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Public Accounting Firm Characteristics on the Readability of Key Audit Matters

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ABSTRACT

This study investigates the readability of Key Audit Matters (KAM) in a sample of 448 companies listed on the Indonesia Stock Exchange (IDX) using the INDX model and multiple regression analysis. The findings reveal that auditors from Big Four firms, auditor gender, meeting frequency, and company leverage negatively affect KAM readability, resulting in lower INDX scores and more complex reports. Conversely, factors such as audit fees, auditor experience, KAM type, audit committee size, and company size based on total assets do not significantly influence readability. A higher INDX score indicates better readability, suggesting that reports with lower scores are more difficult to understand. These findings provide insights for regulators and auditors to improve the clarity of audit reports, enhancing transparency and communication with stakeholders.

Keywords:
Key Audit Matters Readability, Big Four Firms, Audit Fees, Auditor Gender, Auditor Experience.

1. INTRODUCTION

In order to improve the informational value needed for decision-making, important audit matters have become an important part of the information that must be included in the audit report. The most important aspects of auditing have been the focus of audit research since they were first mentioned and put into practice in 2016 (Abu & JaFFar, 2020). Disclosure of critical audit matters, according to standard setters, gives more detailed information about the company, raises the information's value, and makes it more applicable for decision-making, all of which reflect the audit's worth (Du, 2022). The auditor's professional judgment dictates which matters were most significant during the audit of the financial statements of the current period, and these are called key audit matters (IAASB, 2015). To tackle the difficulties in improving openness in the auditor's report, the International Association of Accounting Standards Boards (IAASB) established key audit matters, which are governed by International Standards on Auditing (ISA) 701 on Communicating Key Audit Matters in the Independent Auditor's Report. For fiscal years ending on or after December 15, 2016, this standard was initially put into effect (Emilio et al., 2022).

Since 2016, audit standards in a number of countries have embraced ISA 701. These countries include Australia, the UK, New Zealand, and a handful of European nations (Kend & Nguyen, 2020), China (Li, 2020; Longyuan et al., 2022; Shao, 2020; Yue, 2022), and ASEAN countries such as Malaysia, Thailand, and Singapore (Emilio et al., 2022). Meanwhile, Indonesia is relatively new in adopting ISA 701 through its Auditing Standard (SA) 701 (Yoga & Dinarjito, 2021). However, in 2020, the Financial Services Authority (OJK) stated that the top priority standard in Indonesia was the adoption of the International Standard on Auditing (ISA) 701 (Ulya & Jatmiko, 2020). The Indonesian Institute of Public Accountants (IAPI) Public Accountant Professional Standards Board I (DSPAP I) disseminated the exposure draft of SA 701, an adoption of ISA 701, by letter number 0595/I/Int IAPI/2021, dated January 27, 2021. For fiscal years beginning January 1, 2022, SA 701 was successfully applied to audits of financial statements (IAPI, 2021).

The implementation of SA 701 in Indonesia is expected to improve information transparency and reduce information asymmetry, which will be useful in decision-making for users of financial reports (Yoga & Dinarjito, 2021). The success of this implementation is anticipated to create more informative, transparent, and user-friendly audit reports (Hussin et al., 2023).

The results of the literature analysis show that audit reports are now easier to understand and read thanks to the implementation of important audit matters (Hussin et al., 2023; Marques et al., 2021). To guarantee that stakeholders are effectively and clearly informed, audit reports must be well-written and easy to read. Stakeholders will be able to make more informed decisions, and audit reports will have more value for communication (Smith, 2017). However, studies also highlight challenges faced by key audit matters concerning the use of language and technical terms that may be difficult for users to understand, potentially creating an information gap (Gambetta et al., 2023; Hussin et al., 2023; Marques et al., 2021; Mwintome et al., 2023; Velte, 2018, 2020). The additional information presented through key audit matters can be challenging for users to comprehend due to the complexity of the terms used (Smith, 2017).

