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Regulatory Reinforcement and Key Audit Matter Disclosures: Evidence from Indonesia

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Abstract

Purpose – This study examines changes in Key Audit Matter (KAM) disclosure quantity and quality among Indonesian listed companies before and after POJK 30/2023.
Design/Methodology/Approach – Paired t-tests compare 2022 with 2023 and 2024, using 689–723 paired observations for quantity and 603–622 for quality. Quality is manually assessed using a seven-dimension index.
Results – Following the implementation of POJK 30/2023, KAM quantity shows a limited increase, while measured disclosure quality improves modestly and more consistently. The initial comparison by auditor type identifies significant increases in both dimensions among companies audited by non-Big Four firms.
Originality – The study distinguishes changes in KAM quantity and measured narrative quality within Indonesia's mandatory reporting framework.
Research limitations/Implications – The short period and absence of controls for auditor changes limit the analysis. Findings support attention to entity-specific KAM explanations and audit responses.

Keywords: Audit Regulation, Disclosure Quality, Indonesia, Key Audit Matters, POJK 30/2023

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Introduction

The auditing profession has undergone substantial changes in response to growing demands for greater transparency and more informative auditor communication (Pinto & Morais, 2019). Traditional audit reports have often been criticized for relying on standardized language that provides limited insight into significant audit risks and the professional judgments exercised by auditors (Cordoş & Fülöp, 2015; Seebeck & Kaya, 2023; Velte, 2018). To address these concerns, ISA 701 introduced Key Audit Matters (KAMs), which communicate matters of most significance in the audit of the current-period financial statements (International Auditing and Assurance Standards Board, 2015). Their disclosure is intended to provide users with greater insight into the audit process, reduce information asymmetry, and improve the usefulness of audit reports for decision-making (Cameran & Campa, 2025; Kitiwong & Sarapaivanich, 2020).

Empirical evidence indicates that KAM disclosures can enhance audit transparency and stakeholder understanding, although their effectiveness varies across institutional settings (Alves Júnior & Galdi, 2020; Kitiwong & Sarapaivanich, 2020). However, concerns remain regarding the use of generic or boilerplate language that does not adequately reflect the specific circumstances of the audited entity. The coexistence of communicative benefits and concerns about standardized narratives indicates that reporting more KAMs need not entail providing more substantive, entity-specific information (Seebeck & Kaya, 2023; Wang et al., 2024).

In Indonesia, the Indonesian Institute of Certified Public Accountants (IICPA/IAPI) adopted ISA 701 in 2021 for audits of financial statements for periods beginning on or after January 1, 2022 (Institut Akuntan Publik Indonesia, 2021). *Standar Audit* (SA) 701 already required KAM communication for issuers before OJK issued POJK 30/2023, which extended the requirement to additional categories of entities with public accountability in the capital market and established implementation and supervisory provisions (Otoritas Jasa Keuangan, 2023). For entities conducting public offerings whose securities are listed and/or traded on an exchange, Article 11 specifies application to audits of the 2023 annual financial statements (Otoritas Jasa Keuangan, 2023). The comparison therefore concerns disclosure practices before and after POJK 30/2023 within an existing KAM reporting framework, rather than the initial introduction of mandatory KAM reporting.

Existing Indonesian evidence examines the first year of SA 701 implementation (Aulia et al., 2024), leaving subsequent changes in disclosure quantity and quality to be examined across reporting periods. Distinguishing these dimensions is important because a change in the number of reported matters does not establish whether their descriptions have become more informative. Previous studies have frequently used the number of KAMs, paragraph length, readability, and linguistic complexity as proxies for disclosure characteristics (Abdelfattah et al., 2021; Ferreira & Morais, 2020; Rahaman et al., 2023; Rousseau & Zehms, 2024; Velte, 2018). However, these measures may not fully capture whether KAM disclosures are relevant, well-structured, entity-specific, adequately justified, and clearly communicated.

