclosure is likely to affect audit report lag

2.1. Key audit matters and the audit cost

The statement that states that with the implementation of KAMs, audit costs will also increase along with the increase in disclosed information is also supported by PwC and EY, which basically with the existence of KAMs, the financial statements must be explained in more depth, resulting in more disclosures and requiring better training and control. In accordance with the theory used in this study, audit costs will increase with the application of KAMs to the company's financial statements. [32]. KAMs reporting is based on the opinion of the auditor responsible for auditing a company's financial affairs, for communicating financial and nonfinancial information to the corporate's stakeholders, including information related to revenue recognition, the company's inventory, receivables and allowances, property valuations, asset impairment, investment and investment impairment, goodwill impairment, taxation and any provisions made in the accounts [33 - 36].

Reid et al. [37] The opinion that the increase in audit fees will go hand in hand with the disclosure of more detailed information contained in KAMs. Not much different according to Gutierrez et al. [38] With an increase in information in the independent audit report and requirements, audit fees will also increase. The responsibilities of independent auditors are also expanding with additional information in the financial statements. Management and the audit committee must also conduct more discussions on the implementation of KAMs. The results of research by Chen et al [39] State that with the implementation of KAMs, audit costs will also increase. Therefore, in line with previous research, we hypothesize that audit fees will increase with the disclosure of more information in the application of KAMs. According to Kitiwong and Sarapaivanich [40] The disclosure of KAM increases the auditor's influence, independence, responsibility, and transparency in providing an accurate assessment of the entire audit process. The requirement to disclose KAM increases the auditor's influence if management prefers that the auditor not highlight certain areas, particularly high-risk areas, and increases the auditor's accountability, commitment to transparency, and responsibility to provide an accurate assessment.

Li et al. [41] Reported that discretionary accruals decreased while audit fees increased after the implementation of KAM in New Zealand. Zeng et al. [42] Reported that audit quality in China improved after requiring KAM disclosure as proxied by higher quality earnings, propensity to issue unqualified opinions, and audit fees [43 - 45]. KAM disclosure increases audit risk, and auditors will increase their fees because their efforts will increase to reduce risk [46].

H1. There is a positive relationship between KAMs and audit fees.

2.2. Board commissioner size and the audit cost

The larger the size of the board of commissioners, the more diverse it will be. This diversity will certainly create better standards, because more information and explanations must be disclosed. With the wider standards and information that must be disclosed, the audit costs on the financial statements will tend to increase. Research from Chen and Zhou [47] States that it can reduce audit problems that arise along with the relatively large size of the board of commissioners. In line with previous research that the larger the board size, the control over financial statements will also increase [48]. The larger board size will increase audit standards, because the larger the board size, the more diverse and complementary it will be. Therefore, with more information disclosed by the auditor, the audit fee will also increase. [49].

The larger board size will create a better audit committee, so audit costs will tend to increase. However, according to research by Uang et al, [50] There is a weakness in the evidence that states that board size plays a significant role in reducing fraudulent outcomes between independent auditors and management in financial statement disclosures. This research is also supported by research by Ellwood and Garcia-Lacalle. [51] This explains that increasing board size will increase consulting and legal fees, not audit fees. Contrary to the results of Ji Zi's research, [5] The results of financial statements will be more transparent if the board size is larger.

Larger board sizes that increase audit standards have a positive effect on audit costs. The increase in audit costs is due to the higher standards applied, so that auditors must make more disclosures in the financial statements. According to Hines et al, [52] Audit costs will increase as the board becomes more diverse. Therefore, research by Karim et al, [10] States that audit costs have a significant relationship with the increase in the board of commissioners.

H2. There is a positive relationship between board commissioner size and audit fees.

2.3. Board commissioner size affects key audit matters and the audit cost

According to Elmaghri et al. [53] Based on agency theory, a larger board of commissioners will help policymakers get more information so that the information obtained can be more detailed. According to Jensen, [13] Internal control must be improved because the company's internal control system is considered to have failed to handle the interests of policymakers. Agency problems can be prevented by a larger board of commissioners in a company. Research according to [14]. Other literature discusses board size as a governance mechanism in companies. According to research by Wang and Hussaney [15] This discusses forward-looking disclosure and board size. Other literature argues that before investigating governance and disclosure practices, it must be from a different perspective. Research by Buertey et al. [18] States that accounting issues will be more subjective to investigate when management performance is high. A large board of commissioners also has a lot of expertise, so it will improve company performance and increase auditors for the benefit of clients. Companies with large boards of commissioners will also facilitate corporate governance practices. Other studies also discuss the governance of risk disclosure in companies, discussing corporate governance mechanisms using board size.

Based on agency theory, board size has a positive effect on good. According to ACCA, [19]Auditors will make more efforts to meet the standards of a larger board. The audit committee also shows that the disclosure of KAMs will improve governance in the company. Based on previous research and agency theory, an increase in board size will strengthen the relationship between audit fees and KAMs.