Research suggests that public accounting firms' reputations affect the clarity of important audit problems; in general, well-respected firms make their disclosures more accessible (Abdelfattah et al., 2020; Hussin et al., 2023; Wuttichindanon & Issarawornrawanich, 2020). Research results indicate the diversity of characteristics of public accounting firms, such as the Big Four (Wuttichindanon et al., 2022), audit fees (Xu et al., 2020), size of the public accounting firm, auditor gender, and practice tenure (Shao, 2020), the disclosure of important audit matters is affected. Research shows that not all audit reports are easy to interpret, even when coming from large firms. The client's financial complexity influences this (Deshmukh & Zhao, 2020). Additional considerations include the nature of the business, including its

size and leverage, which are more directly linked to the revelation of critical audit issues (Longyuan et al., 2022). The comprehensibility of critical audit issues is also greatly affected by company-level characteristics (Genç & Genç, 2021).

Key audit matters (KAM) encourage auditors to enhance professionalism and judgment in decision-making (Pratama, 2023). Other characteristics of public accounting firms identified in other studies, such as experience (Jayanti et al., 2023; Velte, 2020) The readability of important audit matters in the audit report is affected by what kinds of key audit matters are included and how they are structured. The comprehensibility of the audit methods described in the audit report's significant audit matters is relevant to the type of audit matters (Gambetta et al., 2023).

In order to improve the quality of financial information and communication value, audit reports must make critical audit concerns easy to understand (Deshmukh & Zhao, 2020; Hussin et al., 2023). However, there is not much research focusing on the types of KAM used and their readability. Research on public accounting firm characteristics becomes essential in the context of audit developments in Indonesia due to the significant growth in the use of major audit matters in audit reports. Consequently, the purpose of this research is to determine whether and how specific features of public accounting firms affect the clarity of critical audit issues presented in audit reports of Indonesia Stock Exchange-listed companies. This project aims to address knowledge gaps in accounting and auditing, improve the quality of future audit reports, and make a contribution to audit practices in Indonesia.

2. LITERATURE REVIEW AND HYPHOTESIS DEVELOPMENT

Agency theory provides the theoretical groundwork upon which this investigation rests. When information asymmetry arises and leads to less-than-ideal decisions, agency theory clarifies the dynamic between principals and agents (Jensen & Meckling, 1976). The role of the auditor as a monitor is expected to reduce information asymmetry by providing reliable information through the audit report (Hussin et al., 2023). Better decision-making, easier comprehension of audit reports, and improved communication of financial risks are all goals of the new standard, ISA 701, which addresses critical audit problems (Pratama, 2023). Research by Hussin et al. (2023) and others shows that high-quality public accounting firms can help level the playing field by making important audit concerns easier to understand and read. The auditor's gender, years of experience, the Big Four firms (Wuttichindanon & Issarawornrawanich, 2020), audit fees (Xu et al., 2020), and the type of KAM (Gambetta et al., 2023) are some of the public accounting firm characteristics that impact the clarity of important audit matters.

Big Four Firms and Readability of Key Audit Matters

In order to preserve their credibility and lessen the likelihood of legal action, the "big four" public accounting firms offer more

thorough audits. A more understandable audit report and more communication regarding financial risks are characteristics of the Big Four firms (Hussin et al., 2023). Furthermore, the Big Four often reveal more important audit concerns and serve as methods to evaluate financial report quality (Wuttichindanon & Issarawornrawanich, 2020)auditors play a crucial role in the quality of financial reports. With the introduction of a new format of auditors' report that requires disclosure of key audit matters (KAM. Big Four firms are positively correlated with the readability of critical audit topics, according to studies using the FLESCH readability score performed in the UK and Thailand. According to Velte (2018) and Wuttichindanon & Issarawornrawanich (2020) auditors play a crucial role in the quality of financial reports. With the introduction of a new format of auditors' report that requires disclosure of key audit matters (KAM, organizations that the Big Four audit generally have important audit problems that are easier to understand. Recent studies have also shown positive relationships between the Big Four corporations and the readability of critical audit concerns, according to the Coleman-Liau Index (CLI). Big Four firms are not associated with the readability of significant audit topics, according to the same measurement employing the FLESCH readability score (Hussin et al., 2023). Evidence for this comes from studies showing that big audit firms, particularly those dealing with complicated financial operations, can provide audit reports that are hard to interpret (Deshmukh & Zhao, 2020). Thus, the following theory is put out in light of the aforementioned series:

H1: Companies audited by large firms (Big Four) have a positive relationship with the readability of key audit matters.