We examine changes in the quantity and measured quality of KAM disclosures by Indonesian listed companies during 2022–2024, spanning the periods before and after POJK 30/2023. Our contribution is to extend evidence from initial implementation to subsequent reporting periods while assessing quantity and content-based quality together. We assess quality through seven dimensions: relevance, structure, entity-specific context, justification, references to the financial statements, the auditor's role, and narrative clarity. This approach examines the substance of KAM narratives alongside disclosure counts without treating additional disclosures as sufficient evidence of higher quality. The before-and-after comparisons document temporal differences without isolating the regulation's causal effect from other contemporaneous changes. The evidence informs regulatory monitoring and professional guidance by identifying aspects of KAM communication that warrant attention beyond the inclusion of a KAM section.

Literature Review and Hypothesis Development

Public Interest Theory of Regulation

Public Interest Theory holds that regulatory intervention is justified when market mechanisms cannot adequately protect collective welfare, particularly when information asymmetry and opportunistic behavior prevent market participants from making well-informed decisions (James, 2000; Pigou, 2017). This condition is evident in capital markets, where corporate managers generally possess more information than investors and creditors (Healy & Palepu, 2001). Regulations governing audit reporting, including Key Audit Matter (KAM) requirements, seek to reduce this information gap by ensuring that financial statement users receive relevant, reliable, and transparent information about significant matters identified during the audit (Cordo & Fülöp, 2015; International Auditing and Assurance Standards Board, 2015).

Regulators implement these public-interest objectives through rules, supervision, and enforcement mechanisms (James, 2000; Levi-Faur, 2009). In Indonesia, POJK 30/2023 combines KAM reporting and governance communication requirements with administrative sanctions for non-compliance (Otoritas Jasa Keuangan, 2023). Regulatory oversight may increase auditors' attention to selecting significant matters and explaining why they were important and how they were addressed. Such responses may alter the number of KAMs selected and the specificity and clarity of their descriptions, without implying that a higher count necessarily represents better reporting. However, the intended public benefits of regulation depend on consistent monitoring and credible enforcement because rules without effective supervision may have limited influence on professional behavior (Baldwin et al., 2011; Gunny & Zhang, 2013).

Development of KAM Regulations at the International and Indonesian Levels

International reforms concerning Key Audit Matters emerged from concerns that conventional auditor reports relied heavily on standardized language and provided limited insight into the audit process (Cordoş & Fülöp, 2015; Pinto & Morais, 2019; Velte, 2018). In response, the International Auditing and Assurance Standards Board (IAASB) issued ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report, in 2015 (International Auditing and Assurance Standards Board, 2015). The standard became effective for audits of financial statements for periods ending on or after December 15, 2016. KAMs are selected from matters communicated to those charged with governance and represent those of most significance in the audit of the current-period financial statements (International Auditing and Assurance Standards Board, 2015).

Empirical studies address different aspects of expanded auditor reporting: Pinto and Morais (2019) examine KAM disclosure determinants in Europe, whereas Reid et al. (2019) examine financial reporting quality and audit costs following reporting changes in the United Kingdom. These studies distinguish the selection and consequences of reported matters from the informational quality of their narratives. Nevertheless, the continued use of repetitive or boilerplate language may weaken the additional information provided by KAMs (Wang et al., 2024).

In Indonesia, SA 701 (2021) established KAM reporting for audits of issuers' financial statements for periods beginning on or after January 1, 2022 (Institut Akuntan Publik Indonesia, 2021). POJK 30/2023 subsequently extended the requirement to additional categories of entities with public accountability in the capital market and provided a regulatory basis for oversight (Otoritas Jasa Keuangan, 2023). For entities conducting public offerings whose securities are listed and/or traded on an exchange, Article 11 specifies application to audits of the 2023 annual financial statements. Consistent with ISA 701, the regulation requires public accountants to communicate KAMs in audit reports and explain both why each matter required significant audit attention and how it was addressed during the audit (Otoritas Jasa Keuangan, 2023).

KAM Disclosure Quantity Before and After POJK 30/2023

According to the Public Interest Theory of Regulation, regulation is justified by its contribution to public welfare and the correction of market failures (James, 2000; Levi-Faur, 2009). Disclosure regulation establishes requirements for the information provided to financial statement users as part of efforts to address information asymmetry (Healy & Palepu, 2001). In KAM reporting, this regulatory function operates through auditors' responsibility to identify and communicate matters of most significance in the current-period audit (IAASB, 2015; James, 2000). ISA 701 requires auditors to document the rationale for their KAM determinations, making selection decisions open to review (IAASB, 2015).