H3. Board commissioners' size moderates the association between KAMs and audit costs

3. Method

The research method used is a descriptive method with a quantitative approach. This descriptive method involves collecting data to test hypotheses or answer questions about people's opinions on an issue or topic. Quantitative research is research that is based on collecting and analyzing data in the form of numbers (numerics) to explain, predict, and control the desired phenomenon.

3.1. Sample and data collection

This study uses a sample of the non-financial sector listed on the Indonesia Stock Exchange (IDX) in 2022. Annual reports are downloaded from the company's website. In addition, this study also uses the Bloomberg database to obtain some of the necessary data and information. [54]. The sample used includes non-financial companies listed on the Indonesia Stock Exchange (IDX) in 2022. The 2022 period was taken because of the implementation of Key Audit Matters (KAMs) in Indonesia, which has only been implemented since 2022. With the explanation above, the sample used in this study is all financial reports in the 2022 period of the non-financial sector listed on the Indonesia Stock Exchange (IDX) that disclose information about Key Audit Matters (KAMs). The regulations in SA 701 (2021) explain the new regulations applied regarding the application of Key Audit Matters (KAMs) in the company's financial statements. The financial sector was not chosen because the sector has slightly different Key Audit Matters (KAMs) disclosure regulations from the non-financial sector. In addition to the non-financial sector, this study also does not use annual reports that do not disclose the information needed in this study. [55].

Several previous related studies used content analysis by word counting to quantify the level of KAMs reporting in audit reporting on corporate annual reports. [30]; [44].The other independent variables were external audit characteristics, consisting of audit fees [36]; [35]; [45]; [14], which was measured by the annual audit fees (in million baht) paid by each of the listed companies, and audit tenure, which was measured by a dummy variable [31]Audit experience, which was measured by the period of being an auditor, and auditor firm size, which was measured by the total assets of the auditing firms [34] And audit independence, which was measured by the ratio of audit fees per audit firm income [23]. The dependent variable in this study was audit quality measured by the modified Jones Model. [56]. Regarding the control variables, corporate characteristics such as corporate firm, corporate profitability, corporate risk, and corporate age were used.

Indonesia was chosen as the research location because of Indonesia has just implemented regulations to disclose Key Audit Matters (KAMs) in the company's financial statements. So there is still a lot of need to adjust the company's annual report in accordance with the new regulations that require disclosure of Key Audit Matters (KAMs).

Table 1: Sample

Total main board companies on the Indonesia Stock Exchange (IDX) in 2022	348
Financial sectors in 2022	52
Not uploading financial statements in 2022	13
Companies that do not disclose detailed data	27
Total sample used	256

Source: Processed Data, 2023.

Table 2: KAMs Frequency

KAMs	Frequency	The percentage
0	7	2,7%
1	164	64%
2	64	25%
3	14	5,5%
4	4	1,6%
5	1	0,4%
6	2	0,8%
Total	256	100%

Source: Processed Data, 2023.

Notes: In Table 1, the total population of this study is 348 companies. After obtaining data from the data collection process, about 73.6% of companies that meet the standards and match the sample of the study with 256 companies. Table 2 explains the frequency of the number of KAMs contained in the financial statements and the percentage of each point.

3.2. Variable models and measurements

This study uses Partial Least Squares (PLS) analysis, which explains the results of data testing, including descriptive statistics, convergent validity, discriminant validity, composite reliability and Cronbach's alpha, and inner model.

Table 3: Variable Measurements

Study variable	Explanation
Dependent variables	
Audit cost	Natural logarithm of total audit fees
Independent variables	
KAMs	Number of risk topics in the financial report
Board size	Number of members on the board of commissioners
Controls	
Firm size	Natural logarithm of total assets
Leverage	Total liabilities/total assets

Source: Processed Data, 2023.

3.3. Key audit matters

The disclosure of KAMs is measured by the number of risk topics in the financial statements. In line with Abdelfatta et al (2021), which considers KAMs as a risk material misstatement, so that these two things both represent risk topics in the company's financial statements. [28]. These are the key points that, in the auditor's professional judgment, are most significant in the audit of financial statements. KAMs are expected to increase transparency and the quality of information conveyed to stakeholders, but on the other hand, can also increase audit costs due to the additional work that must be done by the auditor.

3.4. Board size

According to Long et al [24]Independent board members assist in implementing strategic plans and overseeing the work of independent auditors. So that the board size is measured by the number of commissioners in the company. [57] Board size is considered an element of corporate governance that can affect audit fees. A larger board may have more perspectives and higher standards, which may encourage auditors to work harder, increasing audit fees.

3.5. Audit costs

Audit costs are measured by the natural logarithm of audit fees. So that the numbers obtained can be more measurable and varied.

