

## **Analysis of the Application of Key Audit Matters (KAM) in Accordance with Audit Standard 701 to Improve Audit Quality: Literature Review 2022-2024**

Nanda Debi Wijayanti<sup>1)</sup>

[21013010151@student.upnjatim.ac.id](mailto:21013010151@student.upnjatim.ac.id)

Tantina Haryati<sup>2)</sup>

[tantina.ak@upnjatim.ac.id](mailto:tantina.ak@upnjatim.ac.id)

<sup>1)2)</sup>UPN “Veteran” Jawa Timur

### **ABSTRAK**

Key Audit Matters (KAM) is a very significant matter in auditing an entity's financial statements that are communicated by the auditor in the audit report. KAM is not a separate opinion or an indication that there is material misrepresentation, but the result of the auditor's professional discussion on the complexity of the audit. KAM focuses on crucial areas and material risks. Because KAM explains several things that are very crucial for the company, so not all audit report results apply KAM properly. This study examines the analysis related to the implementation of Key Audit Matters (KAM) in line with the 701 Audit Standard and its effect on the quality of the audit results produced. The methodology used includes a literature review, facilitated through the use of Google Scholar. The data obtained have undergone qualifications, covering 2022-2024, maintaining a thematic focus and coherent discourse with this study. Furthermore, this data is subject to analytical supervision. The findings of the investigation regarding the implementation of Key Audit Matters (KAM) in accordance with Audit Standard 701 reveal its impact on the quality of the audit results produced. The implementation of KAM has a beneficial effect on audit results, making it more informative and reliable for the decision-making process. KAM assists auditors in identifying issues that require disclosure in accordance with SA 701, thereby improving the transparency and communicative efficacy of audit reports for stakeholders. However, the disclosure of KAM also presents significant risks for companies related to the confidentiality of company data. Therefore, professional communication is needed in compiling and implementing KAM.

Kata kunci: Key Audit Matters, Standar Audit 701, Audit Quality

## INTRODUCTION

Financial statements serve as an important source of information for a variety of stakeholders including investors, creditors, and management. The maintenance of public confidence in financial statements plays a crucial role in facilitating smooth economic operations and ensuring stability in financial markets. One of the efforts made to maintain the quality of the financial statements can be audited by financial statements. The audit of financial statements is aimed at finding out the level of conformity between the company's records and actual operational activities. From the audit activities carried out, an opinion will be produced that reflects the state of the company.

Auditing financial statements is an essential process to enforce transparency and accountability in an organization. The issuance of qualified audit reports serves to stimulate confidence among stakeholders, including investors, creditors, and other related parties, regarding the accuracy of the presentation of financial information. Improved audit quality in response to the evolving business and regulatory environment. An important milestone in audit standards was achieved with the publication of the Audit Standards 701 (Yoga & Dinarjito, 2022) on Key Audit Issues (KAM) in the Independent Auditor's Report by the International Audit Standards and Assurance Board (IAASB) in 2016. SA 701 mandates auditors to disclose KAM in independent auditor reports for audited entities on or after January 1, 2022 (IAPI, 2023)

The KAM represents a significant audit area that poses a high risk of material misrepresentation in the financial statements, related to the risk of affected accounts, significant risk of audit errors, accounts requiring high estimates and uncertainties, and critical transaction events during the reporting period (IAPI, 2023). The incorporation of KAM in auditor reports is expected to increase transparency for users of financial statements and improve the overall quality of audits. With the 701 Audit Standard as an effort to increase the value of the audit results to be published by communicating the KAM in the Independent Audit report.