Audit Fees and Readability of Key Audit Matters

An auditor's compensation is a reflection of the work they put into revealing important audit concerns. Generally speaking, audit fees tend to rise when audit reports are easy to understand and interpret (Abdelfattah et al., 2020). According to Chang & Stone (2019), Salehi et al. (2022), and Xu et al. (2020), audit reports that are well-written and easy to understand can assist in bridging the knowledge gap between shareholders and management. Examining the impact of audit fees on the readability of critical audit items using the FLESCH readability score reveals a favorable trend. Companies that pay more for audits are more likely to provide clear disclosures about important audit matters (Chang & Stone, 2019). There is a significant correlation between audit fees and the readability of critical audit concerns, according to a new study that uses the Coleman-Liau Index (CLI). Nevertheless, according to Hussin et al. (2023), audit fees are unrelated to the readability of significant audit items when utilizing the same FLESCH readability score. According to Blanco et al. (2020), additional studies have shown that high audit fees can lead to reports that are difficult to read. This is because the extra work needed to clarify complicated information can make the report cumbersome. Thus, the following

theory is put out in light of the aforementioned series:

H2: Audit fees incurred by the company have a positive relationship with the readability of key audit matters.

Auditor Gender and Readability of Key Audit Matters

The gender of the auditor significantly impacts the disclosure of critical audit matters. Companies typically provide a more readable disclosure of important audit problems with a higher representation of women on the audit committee (Velte, 2018). There is a marked difference in the clarity of critical audit matters when female auditors are involved. This underscores the significance of gender diversity in auditing since it has consequences for the transparency of corporate accounting and helps to decrease information asymmetry (Shao, 2020). Multiple studies that used the FLESCH readability score found that gender has a beneficial effect on the readability of important audit concerns. This indicates that important audit concerns are made more comprehensible when gender is present, especially when females are involved (Hussin et al., 2023; Velte, 2018; Wuttichindanon & Issarawornrawanich, 2020) Nevertheless, according to another study (Hussin et al., 2023) that utilized the Coleman-Liau Index (CLI), female gender does, in fact, impact the readability of critical audit items negatively. This is supported by other research using a different measurement, the Gunning FOG index, revealing that audit reports produced by female auditors also tend to be too long and complex (Abdelfattah et al., 2020). Thus, the following hypothesis is put out in light of the aforementioned series:

H3: Auditor gender has a positive relationship with the readability of key audit matters.

Auditor Experience and Readability of Key Audit Matters

Experience refers to the work experience and knowledge obtained by auditors when conducting audits. Research reveals that the more experienced an auditor is in issuing key audit matters, the more understandable the key audit matters will be. This will help reduce the occurrence of information asymmetry (Velte, 2020). Having said that, studies done on a group of ASEAN nations utilizing Gunning FOG and KINCAID metrics have shown that important audit concerns became progressively less readable with greater experience in delivering them (Jayanti et al., 2023). There is a lack of research on the impact of auditor expertise on the clarity of critical audit issues. So, to provide more evidence of its impact, the following hypothesis is put forward:

H4: Auditor experience has a positive relationship with the readability of key audit matters.

Type of KAM and Readability of Key Audit Matters

According to Hussin et al. (2023) and Velte (2018) and (2020), descriptions of key audit matters (KAM) frequently employ accounting phrases that are not easy to understand. Nonetheless, new studies show that the kind of KAM, which denotes the

characteristics and intricacy of the recognized threats (Sierra-García et al., 2019), affects the readability of KAM. Both simple accounting-level risks and more complicated entity-level hazards are part of the KAM. Readability measurements such as FOG and BOG show that the type of KAM affects how easily auditors can understand the audit procedures for addressing risks. Entity-level risks have a positive effect on readability compared to accounting-level risks, as more detailed and specific explanations are provided for entity-level risks (Gambetta et al., 2023). Although entity-level risks are more complex, detailed explanations make them easier to understand. Therefore, the following hypothesis is proposed:

H5: The type of key audit matters has a positive relationship with the readability of key audit matters.

3. RESEARCH METHODS

Sample and Data Collection

Companies that are part of the Indonesia Stock Exchange (IDX) and have reported their financial statements for the year 2022 are used in this study. Auditing Standard (SA) 701 went into effect in Indonesia on January 1, 2022, and this is the era that was chosen because of it. Consequently, this study makes use of information from the IDX annual reports of corporations for the year 2022. Companies who publish their annual reports on www.idx.co.id, include audit fees, and present important audit matters in their reports are all part of the samples utilized. Therefore, this era is considered relevant. The purpose of this is to assess the impact of the study's public accounting company features. After excluding companies without available data, the sample size is 448 companies.