An ACCA (2018) report highlighted that UK audit reports contained an average of 4.1 Key Audit Matters (KAMs), whereas Nigeria had just 1.9 on average. For Indonesia, Aulia et al. (2024) reported an average of 1.3 KAMs per audit report during the first year of SA 701 implementation. These observations align with findings from Abdullatif and Al-Rahahleh (2020), who reported a relatively low number of KAMs in Jordan. The estimates cover different samples and reporting periods: the UK figure was based on a limited sample of dual-listed companies, while the Indonesian figure concerns the first year of SA 701 implementation in 2022 (ACCA, 2018; Aulia et al., 2024). SA 701 leaves the number disclosed to auditors' professional judgments about the matters of most significance in each audit, without prescribing a numerical reporting target (IAPI, 2021; IAASB, 2015).

Auditors' KAM-selection decisions are shaped by client pressures and regulatory scrutiny as well as the formal reporting requirement (Abdullatif & Al-Rahahleh, 2020; Bepari et al., 2024). Abdullatif and Al-Rahahleh (2020) identify ambiguity in ISA 701, discretion in its application, concerns about client reactions and limited regulatory interest in detailed KAM content among interviewees' explanations for reporting practices. Interview evidence from Bangladesh shows that auditors report a comparatively large number of KAMs as a strategy to avoid regulatory scrutiny, although the disclosures remain predominantly industry-

generic (Bepari et al., 2024). ISA 701 nevertheless specifies that management's concerns about adverse consequences do not, by themselves, justify withholding an identified KAM; auditors must assess those consequences against the public-interest benefits of communication (IAASB, 2015).

The associations between KAM counts and audit circumstances differ across reporting settings (Cameran & Campa, 2025; Ferreira & Morais, 2020). Ferreira and Morais (2020) find positive associations between KAM counts and both company complexity and Big Four auditor status in Brazil, alongside negative associations with audit fees and modified opinions. In contrast, Cameran and Campa (2025) find positive associations between KAM counts and audit fees, audit report lags and modified opinions in the European Union.

In Indonesia, SA 701 required KAM reporting by listed entities in audits of financial statements for periods beginning on or after January 1, 2022 (IAPI, 2021). POJK 30/2023 reinforces this framework through reporting obligations, communication with those charged with governance, documentation requirements and administrative sanctions for non-compliance (OJK, 2023). In the circumstances specified by Articles 9–10, auditors must provide a written explanation for KAMs not presented in the KAM section, which the entity must submit to OJK together with its audited financial statements (OJK, 2023). We expect the obligation to explain these exclusions, together with exposure to sanctions for non-compliance, to strengthen auditors' incentives to communicate matters that warrant disclosure under SA 701 (IAASB, 2015; OJK, 2023). Consistent with the reporting incentives associated with regulatory scrutiny in Bepari et al. (2024), we expect a higher number of reported KAMs in the post-POJK 30/2023 period and propose the following hypothesis:

Hypothesis 1: The number of KAMs disclosed in the audit reports of Indonesian listed companies is higher in the post-POJK 30/2023 period than in the pre-POJK 30/2023 period.

KAM Disclosure Quality Before and After POJK 30/2023

KAM disclosure is intended to explain matters of most significance in the audit and how the auditor addressed them, thereby increasing the communicative value of the report (IAPI, 2021; IAASB, 2015). A substantive narrative connects the significance of a matter to the circumstances of the audited entity and explains the auditor's response in terms that financial statement users can understand (IAASB, 2015; Seebeck & Kaya, 2023).

Research on the UK reporting reform documents improvements in the communicative features of expanded auditor reports (Seebeck & Kaya, 2023). Seebeck and Kaya (2023) find improvements in readability, evaluative content, visual aids and specificity after the introduction of extended auditor reports, although these improvements differ across audit firms, clients and disclosure characteristics. Standardized drafting also persists under mandatory KAM reporting (Seebeck, 2024), as KAMs become increasingly boilerplate as audit firms develop standardized KAM disclosure modules.