Before the SA 701 standard was enacted, information regarding the audit focus areas and audit risks was not explicitly disclosed. This will certainly raise doubts among the parties who use the information. Therefore, SA 701 was created as an effort to improve the quality of audits, so that the published Independent Audit Reports have reliability that can be used in future decision-making. Although it has a positive impact, KAM also has a negative impact which risks the confidentiality of the audited company. These risks will certainly affect investors and parties related to the company. The presence of KAM leads to stricter discussions between auditors and auditees regarding the company's operational activities. As a result, KAM stands out as a focal point that requires diligent attention in the audit process. Investors tend to see audit results that include KAM as more valuable than those that do not have inclusions because KAM (Yoga & Dinarjito, 2022) provide insights related to companies to be invested in by investors.

Considering that KAM is a new regulation and there has not been much research related to KAM. This study aims to analyze the application of KAM in improving audit results. Based on several previous studies that stated that with or without KAM there was no significant impact on audit results. Referring to the background, the author with this research wants to answer several questions, including: 1. What is the concept of KAM and SA 701? 2. What is the practice of implementing KAM in the auditor's report? 3. How the implementation of KAM can improve audit quality?

## METHOD

The approach used in this study is a qualitative approach with literature studies. Data collection techniques used with secondary data that has been collected and published. This approach focuses on collecting, analysing and interpreting the data obtained to provide an in-depth understanding of the phenomenon being studied.

The data collection was obtained using data sourced from journals, books and documents. The use of this data is used to test and develop theories and contribute to and impact related science. This study specifically examines and analyzes previous findings that are relevant to the application of KAM to improve the quality of audit results. Through the literature review, researchers can access various perspectives and research results published in the range of 2022 to 2024 that can support ongoing research and enrich the sources and findings obtained.

This research is used to explore in depth the quality of audit results that have implemented KAM as a form of compliance in Audit Standard 701. By utilizing relevant and reliable secondary data, it can provide more information related to KAM and the results of audits that have been implemented KAM.

## RESULT

Journals that meet the criteria can be used to support this research. A total of 8 studies have been reviewed based on reference sources, interventions and findings. The review process aims to find and analyze the application of Key Audit Matters (KAM) to improve audit quality based on evidence that has been carried out in relevant previous research. Here are some of these studies including:

No	Writer	Heading	Research Results
1	(Elmarzouky et al., 2024)	Key Audit Matters: a systematic review	KAM has an impact on financial reporting and emphasizes the need for further investigation into the effectiveness of KAM in improving the quality of financial reporting.
2	(Fakhri, 2024)	Audit Quality and Earning's Management After the Implementation of Key Audit Matters – Jakarta's Public Accountants Perspective	The application of KAM in audit report is considered crucial in audit quality because KAM can increase transparency in communicating audit results.
3	(Ma et al., 2024)	The effect of Key Audit Matters and management disclosures on auditors' judgements and decisions: An exploratory study	KAM disclosures make a real difference and interact with management disclosures to influence auditors' perceptions

			of their accountability and adjustment decisions.
4	(Amaraneysa & Amin, 2024)	The Influence of Due Professional Care and Audit Matters Key to Audit Quality: The Role of Moderation Work Experience	KAM has a positive impact on the quality of audit reports, which increases the company's transparency to stakeholders
5	(Ariadi et al., 2023)	The Impact of the Implementation of Major Audit Issues in Indonesia	The KAM disclosure supports the implementation of SA 701 in Indonesia. KAM can improve corporate transparency and corporate communication with stakeholders.
6	(Sinaga et al., 2023)	Key Audit Matters: Implementation of PT Astra	The implementation of SA 701 with the aim of increasing the communicative value of audit reports. The quality of this communication value is influenced by the KAM which is conveyed in the audit report.
7	(Emilio et al., 2022)	Analysis of Indonesia's Preparation in Implementing Key Audit Matters	The implementation of SA 701 with the aim of increasing transparency with KAM so that the communicative value of the audit report also increases.
8	(Yoga & Dinarjito, 2022)	The Impact of Key Audit Matters Disclosure on Communicative Value of the Auditor's Report: A Systematic Literature Review	The disclosure of KAM in the audit results report supports the implementation of SA 701 related to the communication of audit results.