Table 1. Sample Explanation

No	Sample Explanation	Number of Samples
1	"Companies listed on the IDX and publishing annual reports for the 2022 period"	625
2	"Companies listed on the IDX and not presenting complete annual reports (Audit Fees) for the 2022 period"	-144
3	"Companies listed on the IDX and not presenting key audit matters in their audit reports for the 2022 period"	-33
	Number of companies in the sample	448
	Number of observation years	1
	Final number of data used in the study	448

Source: Data Processed, 2024

Operational Definition and Measurement of Variables

The degree to which important audit concerns are comprehensible is the dependent variable in this study. According to the technique in (Hussin et al., 2023), two metrics-the Flesch Reading Ease and the Coleman-Liau Index (CLI)-are used to quantify the readability of important audit concerns.

The INDX, or Flesch Reading Ease: According to Jayanti et al. (2023), this metric is used to measure the complexity of reading material by measuring the level of difficulty of the text content. By calculating the FLESCH score, we can see how comprehensible important audit items are. To find the readability, take the following formula: 206.835-1.015 (total sentences/total words) - 84.6 (total words/total syllables). This study utilizes the Flesch Reading Ease (INDX) calculator, which can be found at https://charactercalculator.com/flesch-reading-ease/ , to determine the total number of words, syllables, and sentences. Later on, the KAM readability score is calculated from the Flesch readability score (INDX). A higher KAM score indicates that the text is simpler to read. As an example, according to Hussin et al. (2023), a readability score of 7 indicates extremely simple reading, whereas a score of 0.0-30.0 indicates very difficult reading and is assigned a score of 1.

The Coleman-Liau Index (CLIscore), developed by Coleman and Liau in 1975, is a text readability measure that takes into account the average character count and sentence length. The study also uses this index to examine KAM's readability. The CLI formula is reduced to 15.8 by subtracting the average of the number of sentences per 100 words from the average of the number of letters per 100 words, which is 0.296. To find out how easy it is to read KAM disclosures, we used the CLI score calculator found at https://www.readabilit.com/readability/coleman-liau-index. A lower index means that it is simpler to read. The comprehensibility of KAM in audit reports has also been evaluated in prior research using CLI (Hussin et al., 2023).

In this study, five primary characteristics were included as independent variables. To begin, the Big 4 audit firms are measured using a dummy variable that denotes whether the auditor is affiliated with one of these firms or not. Second, audit fees are calculated based on the amount of audit fees incurred. Third, auditor gender is also measured with a dummy variable to identify whether the auditor is male or female. The auditor's time with the organization is the fourth factor in determining their experience. The fifth factor is the type of KAM disclosure, which is tested using a dummy variable (Gambetta et al., 2023; Hussin et al., 2023).

As control variables, this study considers two additional aspects that might affect the readability of KAM (Hussin et al., 2023). First, firm value is measured based on the company's leverage and total assets. Second, the audit committee is measured based on the number of audit committee members and the frequency of audit committee meetings (Hussin et al., 2023). The use of these control

variables aims to ensure that the analysis of KAM readability is not influenced by external factors unrelated to the independent variables being studied. The operational definitions of the research variables are listed in Table 2.

Table 2. Operational Definition of Variables

Symbol	Variable	Measurement
Dependent Variable		
KMR (INDX, CLI Score)	Readability of KAM	Readability of KAM disclosure in the audit report. Measured using the Flesch Reading Ease (INDX) and the Coleman Liau Index (CLI score). Source: Hussin et al. (2023), Jayanti et al. (2023).
Independent Variables		
BIG4	Big Four	Measured using a dummy variable proxy. Value 1: IDX companies audited by Big 4 firms (Price Waterhouse Cooper-PWC, Deloitte Touche Tohmatsu, KPMG, Ernst & Young). Value 0: Companies not audited by Big 4 firms. Source: Hussin et al. (2023).
LN_FEE	Audit Fee	Audit fees paid to external audit firms and affiliated firms, proxied by the natural logarithm. Source: Hussin et al. (2023).
GEN	Auditor Gender	Measured using a dummy variable proxy. Value 1: Female auditor partner. Value 0: Male auditor partner. Source: Hussins et al. (2023)
EXP	Auditor Experience	Measured by the length of experience of the company's auditor partner. The data is sourced from the list of active public accounting firms available on the website *pppk.kemenkeu.go.id.* Source: Velte (2020).
JK	Type of KAM	Proxied by a dummy variable. Value 1: KAM related to entity-level risk. Value 0: KAM related to accounting-level risk. Source: Gambetta et al. (2023)
Control Variables		
SIZE	Audit Committee Size	Number of audit committee members.
MEET	Audit Committee Meetings	Number of audit committee meetings.
Leverage	Company Leverage	Total debt is divided by total assets at the end of year t (DAR).
LN_ASET	Company Size	Natural logarithm of total assets during the period.

