

## The Impact of the Implementation of Key Audit Matters in the 2022 Independent Auditor Report of PT Bank Amar Indonesia Tbk

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### Abstract

*The International Auditing and Assurance Standards Board (IAASB) implemented new auditing standards which became effective on December 15, 2016, which require auditors to disclose Key Audit Matters (KAM) in their reports. KAM was initiated by the International Auditing and Assurance Standards Board (IAASB) as an international auditing standard setting body, which aims to increase the transparency of audited financial reports. This study uses qualitative and quantitative methods which use secondary data sources. The secondary data used in this study is in the form of financial reports obtained from the Indonesia Stock Exchange (IDX) via the internet. Based on the results of data analysis of the financial statements of PT Bank Amar Indonesia Tbk Q2 of 2022, in the independent auditor's report, the main audit item disclosed is the allowance for impairment losses on loans. Based on data obtained from the Indonesia Stock Exchange (IDX), the share price per share at the end of the fourth quarter of 2021 and the share price on June 30, 2022, has fluctuated. It was concluded that in the period following the issuance of the Q2 2022 financial statements with the existence of an independent auditor's report disclosing key audit matters facilitated the flow of company-specific information to the market.*

**Keywords** Financial Statments, Key Audit Matters, Audit Quality

### INTRODUCTION

Financial reports aim to provide useful information for interested users (IASB, 2010, OB2). The recent financial scandals and crises have given rise to much debate about the value of audits and the role of auditors, especially regarding the need to improve the quality of communication between auditors and users of their reports (Hasibuan, 2022). Regulators around the world are trying to increase transparency around the audit process by implementing significant changes to auditor reporting. The International Auditing and Assurance Standards Board (IAASB) implemented a new auditing standard that became effective on December 15, 2016, which requires auditors to disclose Key Audit Matters (KAM) in their reports (IAASB, 2015). Key audit matters or Key Audit Matters (KAM) are matters which, according to the auditor's professional judgment, are the most significant areas in the audited financial statements for the current period (IAASB, 2015). KAM was initiated by the International Auditing and Assurance Standards Board (IAASB) as an international auditing standard setting body, which aims to increase the transparency of audited financial reports (IAASB, 2015).

According to Reid et. al (2019) audit reports that are expanded with Key Audit Matter (KAM) are expected to increase the informative value of auditor reports along with audit quality by increasing auditor accountability and leverage towards management. According to Kitiwong and Sarapaivanich (2020) the disclosure of KAM increases the auditor's influence, independence, responsibility, and transparency in providing an accurate assessment of the entire audit process. The requirement to disclose KAM increases the



auditor's influence if management prefers that the auditor not highlight certain areas, particularly high risk areas and increases the auditor's accountability, commitment to transparency and responsibility to provide an accurate assessment.

In Indonesia, the adoption of ISA 701 concerning Communicating Key Audit Matters in the Independent Auditor's Report in Indonesia has begun to be effectively applied for audits of financial statements for the financial year starting on or after 1 January 2022 for registered entities. This is done to increase the communicative value of auditor reports and quality audit results (Yoga, Budhi: Dinarjito, 2021). The Financial Services Authority (OJK) agrees that the adoption of ISA 701 in the presentation of financial statements will be carried out soon and is the most priority audit to be implemented in Indonesia. Aligning audit standards with ISAs is important to improve the quality of auditing financial statements in Indonesia (Ulya, 2020). In this case study there is an identification of the problem, namely how the impact of the implementation of Key Audit Matters (KAM) in a company.

KAM is contained in ISA 701 regarding KAM communication in the independent auditor's report which was fully adopted by Intosai in ISSAI 1701. In addition to ISSAI 1701, Intosai issued Practice Notes, which are additional guidelines for implementing ISA 701 in the public sector. Public sector auditors may be asked to communicate KAM such as the importance of government policies on the economy and the significant impact of government policies and decisions on the citizens of the countries they serve (Intosai, 2016). The purpose of KAM communication in audit reports is to improve audit communication and transparency, provide additional information and help report users to understand important assessments/assumptions in financial reports (IAASB, 2015).