3.6. Research model

This study uses multiple linear regression for measurement between key audit matters, board size, and audit fees.

$$\text{Audit cost} = \beta 0 + \beta 1\text{KAM} + \beta 2\text{BS} + \beta 3\text{ FS} + \beta 4\text{ LEV} + \beta 5(\text{BS x KAM}) + \varepsilon$$

Audit cost: the proxy used is the natural logarithm of total audit cost [47]
KAMs: the proxy used is the number of risk topics in the independent audit report.
Board Commissioner Size (BS): the proxy used in board size is the number of commissioners in the related company.
Firm Size (FS): the proxy used is the natural logarithm of the company's total assets in the company's annual report. In accordance with previous research (Kampa, 2013), the larger the company, the more effort the auditor will expend to do their job.
Leverage (LEV): Measured by total debt divided by total assets at the end of the fiscal year. Leverage is used as a proxy for the company's unsystematic risk. Previous literature shows a relationship between financial leverage and audit fees. [29]; [33].
Board Size (BS x KAM): The proxy used in board size is the number of commissioners in the relevant company. According to its moderating role, it is expected that board size has an influence on the relationship between Key Audit Matters. (KAMs) and audit cost

4. Results and Discussion

As explained in the method section for answering the research question, data for each object was analyzing, including the research method used, namely the most important result or insights as well as whether the research found that KAMs disclosure added value to communication or not, and the main limitations of the article were controlled and summarized the information is the provision carried out to answer the research questions.

Relationship between KAMs and Audit Fees: The results of the study indicate that, contrary to the initial hypothesis, there is no significant relationship between the implementation of KAMs and increased audit fees. This suggests that although KAMs should increase auditor workload, their impact on audit fees may not be as large as expected, or there may be other factors that offset the increased fees. Board Size and Audit Fees: A significant positive relationship was found between board size and audit fees. This supports the agency theory, where larger boards tend to demand more information and tighter control, thus encouraging auditors to increase audit intensity and ultimately increase fees.

4.1. Descriptive statistics

Table 4 shows the mean, median, min, max, and standard deviation values. Table 4 shows the descriptive statistical results of the variables used in this study. Variables used, such as audit costs, have a mean of 20.905 with a minimum value of 17.504 and a maximum value of 25.358. The Key Audit Matters (KAMs) variable has a mean value of 1.434 with a minimum value of 0 and a maximum of 6. The Board Size (BS) variable has a mean value of 4.484 with a minimum value of 2 and a maximum value of 13. The Firm Size (FS) variable shows a mean value of 29.872 with a minimum value of 26.594 with a maximum value of 35.228. The Leverage variable (LEV) has a mean value of 0.472 with a minimum value of 0.001 and a maximum value of 0.967.

Table 4: Descriptive Statistics

	Mean	Median	Min	Max	Standart Deviation
Audit cost	20,905	20,819	17,504	25,358	1,289
KAMs	1,434	1,000	0,000	6,000	0,841
BS	4,484	4,000	2,000	13,000	1,877
FS	29,872	29,716	26,594	35,228	1,722
LEV	0,472	0,489	0,001	0,967	0,242

Source: Processed Data, 2023.

4.2. Convergent validity

Testing convergent validity evaluates the value of each indicator. The loading factor value is considered to meet the requirements if the results obtained are greater than 0.70. Table 5 shows the loading factor value for each indicator. The table shows that all research variables meet the criteria for convergent validity. The loading factor value of> 0.70 indicates that the indicator is considered able and appropriate to measure a variable.

Table 5: Loading Factor Analysis

	Audit cost	KAMs	BS	FS	LEV	Moderating
Audit cost	1,000					
KAMs		1,000				
BS			1,000			
FS				1,000		
LEV					1,000	
KAMS*Audit cost						1.038

Source: Processed Data, 2023.

Notes: Table 5 shows that the loading factor value of the Audit cost, KAMs, BS, FS, LEV, and KAMs * Audit cost (moderating) indicators is equal to or greater than 1. This shows that the indicators used have validity to measure their variables, so it can be said that the indicators have met the criteria for convergent validity. Apart from comparing the loading factor value of an indicator, the analysis of the Average Variance Extracted (AVE) value also includes testing convergent validity. The AVE value of each variable must be more than 0.50 to meet the criteria. Table 6 shows the AVE value of all variables> 0.50, which means it meets the requirements.

Table 6: Average Variance Extracted (AVE) Analysis

	AVE score	Criteria
Audit cost	1,000	>0,50
KAMs	1,000	>0,50
BS	1,000	>0,50
FS	1,000	>0,50
LEV	1,000	>0,50
Moderating	1,000	>0,50

Source: Processed Data, 2023.

4.3. Discriminant validity

Fornell's lack of criterion analysis measures the correlation between one variable against itself and the correlation with other variables. If the fornell lacker criterion value of a variable is higher than the correlation value with other variables, then the variable is considered to have good discriminant validity and meets the discriminant validity test. The value in Table 7 shows that each variable has a value of 1, which means that the Fornell-Lacker criterion value of each variable exceeds the correlation value with other variables, so it can be said that all variables meet the discriminant validity criteria.