## Discussion

This research is the result of a comprehensive literature review on the application of Key Audit Matters (KAM) in relation to improving the quality of audit results. The approach used in this study focuses on literature review, where analysis is carried out on various relevant literature to strengthen theoretical and empirical foundations. This process is carried out systematically with the selection of reliable sources, both from national and international journals, as well as the latest publications with a time range of 2022 to 2024, to ensure that the discussion remains contextual and relevant to the dynamics of current audit practices. The

selection of accurate and up-to-date sources is key in producing quality and academically accountable analyses.

The main objective of this study is to explore in depth how the implementation of KAM in accordance with Audit Standard 701 (SA 701) is able to contribute to improving the quality of audit results. Through the study of various previous studies, it was concluded that the implementation of KAM provides significant added value, especially in increasing the transparency and accountability of audit reports. KAM is a communication medium that bridges auditors with financial statement users, including investors, in understanding significant areas that have high risks to the company's financial statements. This makes audit reports not only a formal obligation, but also a source of strategic information that is valuable for economic decision-making.

However, although KAM brings various advantages, there are fundamental challenges that must be considered in its implementation, one of which is maintaining auditor independence. KAM disclosure means that auditors must communicate important information related to the audited entity to the public, without violating the principles of confidentiality and professional independence. Therefore, the implementation of KAM requires a balance between information transparency and professional ethics, where auditors must be able to present relevant and useful information without compromising their objectivity and integrity as an independent auditor.

Furthermore, the implementation of KAM also has an impact on the preparation of Independent Audit Reports (LAI). The process of determining the KAM is based on the level of complexity of the audit, where the auditor must conduct careful professional consideration in identifying significant areas. Each KAM disclosed must be supported by adequate documentation and clear communication, in order to accurately describe how the area impacts the company's financial and operational statements. Therefore, the disclosure of the KAM includes several important elements, such as an explanation of the reasons for the selection of the KAM, the audit procedures carried out, and the auditor's considerations in determining the KAM.

This research supports the findings of various previous studies that stated that KAM plays an important role in improving audit quality. The implementation of KAM provides additional information that enriches the content of the Independent Audit Report, especially related to aspects of significance, communication, and professional consideration. These characteristics are the main indicators in assessing the quality of audit reports, where transparency and accountability are more values expected by financial report users.

In addition, this research also encourages further development in audit practices, especially related to the implementation of KAM in Indonesia. With the increasingly complex business environment and the demands for transparency from stakeholders, auditors are expected to continue to improve their competence and knowledge in implementing KAM. Auditor capacity building includes not only the technical aspects of auditing, but also communication skills, understanding of dynamic regulations, and mastery of technology that supports modern audit processes.

As a form of contribution to the development of science, this research provides a new perspective on the importance of the role of KAM in maintaining the quality of audit results in the midst of globalization and digitalization challenges. KAM not only serves as a reporting tool, but also as an accountability instrument that strengthens the auditor's position as the guardian of the independence and integrity of financial information. Therefore, the implementation of KAM must continue to be evaluated and adjusted to the development of international auditing standards as well as increasingly complex and dynamic market needs.

Key Audit Matters (KAM) and Audit Standard 701 are a unit that must be applied by audit practitioners to comply with existing regulations, namely SA 701 by implementing KAM disclosure whose purpose is to increase accountability and transparency of audit results conducted previously. This disclosure has been implemented since 2022. KAM explains the areas that contain significant audit risks that most affect the auditor in compiling the auditor's opinion. The auditor considers the complexity of transactions in the company, uncertainties related to estimates or assumptions made during the current period, the existence of fraud or errors in the processing of company data and industry regulations applied in the company. The characteristics of KAM are divided into three important points, including:

- a. Significance, high risks or high complexity of the company and inadequate regulations make the possibility of mis-recording or fraud in it high, thus weakening the power of the audit evidence and data obtained to compile an audit opinion. This makes significance the main point in assessing the risks that occur. This is in line with the statement . The KAM represents a critical audit area that is at high risk of causing material misrepresentation in financial statements related to the risk of affected accounts, the risk of significant audit errors, accounts that require estimation and high levels of uncertainty, and significant transaction events during the reporting period.
- b. Communication, with the presence of TAM, makes the discussion between the auditor and the auditee more intense related to the company's operational activities. Because the obstacles that are often experienced in the implementation of KAM clash with the company's confidentiality, so that its preparation becomes more limited. Communication carried out by both parties is professional without harming either party.
- c. Professional considerations, the number of TAMs listed in the LAI can be influenced by the size and complexity of the entity, the nature of its business and environment and the facts and conditions of the company. The auditor needs to consider whether the points from the KAM meet the definition of the KAM. Consideration is carried out by conducting tests on these risks by providing an assertion related to these risks. From several assertions obtained are used to compile the auditor's opinion.

SA 701: Communicating Key Audit Matters in the Independent Auditor's Report is an international audit standard published by the International Auditing and Assurance Standards Board (IAASB) and then adopted by Indonesia as a form of adaptation to the increasing complexity of companies and to maintain audit quality so that the information produced has good standards. This standard provides guidance for auditors on how to identify and communicate KAM in an audit report. Auditors are required to identify and assess CAMs, communicate and ensure that CAM disclosures are consistent with audit results.

Application of *Key Audit Matters* to Independent Audit Reports. The implementation of *Key Audit Matters* is an important step to improve the quality of audits and transparency of financial statements. The process of determining the KAM involves several steps including identifying significant areas, evaluating the importance of each identified area based on its impact on financial statements and audit complexity. And the 5 main stages are documentation and communication, with documentation and communication clearly explaining why the area is considered significant.

The challenges in the implementation of KAM in Indonesia according to research conducted by include the complexity of disclosure where auditors are expected to be able to compile a description of KAM that is easy to understand but still comprehensive. A professional assessment requires careful forecasting to determine and communicate KAM effectively considering that the audit activities carried out have limited time that has been budgeted in advance. The last challenge is changes in regulations and policies, these changes will certainly affect the things that are done during the audit process, to maintain the quality of audits according to existing standards, auditors must adapt to existing changes. The arrangement in the KAM disclosure includes the following elements:

- a. Title and introduction, stating that the report reveals KAM.
- b. A description of the KAM, an explanation of each identified KAM, including the reasons why it is significant.
- c. The audit actions carried out, including an explanation of the audit procedures carried out related to KAM
- d. Auditor's consideration, an explanation of the professional considerations used in determining KAM.

The Implementation of Key Audit Matters (KAM) Improves Audit Quality Based on research conducted by (Ariadi et al., 2023), it is explained that the disclosure of Key Audit Matters (KAM) increases the value of audit reports from the perspective of external auditors and increases the usefulness of audit reports for investors. Investors will assess the results of the audit that include the KAM will be more valuable than the audit results that do not include the KAM because the KAM contains information related to prospective companies that will receive investment. With the presence of TAM, discussions between auditors and auditees become more intense regarding the company's operational activities. KAM affects the perspective of the financial market on companies to provide investment or not.

The disclosure of Key Audit Matters (KAM) in independent audit reports has a significant impact on increasing public trust and reputation in auditors as independent and professional parties. Through the disclosure of KAM, the auditor demonstrates commitment to carrying out their duties in accordance with the principles of transparency and accountability, as well as proving that the audit process has been carried out in compliance with internationally applicable Audit Standard 701 (SA 701). Compliance with these standards is an important indicator for stakeholders that the auditor has carried out a thorough audit procedure and considered the most significant areas of the company's financial statements.