Küster (2024) finds that KAM disclosures across European countries become longer, more quantitative and more specific over time, while also containing more boilerplate phrases. The coexistence of greater specificity and standardized phrasing means that textual expansion alone does not establish improvements in entity-specific explanations (Küster, 2024; Seebeck, 2024). A repeated KAM topic remains appropriate when it continues to be of most significance in the current-period audit; its explanation must reflect the circumstances of that audit (IAASB, 2015; Seebeck, 2024). Küster (2024) also finds associations between linguistic features and KAM topics, client attributes and audit firm characteristics.

Under the Public Interest Theory of Regulation, reporting obligations, monitoring and enforcement provide institutional means of aligning regulated practices with public-interest objectives (James, 2000; Levi-Faur, 2009). Rautiainen et al. (2021) describe how the supervisory authority in Finland monitors auditors, while the Finnish Auditors' Association provides guidance on good audit practices. These regulations and audit guidelines generally aim to improve audit quality and the informational content of audit reports, as well as to reduce the audit expectation gap through KAM disclosures. Despite these objectives, the Finnish survey respondents generally did not perceive KAM reporting as improving audit quality (Rautiainen et al., 2021).

In Indonesia, POJK 30/2023 reinforces the existing SA 701 framework through reporting obligations, communication with those charged with governance, documentation requirements and administrative sanctions (OJK, 2023). SA 701 requires each KAM description to explain why the matter is significant and how it was addressed, with references to related financial-statement disclosures where applicable (IAPI, 2021; IAASB, 2015). We expect the combination of reporting duties and enforceable sanctions to strengthen auditors' incentives to comply with these substantive requirements, including entity-specific explanations and clearly described audit responses (Levi-Faur, 2009; Institut Akuntan Publik Indonesia, 2021; OJK, 2023). Compliance with these requirements entails explaining the significance of the matter in the

circumstances of the entity and the current-period audit, including when the same topic was reported in the preceding year. We therefore expect higher measured disclosure quality in the post-POJK 30/2023 period and propose the following hypothesis:
Hypothesis 2: The measured quality of KAM disclosures in the audit reports of Indonesian listed companies is higher in the post-POJK 30/2023 period than in the pre-POJK 30/2023 period.

Methods

Population and Sample

This study examines the 2022–2024 period, covering the phases before and after the implementation of Financial Services Authority Regulation No. 30 of 2023 (POJK 30/2023). SA 701 requires KAM reporting for listed entities for financial statement periods beginning on or after January 1, 2022; POJK 30/2023 applies to the annual financial statements of equity issuers and public companies for 2023 onward (IAPI, 2021; OJK, 2023). Accordingly, 2022 represents the pre-implementation period, whereas 2023 and 2024 represent the post-implementation period.

The population comprises all companies listed on the Indonesia Stock Exchange (IDX) during 2022–2024. The sampling frame follows the listed companies at the end of each year, representing approximately 2,700 potential company-year observations across the three years. The sample was selected using purposive sampling. Eligibility requires that a company be listed at the relevant year-end and that an audited annual financial statement and independent auditor's report be available and readable.

The exclusion criteria cover companies delisted before the applicable year-end, unavailable or unreadable reports, and reports containing a disclaimer of opinion. SA 701 prohibits KAM communication when the auditor disclaims an opinion unless law or regulation requires it; disclaimer reports are excluded from the KAM analyses rather than assigned a low disclosure-quality score (IAPI, 2021; IAASB, 2015, para. 5). The unit of observation is the company-year. Each paired comparison includes only companies with observations for the relevant variable in both comparison years. The quantity sample comprises 2,481 company-year observations from 973 companies, and the quality sample comprises 2,342 observations from 946 companies.

Variable Measurement

This study examines two variables: the number and quality of KAM disclosures. The number of KAMs is measured as the total number of Key Audit Matters presented in each independent auditor's report. Data were collected through manual content analysis.

KAM disclosure quality is measured using seven indicators derived from SA 701 and research on narrative content and presentation (Dhull et al., 2025; IAASB, 2015; IAPI, 2021). The indicators capture relevance, structure, entity-specific context, justification, reference to the financial statements, auditor's role, and narrative clarity. Taken together, the indicators combine required reporting content with the specificity and readability examined in KAM communication research (IAASB, 2015; Seebeck & Kaya, 2023; Küster, 2024). Table 1 maps each indicator to its operational meaning and standards basis.