Table 7: Fornell Lacker Criterion

	Moderating	Audit Cost	KAMs	LEV	BS	FS
Moderating	1,000					
Audit cost	0,169	1,000				
KAMs	0,242	0,077	1,000			
LEV	0,020	0,200	0,043	1,000		
BS	0,145	0,494	0,122	0,158	1,000	
FS	0,128	0,664	0,107	0,349	0,600	1,000

Source: Processed Data, 2023.

Table 8 shows that if the correlation value of the indicator to its own variable is higher than the correlation of the indicator to other variables, then discriminant validity is considered to have been met. If there are indicators that do not meet the criteria, then the indicator must be eliminated. All variables show each value of 1, which indicates that the variable has an attachment to its indicator. Based on the table above, all variables are considered to have met the discriminant validity test criteria.

Table 8: Cross-Loading Analysis

	Audit cost	KAMs	Moderating	LEV	FS	BS
Audit cost	1,000	0,077	0,169	0,200	0,664	0,494
FS	0,664	0,107	0,128	0,349	1,000	0,600
BS	0,494	0,122	0,145	0,158	0,600	1,000
LEV	0,200	0,043	0,020	1,000	0,349	0,158
KAMs*Audit cost	0,169	0,242	1,000	0,020	0,128	0,145
KAMs	0,077	1,000	0,242	0,043	0,107	0,122

Source: Processed Data, 2023.

4.4. Composite reliability and Cronbach's alpha

Composite reliability testing is proven by looking at the value of each variable. Each variable must have a composite reliability value of Cronbach's Alpha >0.70 to meet the criteria. Cronbach's Alpha and composite reliability measure how powerful each indicator is in measuring its variable. Each variable is concluded to have met the criteria for composite reliability and Cronbach's alpha, with each value of all variables being 1.

Table 9: Composite Reliability and Cronbach's Alpha Analysis

	Cronbach's Alpha	Composite Reliability	Criteria
Audit cost	1,000	1,000	>0,70
KAMs	1,000	1,000	>0,70
BS	1,000	1,000	>0,70
FS	1,000	1,000	>0,70
LEV	1,000	1,000	>0,70
Moderating	1,000	1,000	>0,70

Source: Processed Data, 2023.

4.5. Inner model

When R-square> 0.70, the model can be said to be strong; when 0.45 < R-square < 0.70, the model's ability can be said to be moderate; while when R-square < 0.25, the model can be said to be weak (Ghozali and Latan, 2016). Table 10 shows the results of R2 of 0.462 and R2 adjusted of 0.451, which means that audit costs have moderate modeling capabilities.

Table 10: R-Square Analysis

	R2	R2 Adjusted
Audit cost	0,462	0,451

Source: Processed Data, 2023.

Model fit testing with SmartPLS 3.0 software is done by looking at the NFI (Normed Fit Index) value. NFI is used to evaluate the extent to which the PLS model is able to explain the relationship pattern of the independent and dependent variables. The NFI value is between 0 and 1; the high and low values illustrate the ability of the PLS model to explain the relationship in the data.

Table 11: Model Fit Analysis

	Score
NFI	1,000

Source: Processed Data, 2023.

4.6. Additional analysis

Table 12 shows the results of research on hypotheses that have been built. KAMs (H1) shows a path coefficient value of -0.021 and a P-value of 0.674, which means KAMs (H1) is rejected. BS (H2) shows a path coefficient value of 0.140 and a P-value of 0.021, which means BS (H2) is accepted. Moderating (H3) shows a path coefficient value of 0.076 and a P-value of 0.110, which means Moderating (H3) is rejected.

Table 12: Direct Effect Test

Variabel	Path Coefficient	P-values
KAMs	-0,021	0,674
BS	0,140	0,021
Moderating	0,076	0,110
FS	0,581	0,000
LEV	-0,026	0,604

Source: Processed Data, 2023.

4.7. Relationship between framework and research result

The agency theory framework effectively explains why board size affects audit fees. However, this framework is less supportive in explaining the relationship between KAMs and audit fees, given the insignificant results. This suggests that although agency theory provides a foundation for understanding the effect of corporate governance on audit fees, the application of the KAMs concept may require a different theoretical approach or require additional analysis of the contextual factors that influence these outcomes in Indonesia.

Overall, this study makes an important contribution by showing that although KAMs are expected to affect audit fees, this effect may be more complex and influenced by other factors. The finding that board size has a significant effect on audit fees supports the view that strong corporate governance has real implications for audit fees, consistent with agency theory.