KAM is not intended as a substitute for disclosure in financial statements; for auditors expressing a modified opinion; to report conditions or events that may cast significant doubt on the entity's ability to continue as a going concern; or for separate opinions on individual issues (IAASB, 2015). The main steps for communicating KAM in an audit report in accordance with ISA 701: areas with a higher assessed risk of material misstatement, areas involving significant management judgment, and significant events or transactions that occurred during the financial reporting period (IAASB, 2015). The auditor must assess the most significant matters in the current audit period; this is KAM (IAASB, 2015).

Additional information conveyed to users through KAM disclosures is about risk areas and audit procedures performed by the auditors in response to those risk areas. This leads users to a better understanding of the responsibilities and roles of auditors (Bentley, J. W., Lambert, T. A., & Wang, 2018). Disclosure of KAM is intended to improve the quality of previous audit reports by increasing their communicativeness (Bédard et al., 2019). According to Kitiwong and Sarapaivanich (2020), disclosing KAM makes audit reports more informative and improves audit quality, especially regarding KAM which is disclosed in connection with acquisitions.

According to Alves and Galdi (2020) that the disclosure of KAM can provide relevant data for investors in the capital market in the analysis of investment decisions. However, according to Kohler et. al. (2020) that KAM disclosure will increase the professional confidence of investors even in a negative trend (such as statements where small changes to

key assumptions can cause goodwill to be impaired). Such disclosure has implications if the company's economic condition is better than companies that disclose KAM with a positive trend (such as a statement that only major changes in key assumptions can cause goodwill to be impaired). The reason is that investors consider that companies that disclose KAM with a negative tendency are more transparent, fairer, and more competent (Kohler et al., 2020).

The presence of this type of KAM disclosed indicates a greater possibility for the next financial restatement in the following year. However, the types of KAM that are widely disclosed and the number of KAM disclosed are not related to audit quality. Sirois et. al. (2020) indicated that KAM disclosure would lead to a lack of stakeholder trust and a negative impact on audit reports. However, the existence of information hidden by management to minimize the auditor's focus on KAM disclosures can have an impact on audit quality (Kitiwong & Sarapaivanich, 2020).

## **IMPLEMENTATION METHOD**

The research method is the method used in research to achieve research objectives. The research method is also a design or research design. This design includes the formulation of research objects or topics, techniques, procedures for collecting and analyzing data related to the focus of a particular problem. The research method used in this research is to plan, implement, process data, and draw conclusions related to certain research problems (Utama, 2022). The methods used in this case study are qualitative and quantitative methods using secondary data sources. Qualitative method is a data that is descriptive, unstructured, and usually in the form of words. While the quantitative method is information that can be given a value or measured in the form of numerical data. If the quantitative method can be analyzed using statistical analysis, then the qualitative method cannot carry out an analysis using statistical data (Latifatinnisa, 2022). The secondary data used in this study is in the form of financial reports obtained from the Indonesia Stock Exchange (IDX) via the internet. This study uses PT Bank Amar Indonesia's financial reports (annual report) for 2021 and the financial statements for the 2nd quarter (Q2) for 2022 as research objects to find out the differences between before and after and the impact of implementing Key Audit Matters.

