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The Associations of Firm Size, Firm Complexity, And Audit Fees with Key Audit Matters Disclosure: The Moderating Role of Auditor Switching

Zahwatul Nabila Panjaitan
Undergraduate student in Accounting, Faculty of Economics and Business, Universitas Riau, Pekanbaru, Indonesia

Andreas Tan
Professor of Auditing, Faculty of Economics and Business, Universitas Riau, Pekanbaru, Indonesia. ORCID:0000-0002-6196-2663

Supriono
Associate Professor, Faculty of Economics and Business, Universitas Riau, Pekanbaru, Indonesia

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ABSTRACT: This study examines the association of firm size, firm complexity, and audit fees with the Key Audit Matters (KAM) disclosed in independent auditor's reports, as well as the moderating role of auditor switching in the relationship between Firm Size and KAM disclosure. The study uses secondary data from industrial sector companies listed on the Indonesia Stock Exchange during 2022–2024. Based on purposive sampling, 46 firms were selected, yielding 138 firm-year observations. KAM disclosure is measured by the number of matters reported in the independent auditor's report; Firm Size by the natural logarithm of total assets; Firm Complexity by the number of subsidiaries; Audit Fees by the natural logarithm of audit fees; and Auditor Switching by a binary indicator. The data are analyzed using multiple linear regression and moderated regression analysis. The results indicate that Firm Size is positively and significantly associated with KAM disclosure (B = 0.083, p = 0.024). Firm Complexity also exhibits a positive and significant association with KAM disclosure (B = 0.069, p = 0.014), whereas Audit Fees have a negative and significant association (B = −0.102, p = 0.034). Furthermore, the interaction between Firm Size and Auditor Switching is positive and significant (B = 0.998, p = 0.001), suggesting that auditor switching strengthens the positive association between Firm Size and KAM disclosure.

KEYWORDS: Key Audit Matters, Firm Size, Firm Complexity, Audit Fees, Auditor Switching.

INTRODUCTION

Audited financial statements provide important information for investors and other users. However, conventional auditor reports may offer limited insight into the areas that received the greatest audit attention. To address this limitation, the International Auditing and Assurance Standards Board (IAASB) introduced International Standard on Auditing (ISA) 701, Communicating Key Audit Matters in the Independent Auditor's Report. ISA 701 requires auditors of listed entities to communicate Key Audit Matters (KAMs), defined as matters that, in the auditor's professional judgment, were of most significance in the audit of the current period. The standard is intended to enhance the informational value of the auditor's report by increasing transparency about the audit (IAASB, 2015).

KAMs are not simply compliance disclosures; they reflect the auditor's professional judgment about matters of greatest significance during the engagement. Such matters may involve higher assessed risks of material misstatement, significant management judgment, or major events and transactions. Thus, the number and nature of KAMs may differ across companies and reporting periods in response to entity-specific circumstances and the audit environment (IAPI, 2021).

From an agency perspective, the separation of ownership and control can create information asymmetry between management and external stakeholders, increasing the need for effective monitoring (Jensen & Meckling, 1976). Against this background, firm size, firm complexity, and audit fees represent distinct features of the client and engagement that may be associated with the matters selected for KAM communication. Auditor switching may also be relevant because a change in audit firm can affect the assessment of the client's reporting environment (Lin & Yen, 2022; de Ricquebourg & Maroun, 2023).

In Indonesia, the implementation of Key Audit Matters (KAMs), referred to as Hal Audit Utama (HAU), has developed within a regulatory framework that aligns national auditing practices with international standards. The Indonesian Institute of Certified Public Accountants (IAPI) adopted International Standard on Auditing (ISA) 701 through Auditing Standard (SA) 701, Communicating Key Audit Matters in the Independent Auditor's Report, which became effective for audits of financial statements for periods beginning on or after January 1, 2022, for listed entities. In addition, the Financial Services Authority of Indonesia (OJK) issued Regulation No. 30 of 2023 on the communication of HAU in independent auditor reports for audited financial statements in the capital market (OJK, 2023). These regulatory developments provide an important institutional context for examining the factors associated with the number of KAMs disclosed in auditor reports in Indonesia.