4.8 Presenting Result Analysis and Demonstrating The Main Contribution of the Research

This study analyzes the relationship between Key Audit Matters (KAMs) and audit fees in Indonesia. Based on the results of the analysis, it was found that the KAMs variable has a path coefficient of -0.021 with a p-value of 0.674. This indicates that the relationship between KAMs and audit fees is not statistically significant, so the first hypothesis (H1) stating that KAMs affect audit fees is rejected. However, other results show that the size of the board of commissioners (BS) is significantly related to audit fees. The path coefficient of 0.140 and the p-value of 0.021 indicate that BS has a positive effect on audit fees, so the second hypothesis (H2) is accepted. In addition, the analysis also shows that the moderating effect of KAMs on the relationship between the size of the board of commissioners and audit fees is not significant, with a path coefficient of 0.076 and a p-value of 0.110 [48].

The main contribution of this study is to provide new insights into the impact of KAMs on audit fees in Indonesia. This study shows that KAMs, although expected to affect audit fees, do not have a significant impact. This suggests that other factors may play a greater role in determining audit fees than KAMs themselves, such as board size, which was found to be significant in this study. [50]. This study also contributes to enriching the literature on corporate governance and audit in emerging markets such as Indonesia, where the dynamics and factors that influence audit fees may be different compared to developed markets. This study provides a basis for further research to explore other factors that may affect audit fees, as well as to deepen the understanding of the role of KAMs in different contexts

5. Conclusion

This study aims to determine whether there is an effect of the size of the board of commissioners and the application of SA 701 related to Key Audit Matters (KAMs) on audit fees. In addition, board size is also used to see if there is a moderating influence in the relationship between KAMs and audit fees. This study uses Partial Least Squares (PLS) analysis for hypothesis testing. The sample of our research is non-financial companies listed on the Indonesia Stock Exchange (IDX) in 2022. The sample used is only 2022 because the application of KAMs in Indonesia is only required to be attached to the financial statements in 2022, which was previously only voluntary. Data is collected manually on the Company's financial statements in 2022.

Research on Key Audit Matters (KAMs) is still new, so there is not much literature as a reference, especially in its application in Indonesia. Thus, this research can contribute empirically and theoretically. Agency theory is quite relevant to this study, given the relationship between agent and principal. According to Jensen and Meckling, with the existence of problems between the principal and the agent, agency costs will arise. Agency costs will rise in line with the increase in information disclosure. The literature discussing corporate governance in the relationship between audit fees and KAMs is also quite limited. Thus, this literature may expand future research.

The results showed that risk disclosure in KAM was relatively small, supported by descriptive statistics. In general, there is only one disclosure, and the data is clustered on companies that only make one disclosure, with an average value of 1.434 and a standard deviation value of 0.841. The limitation of this study is the relatively low measurement of KAM's risk. Thus, future research can use measurements other than risk disclosure on KAMs. In addition, our research is also useful for decision-making by principals in the future, with the SA 701 regulation that requires the application of KAMs in the company's financial statements, and also for independent auditors who require them to add KAMs to the independent auditor's report. This literature can also be practically useful.

This research also has some limitations that can be used in future research, such as adding research years so that the research results can be more specific. Future research can also use aspects of corporate governance, such as the number of female commissioners, the number of independent commissioners, and others, as moderators. Future research can also use more specific sectors, such as the consumer sector, mining sector, and others.

Disclosure of Key Audit Matters (KAM) can be useful in terms of increasing the communicative value of audit reports, which are useful in user reports as a basis for decision-making. This is consistent with KAM's objectives. Publication of KAMs in audit reports can reduce misinformation in user reports by providing previously unavailable information about the entity and the audit performed. However, KAM announcements can also affect the auditor's relationship with the client, because the reported information may cause the client not to use the auditor in subsequent audit engagements.

References

[1] A. C. Furqan, R. Wardhani, D. Martani, en D. Setyaningrum, “The effect of audit findings and audit recommendation follow-up on the financial report and public service quality in Indonesia”, *Int. J. Public Sect. Manag.*, 2020, https://doi.org/10.1108/IJPSM-06-2019-0173.

[2] T. Abdelfattah, M. Elmahgoub, en A. A. Elamer, “Female Audit Partners and Extended Audit Reporting: UK Evidence”, *J. Bus. Ethics*, vol 174, no 1, pp. 177–197, 2021, https://doi.org/10.1007/s10551-020-04607-0.

[3] I. Salem, S. Ayadi, en K. Hussainey, “Corporate governance and Risk disclosure quality: Tunisian Evidence”, *Lab. Penelit. Dan Pengemb. FARMAKA Trop.*, bll 5–24, 2019.

[4] A. Abid, M. Shaique, en M. Anwar Ul Haq, “Do big four auditors always provide higher audit quality? Evidence from Pakistan”, *Int. J. Financ. Stud.*, vol 6, no 2, bll 1–22, 2018, https://doi.org/10.3390/ijfs6020058.

[5] H. Li, D. Hay, en D. Lau, “Assessing the impact of the new auditor’s report”, *Pacific Account. Rev.*, vol 31, no 1, pp. 110–132, 2019, https://doi.org/10.1108/PAR-02-2018-0011.