Each indicator is scored from 0 to 2. A score of 0 indicates that the relevant information is not disclosed, 1 indicates limited or generic disclosure, and 2 indicates complete and substantive disclosure. The seven indicator scores are summed to produce a total KAM quality score ranging from 0 to 14, with a higher score indicating better disclosure quality. The graded rubric distinguishes disclosure substance from disclosure occurrence, which alone does not establish quality (Marston & Shrives, 1991). Quality is assessed only for reports disclosing at least one KAM and for which a total quality score is available.

A single coder performed the assessment using a written guide specifying the indicators and scoring criteria. Explicit coding rules support consistent classification in accounting content analysis (Milne & Adler, 1999). Because the assessment relies on a single coder, intercoder agreement was not assessed.

Analytical Techniques

The hypotheses were tested using paired-sample t-tests to compare the number and quality of KAM disclosures for the same companies across the observation periods. The 2022–2023 and 2022–2024 comparisons test the predicted post-POJK increases using one-sided tests at the 5% significance level. Differences are calculated as the earlier-year value minus the later-year value, so the directional alternative is a negative mean difference. Two-sided p-values and 95% confidence intervals accompany the estimates. The 2023–2024 comparison uses a two-sided test to examine change within the post-implementation period.

Effect sizes are expressed as Cohen's dz, calculated as the mean paired difference divided by its standard deviation, and interpreted alongside changes in KAM counts and points on the quality scale

(Lakens, 2013). Additional paired-sample t-tests are conducted separately for the Big Four and non-Big Four groups for 2022–2023. Companies enter an auditor group only when their Big Four classification is unchanged in both comparison years.

Table 1
KAM Disclosure Quality Indicator

No.	Indicator	Explanation	Source
1	Relevance	The disclosed KAM reflects an audit issue that is significant, material, and directly related to the risks in the audit of the entity's financial statements.	SA 701 Par. 8–10; POJK 30/2023 Article 1
2	Structure	The structure of the KAM presentation is clearly and systematically organized, consisting of an introduction, a description of the KAM, and a summary of the auditor's response.	SA 701 Par. 11
3	Context Specifics	The KAM is not generic (boilerplate) but is tailored to the specific characteristics and conditions of the audited entity.	SA 701 Par. A34–A36; POJK 30/2023 General Explanation
4	Justification	The auditor adequately explains the reasons for selecting the issue as a KAM, including professional and significant considerations in the audit.	SA 701 Par. 13(a)
5	Reference to the Financial Statement	KAM explicitly refers to the relevant section in the notes to the financial statements that discusses the same issue.	SA 701 Par. 13; Par. A40-A41
6	Auditor's Roles	The KAM description mentions the audit procedures or the auditor's considerations regarding the issue raised, in accordance with professional responsibilities.	SA 701 Par. 13(b)
7	Clarity of the Narrative	The KAM narrative is written in clear, unambiguous language that is easily understood by users of financial statements.	SA 701 Par. A34

Research Results

Descriptive Statistics

Table 2 presents the descriptive statistics for the number and quality of KAM disclosures. Across 2,481 firm-year observations, the average number of KAMs was 1.32. The number ranges from 0 to 6, with a standard deviation of 0.65. The annual average increased from 1.27 in 2022 to 1.34 in 2023 and remained at 1.34 in 2024. The increase between 2022 and 2023 was 0.07 KAM per report.

Based on 2,342 observations, the average KAM quality score is 13.32. The quantity analysis includes reports with no KAM disclosure, whereas the quality analysis includes only reports disclosing at least one KAM and having an available quality score. The difference of 139 observations comprises 53 reports without KAM disclosures and 86 reports with KAM disclosures but unavailable quality scores. The scores range from 4 to 14, with a standard deviation of 1.21, and the overall mean is close to the upper limit of the 0–14 index. The annual average increased gradually from 13.26 in 2022 to 13.30 in 2023 and 13.38 in 2024. These averages represent increases of 0.04 points in 2023 and 0.08 points in 2024, amounting to 0.12 points between 2022 and 2024.