## **RESULTS AND DISCUSSION**

Based on the results of data analysis of the financial statements of PT Bank Amar Indonesia Tbk for the 2nd quarter (Q2) of 2022, in the independent auditor's report, the main audit item disclosed is the allowance for impairment losses on loans. As of June 30, 2022, the balance of loans granted before deducting allowance for impairment losses was Rp. 2.26 trillion and the balance for allowance for impairment losses on loans was Rp. 212 billion. Auditors focus on this area because credit balances are significant to a bank's interim financial statements. The purpose of adding key audit matters to disclose financial reporting risks. In the 2022 Q2 independent auditor report of PT Bank Amar Indonesia, disclosure of important audit matters relating to the determination of allowance for possible losses, which require significant judgment and have estimation uncertainty including in determining the



model to calculate allowance for impairment losses, identification of credit exposures that have decreased significant credit quality, and determining the assumptions used in the calculation model that takes into account future-oriented macroeconomic factors and scenarios of probability weights. This disclosure enables report users to find out the matters that become the focus of the auditor in the audit process and relevant audit response procedures, thereby increasing the information content of the audit report.

In the 2nd quarter (Q2) of 2022, PT Bank Amar Indonesia Tbk recorded a net loss of IDR 88.09 billion. This condition is inversely proportional to the same quarter last year with a net profit of Rp 3.61 billion. This loss was caused by an increase in asset closing losses of IDR 324.79 billion. Disclosure of audit material matters can reduce the level of earnings management by increasing audit quality. On the one hand, a high-quality audit can better reveal the company's earnings management behavior, thereby hindering the company's earnings management. Disclosure of key audit matters strengthens communication with the management layer, which makes the management layer pay more attention to whether the financial statements fairly reflect the company's operating conditions in accordance with accounting standards for companies and make adjustments in accordance with public accountant certification adjustments to improve the quality of financial reports. The value of the stock price becomes an important consideration in determining the choice of investment in the capital market. The stock price of a company reflects the level of market information and the company. The occurrence of stock returns on the market caused by the presence of general information is called stock price synchronization (Zettrira & Ekawati, 2016). Company-specific information and even accounting information affect the synchronization of stock prices (Ningning & Hongquan, 2014). To the extent that KAM in an expanded audit report better directs investors' attention to key financial reporting areas that require more attention (PCAOB, 2017).



**Image 1.** *Graph of PT Bank Amar Indonesia Tbk's Share Price*

Based on data obtained from the Indonesia Stock Exchange (IDX), the share price per share at the end of the fourth quarter of 2021 or December 30 2021 is IDR 388 per share. Meanwhile, the share price on June 30 2022 was IDR 302 per share. The share price in October to the end of November 2022 (after publishing the Q2 audited financial report) has fluctuated. It can be concluded that in the period following the publication of the Q2 2022 financial statements with the independent auditor's report disclosing key audit matters



facilitate the flow of company-specific information to the market, thus motivating investors to rely more or less on company-specific information in their investment decisions.

## CONCLUSION

Financial reports aim to provide useful information to interested users. The requirements issued by the International Auditing and Assurance Standards Board regarding auditor reports that are expanded with Key Audit Matters are expected to increase transparency around the audit process, the information value of audit reports, and auditor accountability. The recent financial scandals and crises have given rise to much debate about the value of auditing and the role of auditors, particularly regarding the need to improve the quality of communication between auditors and users of their reports. The method used in this case study is a quantitative method and the data source used is secondary data. Secondary data in the form of financial reports obtained from the Indonesia Stock Exchange via the internet. This study uses PT Bank Amar Indonesia's 2021 financial statements and the 2nd quarter financial reports for 2022 as research objects to find out the differences between before and after and the impact of implementing Key Audit Matters. A high-quality audit can better reveal the company's earnings management behavior, thereby hindering the company's earnings management. Disclosure of key audit matters strengthens communication with the management layer, which makes the management layer pay more attention to whether the financial statements fairly reflect the company's operating conditions in accordance with accounting standards for companies and make adjustments in accordance with public accountant certification adjustments to improve the quality of financial reports. This is what the writer can examine, although the writer realizes that this writing is far from perfect and there are still many shortcomings in making this scientific paper. The author hopes that the Key Audit Matters method, which has begun to enter Indonesia, will be able to make positive changes to audits in Indonesia.

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