[6] ACCA, “Key Audit Matters: Unlocking The Secrets of The Audit”, 2021. [Online]. Available at: https://www.accaglobal.com/content/dam/ACCA_Global/professional-insights/Key-audit-matters/pi-key-audit-matters.pdf.

[7] J. Klevak, J. Livnat, D. Pei, Boonyanet, en K. Suslava, “Are critical audit matters informative?”, 2020, https://doi.org/10.2139/ssrn.3685369.

[8] M. Jizi, “How Banks’ Internal Governance Mechanisms”, *Corp. Ownersh. Control*, vol 12, no 3, bll 55–72, 2015. https://doi.org/10.22495/cocv12i3p6.
[9] H. Al-Khaddash, R. A. Nawas, en A. Ramadan, “Factors affecting the quality of auditing: the case of Jordanian Commercial Banks”, *Int. J. Bus. Soc. Sci.*, vol 4, bll 206–222, 2021, [Online]. Available at: https://www.emerald.com/insight/0951-3558.htm.
[10] L. Y. Rahmina en S. Agoes, “Influence of Auditor Independence, Audit Tenure, and Audit Fee on Audit Quality of Members of Capital Market Accountant Forum in Indonesia”, *Procedia - Soc. Behav. Sci.*, vol 164, bll 324–331, 2024, https://doi.org/10.1016/j.sbspro.2014.11.083.
[11] B. Alareeni, “The Association between Audit Firm Characteristics and Audit Quality: A Meta-Analysis”, *SSRN Electron. J.*, bll 1–21, 2021, https://doi.org/10.2139/ssrn.2952836.
[12] K. Albitar, K. Hussainey, N. Kolade, en A. Gerged, “ESG Disclosure and Firm Performance before and after IR: the Moderating Role of Governance Mechanisms”, *Int. J. Account. Inf. Manag.*, vol 3, no 1, bl 641, 2020, https://doi.org/10.1038/s41421-020-0164-0.
[13] D. Shohaieb, M. Elmarzouky, en K. Albitar, “The key audit matters and the audit cost: does governance matter?”, *Int. J. Account. Inf. Manag.*, vol 31, no 1, bll 195–217, 2022, https://doi.org/10.1108/IJAIM-08-2022-0178.
[14] N. S. Suseno, “An empirical analysis of auditor independence and audit fees on audit quality”, *JPPI (Jurnal Penelit. Pendidik. Indones.*, vol 8, no 3, bl 853, 2017, [Online]. Available at: https://jurnal.iicet.org/index.php/jppi/article/view/1643.
[15] M. Suttipun, “Factors Influencing Key Audit Matters Reporting in Thailand”, *Asian J. Account. Perspect.*, vol 13, no 1, bll 26–39, 2020, https://doi.org/10.22452/AJAP.vol13no1.2.
[16] J. Bédard, N. Gonthier-Besacier, en A. Schatt, “Consequences of expanded audit reports: Evidence from the justifications of assessments in France”, *Auditing*, vol 38, no 3, bll 23–45, 2019, https://doi.org/10.2308/ajpt-52339.
[17] A. Allini, F. Manes Rossi, en K. Hussainey, “The board’s role in risk disclosure: an exploratory study of Italian listed state-owned enterprises”, *Public Money Manag.*, vol 36, bll 113–120, 2020, https://doi.org/10.1080/09540962.2016.1118935.
[18] M. Suttipun, “Impact of key audit matters (KAMs) reporting on audit quality: evidence from Thailand”, *J. Appl. Account. Res.*, vol 22, no 5, bll 869–882, 2021, https://doi.org/10.1108/JAAR-10-2020-0210.
[19] F. of A. P. of T. (FAP), “Auditor’s view on key audit matter”, 2016. [Online]. Available at: http://www.fap.or.th.
[20] N. N. A. Triani en M. D. Yanthi, “The Effect of Audit Firms Size, Leverage, Going Concern Opinion, Audit Tenure, on Audit Quality in Indonesia”, in *Proceedings of AFBE 2019*, 2020, bll 261–265, https://doi.org/10.2991/aebmr.k.200606.044.
[21] S. Wuttichindanon en P. Issarawornrawanich, “Determining factors of key audit matter disclosure in Thailand”, *Pacific Account. Rev.*, vol 32, bll 563–584, 2020, https://doi.org/10.1108/PAR-01-2020-0004.
[22] A. Alnabsha, H. A. Abdou, C. G. Ntim, en A. A. Elamer, “Corporate boards, ownership structures and corporate disclosures: Evidence from a developing country”, *J. Appl. Account. Res.*, vol 19, no 1, bll 20–41, 2018, https://doi.org/10.1108/JAAR-01-2016-0001.
[23] Z. Rezaee en S. Homayoun, “Key audit matters disclosures and informed traders”, *Br. Account. Rev.*, bll 1–19, 2022.
[24] Y. Zeng, J. H. Zhang, J. Zhang, en M. Zhang, “Key audit matters reports in China: Their descriptions and implications of audit quality”, *Account. Horizons*, vol 35, no 2, bll 162–192, 2021, https://doi.org/10.2308/HORIZONS-19-189.
[25] J. V Carcello, D. R. Hermanson, T. L. Neal, en R. A. Riley, “Board Characteristics and Audit Fees”, *Contemp. Account. Res.*, vol 19, no 3, bll 365–384, 2022, https://doi.org/10.1506/CHWK-GMQ0-MLKE-K03V.
[26] J. Chalmers, “PwC-Comments-on-the-Auditor-Reporting-Consultation-Paper”, 2023. [Online]. Available at: https://www.pwc.co.uk/assets/pdf/pwc-comments-on-the-auditor-reporting-consultation-paper.pdf.
[27] S. Buertey, E. J. Sun, J. S. Lee, en J. Hwang, “Corporate social responsibility and earnings management: The moderating effect of corporate governance mechanisms”, *Corp. Soc. Responsib. Environ. Manag.*, vol 27, no 1, bll 256–271, 2020, https://doi.org/10.1002/csr.1803.