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Firm size may be associated with KAM disclosure because larger entities often have broader operations and higher transaction volumes. Prior findings are mixed: Mah and Mardini (2022) and Alduneibat (2024) report an association, whereas Ferizqi and Reskino (2024) and Putra and Dwita (2024) find no significant relationship. Robiah and Sudrajat (2025) examine KAM determination among Indonesian financial-sector companies, providing evidence from a different industry setting.

Firm complexity may increase the range of entities, processes, and accounting issues that auditors must consider. Previous studies generally report an association between complexity and KAM disclosure, although its strength and direction vary across settings (Ferreira & Morais, 2020; Özcan, 2021; Pinto & Morais, 2019). Dusadeedumkoeng et al. (2023) also examine company size, complexity, and risk in relation to KAMs, while Sierra-García et al. (2019) distinguish between entity-level and account-level risk KAMs.

Audit fees may be associated with KAM disclosure because they reflect aspects of the resources and work required for an engagement. Audit-pricing research identifies client and engagement attributes as relevant to fee levels (Simunic, 1980; Hay et al., 2006), while recent studies consider KAMs, audit costs, and governance (Elmarzouky et al., 2023). Empirical findings are mixed: Sania and Ali (2024), Amin and Handayani (2025), and Alduneibat (2024) report positive associations, whereas Ferreira and Morais (2020) find a negative association. Indonesian evidence is also provided by Rhamadhani and Heriyati (2025). Related research examines company complexity, auditor size, profitability, corporate risk, and firm size as factors associated with audit fees (Puryati et al., 2025; Rahman et al., 2024).

Auditor switching may be relevant to KAM disclosure because an incoming audit firm may reassess matters identified by its predecessor. Lin and Yen (2022) and de Ricquebourg and Maroun (2023) document changes in KAM disclosure following auditor changes. Research on auditor switching has also considered company and audit-firm characteristics (Kirana & Indriansyah, 2022) and the auditor–client relationship, including tenure (Nasser et al., 2006). These studies provide context for auditor changes, although they do not directly examine the moderating role tested here.

Despite the growing literature, evidence on the factors associated with KAM disclosure remains inconclusive. For example, Ferreira and Morais (2020) report a positive association between firm complexity and KAM counts but a negative association for audit fees, whereas Pinto and Morais (2019) find positive associations for both variables. Indonesian studies have also examined other explanatory factors, including audit committee characteristics (Dinata & Cheisviyanny, 2024), and related reporting outcomes such as audit report lag (Pratama & Lusiani, 2024). In addition, although auditor changes have been linked to additions or removals of KAMs (de Ricquebourg & Maroun, 2023), evidence remains limited on whether switching changes the association between firm size and KAM disclosure.

To address these gaps, this study examines industrial companies listed on the Indonesia Stock Exchange during 2022–2024. It investigates the associations of firm size, firm complexity, and audit fees with the number of KAMs disclosed and tests whether auditor switching moderates the firm size–KAM disclosure relationship.

LITERATURE REVIEW

Agency Theory

Agency Theory explains the relationship between principals, such as shareholders, and agents, such as company managers, whose objectives and access to information may differ. Jensen and Meckling (1976) argue that separating ownership from control creates agency problems because managers generally possess information that is not equally available to shareholders. This asymmetry creates demand for monitoring mechanisms that support the assessment of management conduct and financial reporting reliability.

External auditing is one such monitoring mechanism. Independent auditors examine financial statements and communicate their conclusions to users. Under ISA 701, KAM disclosure extends the communication provided by the auditor's report by identifying matters that required significant auditor attention. Although it does not eliminate information asymmetry, it gives users additional insight into areas involving significant judgment, estimation uncertainty, or heightened audit attention.