Source: Data Processed, 2024

The data presentation and analysis in this study were conducted using the Stata MP 17 software application, with the data being cross-sectional (1 period) (Sihombing, 2022). The regression equation used in this study is as follows uses INDX:

$$INDX = \beta_0 + \beta_1 BIG4 + \beta_2 LN\_FEE + \beta_3 GEN + \beta_4 EXP + \beta_5 JK + \beta_6 SIZE + \beta_7 MEET + \beta_8 LEVERAGE + \beta_9 LN\_ASET + \varepsilon$$

The Robustness check in this study was performed using the CLI score, ensuring the reliability of the results through alternative measurements of readability (Hussin et al., 2023). The regression equation used for the robustness test is as follows:

$$\text{CLI score} = \beta_0 + \beta_1 BIG4 + \beta_2 LN\_FEE + \beta_3 GEN + \beta_4 EXP + \beta_5 JK + \beta_6 SIZE + \beta_7 MEET + \beta_8 LEVERAGE + \beta_9 LN\_ASET + \varepsilon$$

Note: the symbols for the regression equation can be found in Table 2, which defines and measures the variables.

4. RESULTS AND DISCUSSION

Statistic Descriptive

For this study, researchers used Key Audit Matters (KAM) readability as our dependent variable and analyzed 448 observations. Two metrics are used to quantify KAM's readability: the Coleman Liau Index (CLI score) and the FLESCH reading easiness score (INDX). According to the statistics, the CLI score has a mean of 15.751 and a range of 11.78 to 18.8, while INDX has a mean of 1.045 and values range from 1 to 2. Big Four (BIG4) auditors make up the independent variable set, which has a standard deviation of 0.478 and a mean of 0.350. With a standard deviation of 1.284 and a range of 17.9 to 24.5, audit fees (LN_FEE) average 20.443. The gender of auditors (GEN) lies between 0.376 and 0.170 on the scale. The average number of years of experience for auditors (EXP) is 8.043, and the standard deviation is 3.146. The range of EXP is from zero to eleven years. The standard deviation for this KAM type (JK) is 0.310, and the mean is 0.107.

The audit committee size (SIZE) is one of the control variables. It ranges from 1 to 10, with a mean value of 3.272 and a standard deviation of 0.790. With a range from 1 to 104 meetings, audit committee meetings (MEET) occur at a mean frequency of 8.080 and a standard deviation of 9.654, revealing a wide range of corporate governance standards. The range of company leverage (Leverage) is from 0 to 95.4, and its standard deviation is 5.611, with an average value of 0.976. This indicates that leverage is highly variable. With a range of 18.883 to 38.526, the standard deviation of company size (LN_ASET) is 2.353, and the mean is 28.833. These descriptive statistics indicate variability across factors. This dataset aims to explore how these variables affect the clarity and readability of KAM disclosures.

Table 3. Statistic Descriptive

Variable	Obs	Mean	Std. dev.	Min	Max
Indx	448	1.045	0.207	1	2
CLI score	448	15.751	1.149	11.78	18.8
Big4	448	0.350	0.478	0	1
ln_fee	448	20.443	1.284	17.9	24.5
Gen	448	0.170	0.376	0	1
Exp	446	8.043	3.146	0	11
JK	448	0.107	0.310	0	1
Size	448	3.272	0.790	1	10
Meet	448	8.080	9.654	1	104
Leverage	448	0.976	5.611	0	95.4
ln_aset	448	28.833	2.353	18.883	38.526

Source: Data Processed, 2024

Note: the symbols for the regression equation can be found in Table 2, which defines and measures the variables.