[28] T. Abdelfattah, M. Elmahgoub, en A. A. Elamer, “Female Audit Partners and Extended Audit Reporting: UK Evidence”, *J. Bus. Ethics*, vol 174, no 1, bll 177–197, 2021, https://doi.org/10.1007/s10551-020-04607-0.
[29] H. Li, D. Hay, en D. Lau, “Assessing the impact of the new auditor’s report”, *Pacific Account. Rev.*, vol 31, no 1, bll 110–132, 2019, https://doi.org/10.1108/PAR-02-2018-0011.
[30] M. Suttipun, “Impact of key audit matters (KAMs) reporting on audit quality: evidence from Thailand”, *J. Appl. Account. Res.*, vol 22, no 5, bll 869–882, 2021, https://doi.org/10.1108/JAAR-10-2020-0210.
[31] M. Clarina en F. Fitriany, “The Impact of Audit Market Concentration on Audit Quality: Evidence from Indonesia (Impak Penumpuan Pasaran Audit ke atas Kualiti Audit: Bukti dari Indonesia)”, *J. Pengur.*, vol 57, bl 57, 2019. https://doi.org/10.17576/pengurusan-2019-57-12.
[32] J. Z. Chen, K. K. Nelson, Y. Wang, en L. Yu, “Key audit matters and the pricing of audit services: evidence from Hong Kong”, 2020, https://doi.org/10.2139/ssrn.3638540.
[33] Y. Zeng, J. H. Zhang, J. Zhang, en M. Zhang, “Key audit matters reports in china: Their descriptions and implications of audit quality”, *Account. Horizons*, vol 35, no 2, bll 162–192, 2021, https://doi.org/10.2308/HORIZONS-19-189.
[34] N. N. A. Triani en M. D. Yanthi, “The Effect of Audit Firms Size, Leverage, Going Concern Opinion, Audit Tenure, on Audit Quality in Indonesia”, vol 144, no Afbe 2019, bll 261–265, 2020, https://doi.org/10.2991/aebmr.k.200606.044.
[35] L. Y. Rahmina en S. Agoes, “Influence of Auditor Independence, Audit Tenure, and Audit Fee on Audit Quality of Members of Capital Market Accountant Forum in Indonesia”, *Procedia - Soc. Behav. Sci.*, vol 164, no August, bll 324–331, 2021, https://doi.org/10.1016/j.sbspro.2014.11.083.
[36] A. (2018) Al-Khaddash, H., Nawas, R.A. and Ramadan, “Factors affecting the quality of auditing: the case of Jordanian Commercial Banks”, *Int. J. Bus. Soc. Sci.*, vol Vol. 4 No., bll 206–222, 2018, doi: doi: https://www.emerald.com/insight/0951-3558.htm.
[37] M. Clarina en F. Fitriany, “The Impact of Audit Market Concentration on Audit Quality: Evidence from Indonesia”, *J. Pengur.*, vol 57, 2019. https://doi.org/10.17576/pengurusan-2019-57-12.
[38] R. Deumes en W. R. Knechel, “Economic incentives for voluntary reporting on internal risk management and control systems”, *Auditing*, vol 27, no 1, bll 35–66, 2022, https://doi.org/10.2308/aud.2008.27.1.35.
[39] M. H. Elmagrhi, C. G. Ntim, Y. Wang, H. A. Abdou, en A. M. Zalata, “Corporate Governance Disclosure Index–Executive Pay Nexus: The Moderating Effect of Governance Mechanisms”, *Eur. Manag. Rev.*, vol 17, no 1, bll 121–152, 2020, https://doi.org/10.1111/emre.12329.
[40] T. Elshandidy, I. Fraser, en K. Hussainey, “Risk disclosure and corporate governance”, *Account. Bus. Res.*, vol 47, no 4, bll 376–394, 2015. https://doi.org/10.1016/j.bar.2014.06.001.
[41] P. M. Guest, “The determinants of board size and composition: Evidence from the UK”, *J. Corp. Financ.*, vol 14, no 1, bll 51–72, 2021, https://doi.org/10.1016/j.jcorpfin.2008.01.002.
[42] E. Gutierrez, M. Minutti-Meza, K. W. Tatum, en M. Vulcheva, “Consequences of adopting an expanded auditor’s report in the United Kingdom”, *Rev. Account. Stud.*, vol 23, no 4, bll 1543–1587, 2018, https://doi.org/10.1007/s11142-018-9464-0.
[43] B. L. Handoko en H. R. Pamungkas, “The Effect Of Audit Experience Time Budget Pressure, and Auditor Ethics On Audit Quality”, *Int. J. Psychosoc. Rehabil.*, vol 24, no 9, bll 1–6, 2020.
[44] P. Wuttichindanon, S. and Issarawornrawanich, “Determining factors of key audit matter disclosure in Thailand”, *Pacific Account. Rev.*, vol Vol.32 No., bll 563–584, 2020, https://doi.org/10.1108/PAR-01-2020-0004.
[45] B. Alareeni, “The Association between Audit Firm Characteristics and Audit Quality: A Meta-Analysis”, *SSRN Electron. J.*, bll 1–21, 2017, https://doi.org/10.2139/ssrn.2952836.
[46] C. S. Hines, A. Masli, E. G. Mauldin, en G. F. Peters, “Board risk committees and audit pricing”, *Auditing*, vol 34, no 4, bll 59–84, 2015, https://doi.org/10.2308/ajpt-51035.
[47] IAASB, “Auditor Reporting – Illustrative Key Audit Matters”, 2015.
[48] K. Karim, A. Robin, en S. Suh, “Board structure and audit committee monitoring effects of audit committee monitoring incentives and board entrenchment on audit fees”, *J. Accounting, Audit. Financ.*, vol 31, bll 248–276, 2015, https://doi.org/10.1177/0148558X15583412.