Accordingly, Agency Theory provides the principal basis for examining KAM disclosure as part of external auditing's monitoring role, including how client and engagement characteristics may be associated with the matters communicated.

Signalling Theory

Signalling Theory explains how parties with more information communicate signals that may reduce uncertainty among less-informed parties. Spence (1973) developed the theory to explain how signals convey otherwise unobservable characteristics. In corporate reporting, signalling has been used to explain how information helps investors and other stakeholders assess an entity's prospects, risks, and credibility.

The independent auditor's report is one channel through which information about the audit is communicated to external users. KAM disclosure identifies matters that required significant auditor attention and can help users understand areas involving important audit judgments and uncertainty.

For companies with extensive operations, numerous subsidiaries, or complex reporting structures, KAM disclosure may provide users with additional context about the areas examined by the auditor. From a signalling perspective, this information can help users interpret the audit report and assess aspects of the reporting environment that may not be readily apparent from the financial statements.

Signalling Theory therefore complements Agency Theory: the latter explains the monitoring role of external auditing, while the former emphasizes the communication value of the information conveyed through KAM disclosure.

Hypothesis Development

Firm Size and Key Audit Matters Disclosure

Larger companies generally conduct more extensive business activities and process higher transaction volumes. Their financial statements may therefore contain more material accounts and significant estimates for auditors to evaluate. In addition, the separation of ownership and management may heighten information asymmetry and increase stakeholders' demand for monitoring (Jensen & Meckling, 1976). Prior evidence links firm characteristics and size to KAM disclosure (Ferreira & Morais, 2020; Bepari et al., 2022). On this basis, larger companies are expected to have more matters that meet the criteria for communication as KAMs.

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H_1: Firm size is positively associated with key audit matters disclosure

Firm Complexity and Key Audit Matters Disclosure

Firm complexity reflects the breadth of a company's organizational structure and business activities. A larger number of subsidiaries may make consolidation, intercompany transactions, and the evaluation of accounting judgments more demanding. These features can broaden the areas that auditors need to examine and may affect the number of matters considered significant for communication. Ferreira and Morais (2020) report a positive association between firm complexity and KAM disclosure, while Pinto and Morais (2019) find that companies with more business segments tend to disclose more KAMs. Accordingly, greater firm complexity is expected to be positively associated with KAM disclosure.

H_2: Firm complexity is positively associated with key audit matters disclosure

Audit Fees and Key Audit Matters Disclosure

Audit fees reflect the remuneration for an audit engagement and may vary with audit scope, client-specific risks, and financial reporting complexity. Audit-pricing studies relate fees to the supply and demand attributes of audit services (Simunic, 1980; Hay et al., 2006). However, fees do not necessarily correspond to the number of KAMs disclosed: greater audit effort may be directed toward resolving significant issues without increasing the number of matters that meet the communication criteria. Prior findings are mixed, with Pinto and Morais (2019) reporting a positive association and Ferreira and Morais (2020) a negative one. This study therefore tests the expected negative association rather than assuming a uniform relationship.

H_3: Audit fees are negatively associated with key audit matters disclosure

Auditor Switching as a Moderator of the Relationship between Firm Size and Key Audit Matters Disclosure

Auditor switching may change how firm size is associated with KAM disclosure. Although larger companies generally have broader reporting environments, the matters selected for communication also depend on the auditor's assessment. An incoming audit firm may independently evaluate significant accounts, transactions, and reporting risks. Such reassessment may be particularly consequential for larger clients because of the breadth of their operations. Prior studies document changes in KAM disclosure following auditor rotation (Lin & Yen, 2022; de Ricquebourg & Maroun, 2023). Thus, this study expects auditor switching to strengthen the positive association between firm size and KAM disclosure.