Matrix Correlation

The correlation matrix reveals relationships between various variables related to the readability of Key Audit Matters (KAM). The FLESCH reading ease score (INDX) shows a negative correlation with most variables, with the strongest negative correlation being with the Coleman Liau Index (CLI score) at -0.306. The CLI score is positively correlated with most variables, notably with Big 4 auditors (0.373) and audit fees (LN_FEE) at (0.328). Big 4 auditors (BIG4) are significantly correlated with audit fees (0.617) and total assets (LN_ASET) at (0.273). Audit fees (LN_FEE) are also strongly correlated with total assets (LN_ASET) (0.457) and the frequency of audit committee meetings (MEET) at (0.360). While most other correlations are relatively weak, some positive associations exist, such as between the gender of the auditor (GEN) and both CLIscore (0.148) and Big 4 auditors (0.140). Negative correlations are generally weak, such as leverage's (LEVERAGE) negative correlation with CLI score (-0.061) and total assets (-0.138).

Regression Result

In the KAM model using the Flesch Reading Ease (INDX) as the dependent variable, regression results in Table 5 show that some independent and control variables significantly affect the readability of Key Audit Matters (KAM), while others do not. Independent variables negatively impacting KAM readability include Big 4 (coefficient: -0.0339, t-statistic: -2.15) and auditor gender (coefficient: -0.0270, t-statistic: -1.71). The control variables, including audit committee meeting frequency (coefficient: -0.0008, t-statistic: -1.72) and leverage (coefficient: -0.0011, t-statistic: -2.43), also have a significant negative impact on readability. Conversely, independent variables such as audit fees (coefficient: -0.0123, t-statistic: -1.26), auditor experience (coefficient: 0.0017, t-statistic: 0.63), type of KAM (coefficient: 0.0224, t-statistic: 0.66),

audit committee size (coefficient: 0.0044, t-statistic: 0.62), and company size based on total assets (coefficient: -0.0004, t-statistic: -0.15) do not significantly affect readability. The constant in this model is 1.2983, with a t-statistic of 6.35. This model explains 2.79% of the variability in KAM readability based on 446 observations.

Robustness Check

Table 4 also presents regression results for the robustness check with CLI score as the dependent variable to measure KAM readability. Companies audited by Big 4 firms (coefficient: 0.6231, t-statistic: 4.61) and those with higher audit fees (coefficient: 0.1246, t-statistic: 2.20) positively affect readability. Auditor gender also shows a positive effect, with female auditors associated with higher readability (coefficient: 0.2925, t-statistic:

Table 4. Regression Result

	(1)	(2)	(3)	(4)
	Indx	**indx**	**Indx**	**Cliscore**
big4	-0.0344**		-0.0339**	0.6231***
	(-2.08)		(-2.15)	(4.61)
ln_fee	-0.0142		-0.0123	0.1246**
	(-1.43)		(-1.26)	(2.20)
Gen		-0.0329*	-0.0270*	0.2925**
		(-1.97)	(-1.71)	(2.11)
Exp		0.0015	0.0017	0.0057
		(0.54)	(0.63)	(0.34)
JK	0.0206		0.0224	-0.1625
	(0.62)		(0.66)	(-0.91)
Size	0.0016	-0.0006	0.0044	0.1454**
	(0.20)	(-0.09)	(0.62)	(2.36)
Meet	-0.0007*	-0.0015***	-0.0008*	-0.0026
	(-1.54)	(-2.99)	(-1.72)	(-0.60)
Leverage	-0.0012**	-0.0011***	-0.0011**	-0.0081
	(-2.49)	(-2.84)	(-2.43)	(-1.58)
ln_aset	-0.0011	-0.0044	-0.0004	-0.0011
	(-0.42)	(-1.45)	(-0.15)	(-0.04)
_cons	1.3761***	1.1786***	1.2983***	12.4884***
	(6.38)	(12.95)	(6.35)	(12.05)
r2	0.0271	0.0131	0.0279	0.1755
N	448	446	446	446

Source: Data Processed, 2024

t statistics in parentheses * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. This robust regression approach ensures the results are reliable and not influenced by the usual regression assumptions, thus providing a more accurate depiction of the factors affecting KAM readability.