The presence of KAM in the audit report is not only an additional formality, but also reflects a higher quality of audit. By revealing audit areas that require in-depth professional

consideration, the report becomes more informative and provides added value for the report's users, such as investors, creditors, regulators, and other related parties. The presentation of clear, structured information in accordance with the KAM criteria helps stakeholders to understand the key risks faced by the entity, so as to support more informed economic decision-making.

In addition, the disclosure of KAM plays a role in strengthening public perception of auditor independence. In a situation where issues of trust in the auditor profession are often questioned due to cases of irregularities, KAM is one of the transparency mechanisms that affirms the position of the auditor as an objective and impartial external party. This disclosure creates a more open communication space between auditors, auditors, and users of financial statements, thereby strengthening the image of auditors as guardians of financial reporting integrity.

The positive impact of KAM disclosure is also seen in increasing auditor accountability. By disclosing significant areas that affect the audit opinion, the auditor indirectly accounts for the process and results of his work to the public. This encourages auditors to be more thorough and careful in carrying out audit procedures, because every professional decision taken will be seen and assessed transparently by external parties.

Furthermore, an independent audit report that includes KAM will have a higher usefulness, as it is able to provide more specific and relevant information. Not only stating whether the financial statements are presented reasonably or not, but also explaining the critical areas that are the focus of the auditor's attention. This makes the report more reliable as a basis for policy, investment, and other managerial decisions.

Thus, KAM disclosure not only substantially improves the quality of audit reports, but also contributes to building a more transparent, accountable, and credible financial reporting ecosystem. The consistent and professional implementation of KAM will further strengthen the position of auditors as the guardian of public trust and the main pillar in creating good corporate governance.

## CONCLUSION

The independent audit report containing *Key Audit Matters* (KAM) is the final result of a series of audit procedures carried out thoroughly and systematically by auditors. The implementation of KAM in the report has a significant impact on improving the quality of information presented to stakeholders. Through KAM, auditors can reveal significant areas that have the potential to cause material misrepresentations in financial statements, so that audit reports become more informative, transparent, and relevant to support economic decision-making by financial statement users.

However, the KAM disclosure process is inseparable from the various challenges that must be faced by auditors. One of the main challenges is maintaining a balance between information disclosure and the protection of corporate data confidentiality. The significant areas disclosed in the KAM often relate to sensitive information that could affect the company's strategic position in the market. Therefore, effective and professional communication between the auditor and *the auditee* is crucial to ensure that the information disclosed in the KAM is relevant, accurate, while maintaining reasonable limits of confidentiality.

In addition, KAM disclosure also has the potential for negative impacts on companies, especially related to the risk of leaking confidential information that is strategic in nature. A company's personal data, if not managed carefully in the audit process, can create vulnerability to business competition or negative perceptions from the market. Therefore, auditors are required to have good communication skills, think critically, and uphold the principles of independence and professional ethics in compiling informative KAM while maintaining the integrity and confidentiality of company data.

In this context, professional communication between the auditor and the auditee is not only limited to agreeing on the area of the KAM to be disclosed, but also includes an in-depth discussion of the strategic impact of the disclosure on the interests of the company and the users of the report. This process involves careful professional consideration from both parties so that the resulting KAM truly reflects significant risks, without causing harm or misunderstanding among stakeholders.

Seeing the importance of CAM's role in improving the quality of audit reports as well as the challenges faced in their implementation, this study recommends that further studies be carried out by involving direct informants from auditor practitioners and users of financial statements. This approach will enrich the research perspective and provide a more comprehensive picture of the impact of the implementation of KAM in the field. In addition, researchers are also encouraging the use of more articles, journals, and empirical studies as additional sources of information to strengthen the results of the analysis and support the validity of findings in future similar studies.

Thus, follow-up research that is practical and empirical in nature will help identify best practices in the implementation of KAM, as well as contribute to the development of audit standards that are adaptive to increasingly complex and dynamic business challenges. Ultimately, this effort will strengthen the role of auditors as reliable information providers who are able to maintain a balance between transparency and confidentiality, in order to support better corporate governance.

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