H_4: Auditor switching strengthens the positive association between firm size and key audit matters disclosure

CONCEPTUAL FRAMEWORK

The conceptual framework examines the associations of firm size, firm complexity, and audit fees with KAM disclosure. Firm size is measured by the natural logarithm of total assets, firm complexity by the number of subsidiaries, and audit fees by the natural logarithm of disclosed audit fees. Auditor switching is included as a moderator of the firm size–KAM disclosure relationship. The framework therefore tests whether the association between firm size and KAM disclosure differs between companies that change auditors and those that retain their auditors.

Figure 1 presents the hypothesized relationships among the study variables.

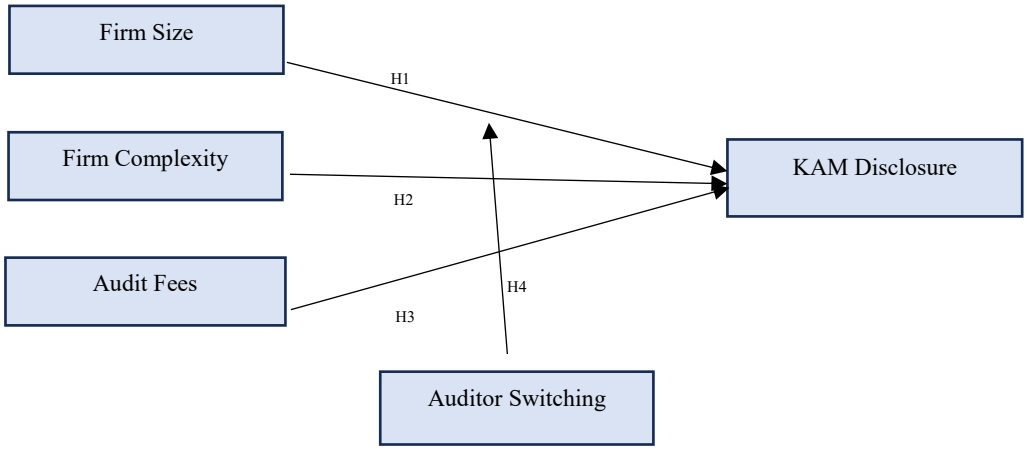


Figure 1. Conceptual Framework

MATERIALS AND METHODS

Data and Sample

This study adopts a quantitative explanatory design using secondary data from industrial-sector companies listed on the Indonesia Stock Exchange (IDX). The observation period is 2022–2024. Data were obtained from annual reports, financial statements, and independent auditor's reports available through the IDX and company websites.

Purposive sampling was applied based on the availability of information required to measure the research variables. The final sample comprises 46 companies and 138 firm-year observations, with each firm-year constituting one unit of analysis.

The sample selection criteria and the resulting number of companies are presented in Table 1.

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Table 1: Sample Selection Process

Selection criterion	Firms
Industrial firms listed on IDX (population screening)	66
Continuous annual report not available	(15)
Delisted during observation period	(5)
Final sample	46
Observation years	3
Firm-year observations	138

Source: Authors' compilation based on annual reports and Indonesia Stock Exchange (IDX) data.

Variable Measurement

Table 2 presents the operational definitions and measurement approaches for the study variables, based on information disclosed in the sampled companies' annual reports and financial statements.

Table 2: Variable Measurement

Variables	Measurement
KAM Disclosure (KAM)	Counting the number of KAM reported in the independent auditor's report.
Firm Size (FS)	Natural logarithm of total assets
Firm Complexity (FC)	Number of subsidiaries.
Audit Fees (AF)	Natural logarithm of audit fees
Auditor Switching (ASw)	Dummy based on auditor switching; 1 if auditor change, otherwise 0.
Interaction (FS*ASw)	Firm size * Auditor Switching

Source: Prior studies and authors' calculations

Empirical Model

The hypotheses are tested using the following regression model, which includes the interaction between firm size and auditor switching:

$$KAM = \beta_0 + \beta_1 FS + \beta_2 FC + \beta_3 AF + \beta_4 ASw + \beta_5 (FS*ASw) + \varepsilon$$

where:

KAM = number of Key Audit Matters reported in the independent auditor's report.