2.11). Audit committee size correlates positively with readability (coefficient: 0.1454, t-statistic: 2.36). However, variables such as auditor experience (coefficient: 0.0057, t-statistic: 0.34), type of KAM (coefficient: -1.625, t-statistic: -0.91), audit committee meeting frequency (coefficient: -0.0026, t-statistic: -0.60), leverage (coefficient: -0.0081, t-statistic: -1.58), and total assets (coefficient: -0.0011, t-statistic: -0.04) do not show significant effects. The constant in this model is 12.4884, with a t-statistic of 12.05, indicating a substantial baseline readability level of KAM when all predictors are zero. This model explains 17.55% of the variability in KAM readability (R-squared = 0.1755) based on 446 observations. This robustness check confirms that variables such as Big Four firms and auditor gender consistently influence KAM readability across different models, providing robust evidence of their impact, as shown in Table 4.

Discussion

To comprehend how information asymmetry can impact the interaction between principals (shareholders) and agents (management), this study primarily utilizes agency theory as its framework. Agency theory explains that information asymmetry can lead to suboptimal decisions, where auditors act as supervisors to reduce this asymmetry by providing reliable information through audit reports (Jensen & Meckling, 1976). The adoption of new standards, such as ISA 701, on key audit matters is expected to enhance transparency in the communication of corporate financial risks and facilitate better decision-making by clarifying the information in audit reports (Pratama, 2023).

This research proposes several hypotheses related to the theoretical framework. The first hypothesis (H1) states that companies audited by Big Four firms have a positive relationship with KAM readability. It is presumed that the Big Four accounting firms, which are renowned for their impeccable reputation and rigorous audit standards, would generate reports that are more comprehensible and open to scrutiny (Velte, 2018; Wuttichindanon & Issarawornrawanich, 2020)sensitivity tests (Blau index and Fog readability index. However, the data shows that KAM readability is negatively affected when Big Four corporations are present (-0.0339, t-statistic: -2.15). One possible explanation for this surprising finding is that audits carried out by the Big Four tend to be more comprehensive and extensive, with auditors utilizing more technical terminology to describe intricate audit issues. As a result, this can make the reports less understandable for stakeholders who are not experts in the field (Deshmukh & Zhao, 2020; Hussin et al., 2023). These findings do not support previous research that suggests audits by Big Four firms enhance the readability of financial reports (Velte, 2018). Instead, these findings are consistent with studies that show that more prominent auditors tend to use more technical and complex terminology (Hussin et al., 2023).

The second hypothesis (H2) suggests that audit fees have a positive relationship with KAM readability, assuming that higher audit fees reflect more excellent resources and efforts to prepare clear and detailed reports (Abdelfattah et al., 2020; Chang & Stone, 2019; Salehi et al., 2022). However, the findings show an insignificant negative effect on KAM readability (coefficient: -0.0123, t-statistic: -1.26). Consistent with previous research suggesting that increased audit costs may result in more comprehensive reports written in complicated language that may be incomprehensible to the average reader, this finding runs counter to the anticipated positive correlation (Blanco et al., 2020; Hussin et al., 2023).

The third hypothesis (H3) regarding auditor gender explores the impact of female auditors on KAM readability. Previous studies have suggested that female auditors tend to be more detailed and communicative, which could enhance the readability of audit reports (Shao, 2020; Velte, 2018; Wuttichindanon & Issarawornrawanich, 2020)sensitivity tests (Blau index and Fog readability index. However, this study finds a significant negative effect on KAM readability (coefficient: -0.0270, t-statistic: -1.71), which aligns with other research, suggesting that reports produced by female auditors may become overly detailed and complex, reducing readability (Abdelfattah et al., 2020; Hussin et al., 2023).

The fourth hypothesis (H4) suggests that auditor experience has a positive relationship with KAM readability, based on the assumption that experienced auditors can issue more understandable reports, thus reducing information asymmetry (Velte, 2020). However, this result finds no significant effect of auditor experience on KAM readability (coefficient: 0.0017, t-statistic: 0.63). This implies that although auditor experience is expected to improve the quality and readability of audit reports, it does not necessarily influence how auditors draft KAM reports that are easier to read. It may be that experienced auditors focus more on technical accuracy and compliance rather than on the readability of the report (Jayanti et al., 2023). Given the limited research on this topic, further studies are needed better to understand the relationship between auditor experience and KAM readability.

