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Key Audit Matters Insights 2022



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The report is prepared jointly by the Institute of Indonesia Chartered Accountant, the Universitas Indonesia, the University of Melbourne and the University of Queensland.

About The Institute of Indonesia Chartered Accountants

The Institute of Indonesia Chartered Accountants or Ikatan Akuntan Indonesia (IAI) is the recognized Professional Accountancy Organization (PAO) in Indonesia. Established on December 23, 1957, IAI continues to serve and develop the accountancy profession in the country through, among others, establishment of the Chartered Accountant (CA) Indonesia qualification and other professional accountancy certifications, continuous education and training, and standard-setting activities. IAI is a home to more than 35,000 Indonesian accountants from different backgrounds.

IAI is recognized as a co-founding member of both the ASEAN Federation of Accountants (AFA) and the International Federation of Accountants (IFAC). IAI also an Associate Member of the Chartered Accountants Worldwide (CAW), representing it's global recognition for the Chartered Accountant (CA) Indonesia holders. IAI commits to implement IFAC's standards as best practice in improving the quality of the accountancy profession in Indonesia.

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Established in 1853, the University of Melbourne is a public-spirited institution that makes distinctive contributions to society in research, learning and teaching and engagement. It's consistently ranked among the leading universities in the world, with international rankings of world universities placing it as number 1 in Australia and number 31 in the world (Times Higher Education World University Rankings 2021).

About The University of Queensland

For more than a century, the University of Queensland (UQ) has educated and worked with outstanding people to deliver knowledge leadership for a better world. UQ is one of Australia's Group of Eight, a charter member of edX and a founding member of Universitas 21, an international consortium of leading research-intensive universities. It ranks in the world's top universities, as measured by several key independent ranking.

Upon request, we can provide the names of entities for any KAM subject matter of interest (e.g., a list of entities that had a certain subject matter KAM).

We would also welcome any feedback regarding analysis that would be useful and could be included in future reports.

Please contact
accounting@ui.ac.id

Foreword



It is with great pride that I welcome the publication of the Key Audit Matters Insights 2022, the result of an outstanding collaboration between the Institute of Indonesia Chartered Accountant (IAI), Universitas Indonesia, the University of Melbourne, and the University of Queensland. This insight is also published in collaboration with CAANZ (the Chartered Accountant Australia-New Zealand). Both IAI and CAANZ are professional associations of fellow members of the International Federation of Accountants (IFAC) and Chartered Accountants Worldwide (CAW), which promote the Chartered Accountant (CA) designation globally.

This insight reflects our shared commitment to continually enriching knowledge and practice in the field of accounting and auditing, particularly in Indonesia. I am confident that this report will offer invaluable insights not only to professionals in auditing and accounting but also to investors, regulators, academics, and other key stakeholders who play a crucial role in upholding the integrity and transparency of financial reporting.

Key Audit Matters (KAM) play a critical role in audit reporting by providing transparency and enhancing the quality of communication between auditors, shareholders, and other stakeholders. The in-depth research presented in this report reminds us of the importance of trustworthy and relevant auditing practices in supporting sound business and public decision-making.

I extend my sincere gratitude to the authors, Prof. Lindawati Gani, Prof. Matt Pinnuck, Yulianti Abbas, Ph.D, and Dr. Mark Wallis, and everyone involved in the preparation of this insight, especially the research teams from all participating institutions. I hope that the findings in this insight will serve as a reference for improving auditing practices in Indonesia and globally.

The Institute of Indonesia Chartered Accountant

Dr. Ardan Adiperdana, CA
President

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Introduction

This report documents the main statistical facts regarding the frequency and nature of the reporting of key audit matters (KAM) in auditors' reports of Indonesia listed entities that issued financial statements in 2022. The key findings are summarised in the body of this report and the supporting detail is in the Appendix to this report.

For audits of financial statements for periods ending on or after 2022, auditor's reports of all listed entities in Indonesia have been required to provide information about KAM.¹

KAM are defined as "those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period." These will be a subset of the matters communicated to the audit committee, and may include:

- Areas of higher assessed risks of material misstatements or significant risks (i.e., risks requiring special audit consideration),
- Significant auditor judgements relating to areas of significant management judgement, and
- The effect of significant events or transactions on the audit.

A matter that is determined to be a KAM is usually fundamental to users' understanding of the financial statements, the overall outcome of the audit, the auditor's responsibilities, or the auditor's report. The concept of matters of most significance applies within the context of the entity and the specific audit engagement that was performed. As a result, the nature of the KAM reported are diverse and bespoke to each entity and its industry.