Table 2
Descriptive Statistics

Variable	Year	Obs	Mean	Std. Dev.	Min	Max
Number of KAMs	All Sample	2,481	1.32	0.65	0	6
	2022	826	1.27	0.71	0	6
	2023	832	1.34	0.63	0	5
	2024	823	1.34	0.61	0	5
Quality of KAMs	All Sample	2,342	13.32	1.21	4	14
	2022	697	13.26	1.31	6	14
	2023	826	13.30	1.20	4	14
	2024	819	13.38	1.14	5	14

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Hypothesis Testing

Table 3 presents the paired-sample t-test results for the number of KAMs. H1 is supported for 2022–2023 under the directional one-tailed test (p = 0.030), but not for 2022–2024 (p = 0.055). The estimated increases are 0.041 and 0.038 KAMs per report, respectively, with Cohen's dz values of −0.070 and −0.061.

For 2022–2023, the two-sided 95% confidence interval [−0.085, 0.002] includes zero, and the two-tailed p-value is 0.060; support for this comparison therefore depends on the directional test specified by H1. The 2022–2024 interval [−0.084, 0.009] also includes zero. The supplementary 2023–2024 comparison shows a mean decrease of 0.007 KAM per report (two-tailed p = 0.686; 95% CI [−0.025, 0.039]; dz = 0.015).

Table 3
Hypothesis Testing – Number of KAMs

Component	Year-to-Year Comparison		
	2022 vs 2023	**2022 vs 2024**	**2023 vs 2024**
Number of observations (n)	723	689	758
Average Year 1	1.292	1.286	1.336
Average Year 2	1.333	1.324	1.330
Difference in means (T1 – T2)	-0.041	-0.038	+0.007
Std. deviation of differences	0.592	0.621	0.450
95% Confidence Interval	[-0.085, 0.002]	[-0.084, 0.009]	[-0.025, 0.039]
Cohen's dz	-0.070	-0.061	0.015
t-statistic	-1.886	-1.596	0.404
p-value (two-tailed)	0.060	0.111	0.686
p-value (one-tailed)	0.030	0.055	—
Significance (α = 0.05)	Significant	Not Significant	Not Significant

Notes: Differences are earlier-year minus later-year values; negative values indicate increases. One-tailed tests for 2022–2023 and 2022–2024 evaluate the predicted increase; 2023–2024 is a supplementary two-tailed comparison. Confidence intervals are two-sided 95% intervals. Cohen's dz = t / √n (Lakens, 2013).

Table 4 presents the paired-sample t-test results for KAM disclosure quality. H2 is supported in both pre- and post-implementation comparisons. Quality scores increase by 0.154 points between 2022 and 2023 (one-tailed p = 0.002; dz = −0.119) and by 0.224 points between 2022 and 2024 (one-tailed p < 0.001; dz = −0.177). The corresponding 95% confidence intervals [−0.256, −0.053] and [−0.325, −0.123] lie entirely below zero, indicating higher quality scores in the later years under the earlier-year minus later-year convention.

Table 4
Hypothesis Testing – Quality of KAMs

Component	Year-to-Year Comparison		
	2022 vs 2023	**2022 vs 2024**	**2023 vs 2024**
Number of observations (n)	622	603	751
Average Year 1	13.230	13.254	13.324
Average Year 2	13.384	13.478	13.398
Difference in means (T1 – T2)	-0.154	-0.224	-0.075
Std. deviation of differences	1.292	1.265	1.004
95% Confidence Interval	[-0.256, -0.053]	[-0.325, -0.123]	[-0.146, -0.003]
t-statistic	-2.978	-4.347	-2.036
Cohen's dz	-0.119	-0.177	-0.074
p-value (two-tailed)	0.003	<0.001	0.042
p-value (one-tailed)	0.002	<0.001	—
Significance (α = 0.05)	Significant	Significant	Significant

Notes: Difference signs, confidence intervals, directional tests and Cohen's dz follow the conventions in Table 3. The 2023–2024 comparison is supplementary and uses a two-tailed test.

The supplementary 2023–2024 comparison shows a further increase of 0.075 points (two-tailed p = 0.042; 95% CI [−0.146, −0.003]; dz = −0.074). Although statistically detectable, each mean increase is less than a quarter of one point on the 0–14 quality scale. The paired-sample means range from 13.230 to 13.478, close to the index maximum of 14.