FS = firm size, measured as the natural logarithm of total assets

FC = firm complexity, measured based on the number of subsidiaries

AF = audit fees, measured as the natural logarithm of audit fees

ASw = auditor switching (1 if the auditor changes and 0 otherwise).

FS*ASw = interaction between firm size and auditor switching

β_0 = constant

$\beta_1 - \beta_5$ = regression coefficients

ε = error term

RESULTS

Descriptive Statistics

Table 3 reports descriptive statistics for the continuous variables and the frequency distribution of auditor switching.

Table 3: Descriptive Statistics

Panel A. Continuous Variables

Variables	N	Minimum	Maximum	Mean	Std. Dev.
Firm Size	138	24.60	33.79	27.9184	1.85053
Firm Complexity	138	0	34.00	3.5362	5.85863
Audit Fees	138	18.15	25.59	20.6610	1.40441
KAM Disclosure	138	0	5	1.3623	0.77311

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Panel B. Binary Variables

Auditor Switching					
		Frequency	Percent	Valid Percent	Cumulative
Valid	0	113	81.9	81.9	81.9
	1	25	18.1	18.1	100.0
	Total	138	100.0	100.0	

Source: **processed data**

The dataset comprises 138 firm-year observations from industrial-sector companies listed on the IDX during 2022–2024. Panel A reports the continuous variables, and Panel B presents the frequency distribution of auditor switching. Firm size has a mean of 27.9184 (SD = 1.85053). Firm complexity has a mean of 3.5362 (SD = 5.85863), indicating substantial variation in the number of subsidiaries. Audit fees have a mean of 20.6610 (SD = 1.40441). KAM disclosure averages 1.3623 matters per observation, with a range of zero to five and a standard deviation of 0.77311. Auditor switching occurred in 25 observations (18.1%); the remaining 113 observations (81.9%) involved no auditor change.

Hypothesis Testing

Classical assumption tests were conducted before the regression analysis. The diagnostic results indicated that the model met the relevant assumptions, supporting the use of regression analysis to examine the proposed relationships.

Table 4 reports Firm size is positively and significantly associated with KAM disclosure (B = 0.083, t = 2.285, p = 0.024). Firm complexity also has a positive and significant association (B = 0.069, t = 2.504, p = 0.014). By contrast, audit fees are negatively and significantly associated with KAM disclosure (B = −0.102, t = −2.144, p = 0.034).

The interaction between firm size and auditor switching is positive and statistically significant (B = 0.998, t = 3.470, p = 0.001). This indicates that the positive association between firm size and KAM disclosure is stronger among companies that change auditors than among those that retain their auditors.

Table 4: Results of Moderated Regression Analysis

Model	B	Std. Error	Beta	t	Sig.
Constant	.937	1.198	—	.782	.436
FS	.083	.036	.214	2.285	.024
FC	.069	.028	.232	2.504	.014
AF	-.102	.048	-.198	-2.144	.034
ASw	-1.259	.410	-.763	-3.068	.003
FS*ASw	.998	.288	.863	3.470	.001

Source: processed data

Table 5 reports an Adjusted R Square of 0.201, indicating that the model accounts for 20.1% of the variation in KAM disclosure after adjustment for the number of predictors. The remaining variation is associated with factors not included in the model.

Table 5: Regression Model Summary

Statistic	Value
R	.486
R Square	.237
Adjusted R Square	.201
Std. Error of the Estimate	.50058
Durbin–Watson	1.430

Source: **processed data**

DISCUSSION

Firm Size and Key Audit Matters Disclosure

Firm size is positively associated with KAM disclosure, indicating that larger industrial companies tend to report more KAMs. This pattern may reflect the broader range of transactions, account balances, and business activities that auditors must consider in larger entities.