Meanwhile, the fifth hypothesis (H5) regarding the type of KAM disclosure suggests that the nature and complexity of KAM affect its readability, with the assumption that more complex risks (such as entity-level risks) would lead to clearer disclosures due to detailed explanations (Gambetta et al., 2023). However, this result finds no significant effect of the type of KAM on KAM readability (coefficient: 0.0224, t-statistic: 0.66). This suggests that the type of KAM, regardless of its complexity or risk level, does not consistently influence the clarity of KAM reports. The clarity of these reports might be more influenced by the company's policies or its communication strategies (Sierra-García et al., 2019)EY and KPMG tend to report fewer entity-level-risk KAM (ELRKAM. This finding contrasts with previous research that suggests entity-

level risks, which are more detailed, tend to improve readability compared to simpler accounting-level risks (Gambetta et al., 2023).

5. CONCLUSIONS AND SUGGESTIONS

Key Audit Matters (KAM) readability is affected by a number of factors, according to the KAM model, which uses INDX as the dependent variable. These factors include auditors from Big Four companies, auditor gender, the frequency of audit committee meetings, and leverage, all of which have a negative effect on KAM readability. Audit committee size, overall assets, audit fees, auditor experience, and the type of KAM disclosure do not significantly impact KAM readability. The Flesch readability score (INDX) is converted into a KAM readability score, where a higher score indicates easier readability. This study found that the involvement of independent and control variables is associated with a lower INDX score, indicating that the report is more complex and harder to read. A lower INDX score signifies more difficult readability. Future research should consider additional factors that might influence audit communication clarity to ensure that stakeholders receive understandable information.

This study utilized both the INDX and the Coleman-Liau Index (CLI score) to quantify KAM readability. If KAM disclosures have a lower CLIscore, it means they are easier to read than INDX disclosures. Regression results with CLI score show that Big Four firms, audit fees, auditor gender, and audit committee size all correlate positively with KAM readability, making it easier to read. This highlights that selecting different readability measures can produce varying interpretations of the factors affecting KAM readability. Therefore, it is important to consider various readability measures in audit research to understand how different factors impact financial statement readability.

The study does, however, have a few limitations. There may be long-term changes or trends in KAM reporting methods that are not captured by the brief observation period, which is just one year since the new legislation was implemented in Indonesia in 2022. Additionally, the research area on KAM readability is still underexplored, which affects the robustness of some measurement methods used, particularly in justifying the selection of variables. The use of the KAM model with INDX may have limitations in capturing the true complexity of factors affecting KAM readability, such as industry context or company-specific details. One of the other limitations of this study is the use of dummy variables that are not entirely justified. For example, assigning a value of 1 to a variable that involves both accounting and equity simultaneously, despite the need for differentiation, was done without strong theoretical or empirical justification. This could affect the validity of the research results. Additionally, other variables like experience, whose data is obtained from pppk.kemenkeu.go.id, are also not supported by more comprehensive sources, potentially affecting the accuracy of the analysis. So, to fully grasp the new KAM regulation's long-term effects, future studies should lengthen the

observation period. Moreover, a more detailed approach should be used to understand the variability in KAM readability across different industry contexts and organizations so that research can provide more comprehensive and relevant insights for future audit practices and regulations.

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Appendix 1. Matrix Correlation

Variable	indx	cliscore	big4	ln_fee	gen	exp	jk	Size	meet	leverage	ln_aset
Indx	1										
Cliscore	-0.306	1									
big4	-0.132	0.373	1								
ln_fee	-0.136	0.328	0.617	1							
Gen	-0.066	0.148	0.140	0.122	1						
Exp	0.008	0.058	0.074	0.071	0.129	1					
Jk	-0.002	0.030	0.138	0.188	0.093	0.048	1				
Size	-0.032	0.196	0.217	0.325	0.029	0.066	0.107	1			
Meet	-0.074	0.110	0.199	0.360	0.017	0.037	0.087	0.306	1		
Leverage	-0.021	-0.061	-0.052	0.004	0.032	0.074	0.162	-0.067	-0.028	1	
ln_aset	-0.059	0.164	0.273	0.457	0.109	0.053	0.073	0.201	0.076	-0.138	1

Source: Data Processed, 2024

Note: the symbols for the regression equation can be found in Table 2, which defines and measures the variables.