Additional Analysis by Auditor Type

Table 5 presents the 2022–2023 quantity comparisons by auditor type. Of the 723 paired observations, 189 involve Big Four auditors and 524 involve non-Big Four firms; 10 pairs involving changes in auditor type are excluded from the group comparisons. For companies audited by non-Big Four firms, the average number of KAMs increased from 1.263 to 1.344, with a mean paired increase of 0.080 KAM per report (one-tailed p = 0.002; dz = −0.125). The 95% confidence interval [−0.135, −0.025] lies below zero under the 2022-minus-2023 convention. For companies audited by Big Four firms, the average declined from 1.360 to 1.323, with a mean paired decrease of 0.037 KAM per report (one-tailed p = 0.895; dz = 0.092); the interval [−0.021, 0.095] includes zero.

Table 5
Additional Analysis – Number of KAMs

Component	Big Four (2022 vs 2023)	Non-Big Four (2022 vs 2023)
Number of observations (n)	189	524
Average Year 1	1.360	1.263
Average Year 2	1.323	1.344
Difference in means (T1 – T2)	+0.037	-0.080
Std. deviation of differences	0.404	0.641
95% Confidence Interval	[-0.021, 0.095]	[-0.135, -0.025]
t-statistic	1.259	-2.864
Cohen's dz	0.092	-0.125
p-value (two-tailed)	0.210	0.004
p-value (one-tailed)	0.895	0.002
Significance (α = 0.05)	Not Significant	Significant

Table 6 reports the quality comparisons for the same period. The group comparisons include 177 Big Four and 435 non-Big Four pairs, excluding 10 pairs involving changes in auditor type. For companies audited by non-Big Four firms, the average quality score rose from 12.991 in 2022 to 13.191 in 2023. The mean paired increase is 0.200 points on the 0–14 index (one-tailed p = 0.002; dz = −0.135), with a 95% confidence interval [−0.339, −0.061] entirely below zero. For companies audited by Big Four firms, the average rose from 13.814 to 13.853; the mean paired increase of 0.040 points is not statistically significant (one-tailed p = 0.213; dz = −0.060), and its interval [−0.137, 0.058] includes zero.

Table 6
Additional Analysis – Quality of KAMs

Component	Big Four (2022 vs 2023)	Non-Big Four (2022 vs 2023)
Number of observations (n)	177	435
Average Year 1	13.814	12.991
Average Year 2	13.853	13.191
Difference in means (T1 – T2)	-0.040	-0.200
Std. deviation of differences	0.660	1.478
95% Confidence Interval	[-0.137, 0.058]	[-0.339, -0.061]
t-statistic	-0.797	-2.823
Cohen's dz	-0.060	-0.135
p-value (two-tailed)	0.427	0.005
p-value (one-tailed)	0.213	0.002
Significance (α = 0.05)	Not Significant	Significant

Notes for Tables 5–6: Tests assess changes within each auditor group. Differences are 2022 minus 2023; negative values indicate increases. One-tailed p-values test the predicted increase. Confidence intervals are two-sided 95% intervals. Cohen's dz = t / √n (Lakens, 2013).

Discussion and Conclusion

Discussion

KAM reporting communicates auditors' professional judgments through the selection of matters of most significance in the audit and explanations of why those matters were significant and how they were addressed (IAASB, 2015, paras. 8–13). These complementary aspects underpin our examination of disclosure quantity and narrative quality across the pre- and post-POJK 30/2023 periods. We find more consistent increases in KAM disclosure quality scores than in the number of KAMs during the post-POJK

30/2023 period. Public Interest Theory provides a rationale for examining regulation in relation to public benefits and the role of monitoring and enforcement (James, 2000; Levi-Faur, 2009). The observed changes concern reporting under a KAM requirement that preceded POJK 30/2023 (OJK, 2023). Our before-and-after comparisons do not isolate regulatory influence from concurrent changes in clients, audit circumstances and reporting experience.