The finding is consistent with Alduneibat (2024) and Mah and Mardini (2022), who also report an association between firm size and KAM disclosure. From an agency perspective, the result is compatible with the greater monitoring and information needs that may arise in larger organizations. KAM disclosure makes visible the matters that received significant audit attention, offering users additional context about the audit.

Firm Complexity and Key Audit Matters Disclosure

The positive association between firm complexity and KAM disclosure suggests that companies with more subsidiaries tend to report a greater number of KAMs. Multiple subsidiaries can require more extensive consolidation procedures, intercompany reconciliations, coordination among audit teams, and consideration of different internal-control environments. These features may broaden the range of issues requiring auditor judgment.

This result can also be viewed through Agency Theory: organizational complexity may make financial information more difficult for external stakeholders to assess, increasing the value of clear communication about significant audit matters.

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The finding is consistent with Ferreira and Morais (2020), Özcan (2021), Pinto and Morais (2019), and Dusadeedumkoeng et al. (2023), whose research considers complexity in relation to KAMs. The standardized coefficient for firm complexity ($\beta = 0.232$) is the largest among the predictors reported in the model, suggesting that it makes the strongest relative contribution among these predictors. This comparison should be interpreted within the model and sample examined.

Audit Fees and Key Audit Matters Disclosure

Audit fees have a negative and statistically significant association with KAM disclosure. This result is consistent with Ferreira and Morais (2020) and Azis et al. (2025), but differs from the positive association reported by Rhamadhani and Heriyati (2025). The differences across studies suggest that the fee–KAM relationship may depend on the sample and research setting.

One possible explanation is that audit fees capture the overall resources and effort required for an engagement, rather than the number of matters ultimately reported as KAMs. An audit may require substantial work because of complex estimates, significant balances, or elevated risks, while only a limited number of matters may meet the criteria for KAM communication. Thus, the negative coefficient should not be interpreted as evidence that higher fees reduce KAM disclosure; instead, it highlights the distinction between the resources allocated to an audit and the auditor's professional judgment about which matters were most significant.

This distinction is relevant when interpreting the association observed in the industrial-sector sample: audit fees and KAM counts capture different dimensions of an audit engagement.

Auditor Switching as a Moderator of the Relationship between Firm Size and KAM Disclosure

The positive interaction indicates that auditor switching strengthens the association between firm size and KAM disclosure. One possible explanation is that an incoming auditor brings an independent assessment of the client's reporting risks, internal controls, and significant transactions. This reassessment may be particularly relevant for larger companies because their reporting environments encompass a wider range of activities and balances.

This result is consistent with Lin and Yen (2022) and de Ricquebourg and Maroun (2023), who document changes in KAM disclosure around auditor rotation. The present finding extends this evidence by showing that auditor switching is associated with a stronger firm size–KAM relationship. This interpretation is compatible with the monitoring role described by Agency Theory; KAM disclosure may also communicate to users which audit areas received particular attention.

CONCLUSION

The results show that firm size and firm complexity are positively associated with KAM disclosure, whereas audit fees have a negative association. The interaction result further indicates that auditor switching strengthens the positive association between firm size and KAM disclosure. Overall, KAM reporting is associated with both client characteristics and the circumstances of the audit engagement.

The study's principal contribution is to identify auditor switching as a contextual factor in the firm size–KAM disclosure relationship. The association between comp size and the number of KAMs reported differs according to whether an auditor change occurs.

These findings may be relevant to auditors, companies, and regulators when considering the factors associated with KAM communication. They should be interpreted within the limits of the industrial-sector sample and the 2022–2024 observation period. Future research could use alternative measures of KAM disclosure and firm complexity, include additional auditor–client characteristics, and examine other industries and reporting periods.

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PLAGIARISM STATEMENT

The authors confirm that this manuscript represents original work, has not been published in any other outlet, and is not currently being considered for publication by another journal. All sources referenced in this study have been appropriately acknowledged and cited in accordance with established academic conventions.

CONFLICT OF INTEREST

The authors declare that there is no conflict of interest regarding the research and publication of this article.

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