[49] A. K. M. W. Karim, T. Van Zijl, en S. Mollah, "Impact of board ownership, CEO-Chair duality and foreign equity participation on auditor quality choice of IPO companies: Evidence from an emerging market", *Int. J. Account. Inf. Manag.*, vol 21, no 2, bll 148–169, 2023, https://doi.org/10.1108/18347641311312285.

[50] W. Kittiwong en N. Sarapaivanich, "Consequences of the implementation of expanded audit reports with key audit matters (KAMs) on audit quality", *Manag. Audit. J.*, vol 35, no 8, bll 1095–1119, 2020, https://doi.org/10.1108/MAJ-09-2019-2410.

[51] J. Klevak, J. Livnat, D. Pei, Boonyanet., en K. Suslava, "Are critical audit matters informative?", 2020, https://doi.org/10.2139/ssrn.3685369.

[52] R. Overend, "EY comment letter on FRC revision to ISA (UK and Ireland) 700: requiring the auditor's report to address risks of material misstatement, materiality and a summary of audit scope", 2023. [Online]. Available at: http://www.frc.org.uk/getattachment/95da69ad-6996-496b-adb7-b0f1522badc9/.

[53] I. Salem, S. Ayadi, en K. Hussainey, "Corporate governance and Risk disclosure quality: Tunisian Evidence", 2019. https://doi.org/10.1108/JAEE-01-2019-0005.

[54] J. Y. Uang, D. B. Citron, S. Sudarsanam, en R. J. Taffler, "Management going-concern disclosures: Impact of corporate governance and auditor reputation", *Eur. Financ. Manag.*, vol 12, no 5, bll 789–816, 2020, https://doi.org/10.1111/j.1468-036X.2006.00277.x.

[55] N. N. A. Triani en M. D. Yanthi, "The Effect of Audit Firms Size, Leverage, Going Concern Opinion, Audit Tenure, on Audit Quality in Indonesia", in *Proceedings of Afbe 2019*, 2020, bll 261–265, https://doi.org/10.2991/aebmr.k.200606.044.

[56] S. Wuttichindanon en P. Issarawornrawanich, "Determining factors of key audit matter disclosure in Thailand", *Pacific Account. Rev.*, vol 32, no 4, bll 563–584, 2020, https://doi.org/10.1108/PAR-01-2020-0004.

[57] T. Long, V. Dulewicz, en K. Gay, "The role of the non-executive director: Findings of an empirical investigation into the differences between listed and unlisted UK boards", *Corp. Gov. An Int. Rev.*, vol 13, no 5, bll 667–679, 2005, https://doi.org/10.1111/j.1467-8683.2005.00458.x.