The increase of 0.041 KAM per report in 2022–2023 provides limited support for H1: it is significant under the directional test, but its two-sided confidence interval includes zero. The 2022–2024 increase of 0.038 and the 2023–2024 decrease of 0.007 are not statistically significant. Abdullatif and Al-Rahahleh (2020) identify client pressure, interpretive discretion and limited regulatory interest in detailed content as explanations for restricted KAM reporting in Jordan. Cameran and Campa (2025), however, associate KAM counts with audit fees, audit report lags and modified opinions in the European Union. Given these institutional and engagement-level explanations, the small changes in disclosure counts offer limited evidence of a broad expansion in KAM selection. Under ISA 701, selection concerns matters of most significance in the current-period audit, without a numerical disclosure target (IAASB, 2015).

KAM disclosure quality scores increase significantly in all three comparisons, with gains of 0.075–0.224 points on the 0–14 index. These gains are modest: each is below a quarter of one point, and paired-sample means of 13.230–13.478 are already close to the maximum. We therefore interpret the findings as incremental improvements in measured disclosure attributes. Seebeck and Kaya (2023) document improvements in textual communication proxies in the United Kingdom, but find that only specificity was relevant to investors, while the other proxies were not. Dhull et al. (2025) report predominantly symbolic disclosures in three European countries despite upward trends in their content and form measures. Their linguistic proxies and content-and-form measures differ from our manually coded index; higher aggregate scores alone do not establish improvements in every narrative dimension or benefits to investors.

The 2022–2023 auditor-type analysis identifies increases of 0.080 KAM per report and 0.200 quality points among non-Big Four clients. Big Four clients show a decrease of 0.037 KAM and an increase of 0.040 quality points, neither statistically significant. The Big Four clients' 2022 quality mean of 13.814 leaves less room on the bounded index than the non-Big Four mean of 12.991. Because we did not directly test the difference between the groups' changes, we do not infer a stronger regulatory response among non-Big Four auditors from their different significance levels (Gelman & Stern, 2006).

We recommend that auditors prioritize clear, entity-specific explanations of significant audit matters. Each KAM should clearly explain why the matter was significant, how it relates to the financial statements, and how the auditor addressed it. These elements follow ISA 701's requirements for explaining significance, describing the audit response and referencing related financial statement disclosures, where applicable (IAASB, 2015). Training and internal reviews should focus on applying these requirements to current-period circumstances, including recurring KAM topics.

Management and audit committees should use KAM discussions to examine significant accounting judgments, related disclosures and relevant internal controls. KAMs identify matters of most significance in the audit; they are not a comprehensive inventory of financial reporting risks or a substitute for management's disclosures (IAASB, 2015). We recommend incorporating these discussions into the communication with those charged with governance required by POJK 30/2023 (OJK, 2023).

For OJK, we recommend periodic reviews of KAM selection and narrative content, supported by thematic guidance on entity-specific explanations and audit responses. Reviews should examine the justification for selected matters and the adequacy of their explanations, avoiding numerical targets that displace the professional judgment required by ISA 701.

Conclusion

This study documents changes in KAM disclosures among Indonesian listed companies before and after POJK 30/2023. The number of KAMs increases significantly only in the 2022–2023 directional comparison, providing limited support for H1. Measured disclosure quality improves in the comparisons of 2022 with 2023 and 2024, as well as in the supplementary 2023–2024 comparison, supporting H2. However, mean quality gains remain below a quarter of one point on the 0–14 index, indicating incremental improvements in measured disclosure attributes. The 2022–2023 auditor-type analysis identifies statistically significant increases in both quantity and measured quality among non-Big Four clients. We recommend that auditors and regulators emphasize entity-specific explanations of significant matters and audit responses when evaluating KAM reporting.

Limitation & Future Research

Nevertheless, this study has several limitations. The observation period covers only three years, and the analysis does not explicitly account for auditor continuity across years. Future studies should examine longer periods and incorporate auditor changes and client characteristics into their analyses. Complementary linguistic measures of specificity and readability would extend the assessment of narrative quality beyond the content-based index. Further research should examine the relationship between KAM quality, investor responses and corporate governance practices to assess the economic relevance of these disclosure changes.

Declaration of Generative AI Use

During the preparation of this manuscript, we used GPT 6.1 Sol (High) to improve English grammar, clarity, and readability. We reviewed and edited the AI-assisted text and take full responsibility for the final content of the manuscript.

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