Even though there are common KAM, the description is unique to the entity. Flexibility has specifically been allowed to avoid the use of 'boilerplate' communications. The level of detail to include is a matter of professional judgement. As a result, KAM are likely to vary in length. However, the description of KAM must always include why the matter is considered a KAM (e.g., why significant) and how the matter was addressed in the audit (e.g., audit procedures).

There is no requirement for any specific number of KAM. It is expected that the number will vary between entities, even for those entities in the same industry, and even for the same entity year on year. Since the concept of KAM is relative it is envisaged that there will always be at least one for each audit, except in rare circumstances.² Also, KAM are not reported if there is a disclaimer of opinion.

¹ SA 701 (2021) Pengomunikasian Hal Audit Utama dalam Laporan Auditor Independen which is adopted from ISA 701 Communicating Key Audit Matters in the Independent Auditor's Report.

² Such circumstances are listed in SA 701 (2021) paragraph 14 and 15.

Research methodology

We sampled the full population of Indonesia listed entities with reporting periods ending 31 December 2022.³ Financial reports could not be obtained for some entities for reasons such as late filing, suspension and delisting. The final sample is 579 entities.

We classified the KAMs into subject matters based on the following three broad decision rules:

- First, if the subject matter was not an impairment and related to a specific primary financial statement account (e.g., revenue, receivables, inventory, provisions) then that account was the category.
- Second, we had categories for any subject matter that related to impairments, exploration and evaluation, and business combinations. The impairment category includes impairments regarding all assets except those associated with an exploration and evaluation asset. The exploration and evaluation asset category includes all subject matters associated with this asset including impairments.
- Finally, we had a range of subject matters that were relevant to the audit that may not directly affect a specific financial statement account (e.g., information technology, due to implementation of enterprise resource systems).

¹ Excluding firms in the financial and real estate industries based on the two-digit Global Industrial Classification Standard (GICS) codes #40 and #60.

How many KAMs are usually reported?

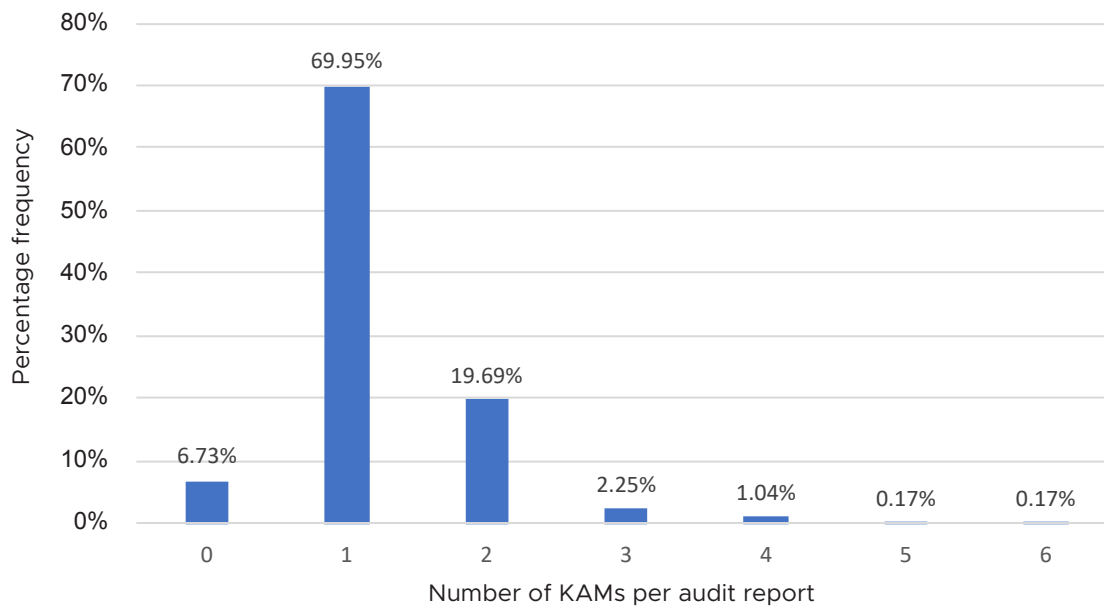
Key findings:

- Overall, a mean of 1.22 KAMs are reported per audit report
- The number of KAMs in an audit report range from a low of 0 through to the maximum of 6.
- The distribution of the number of KAMs is tightly clustered around the mean with 70% of audit reports having 1 KAM and 20% of audit reports having 2 KAMs. There are very few audit reports with 0 KAMs (7%) or 3 or more KAMs (4%) (see Table 1 and Figure 1).

Table 1: Number of KAMs per audit report

Number of KAMs	Number of entities	Percentage Frequency
0	39	6.73%
1	405	69.95%
2	114	19.69%
3	13	2.25%
4	6	1.04%
5	1	0.17%
6	1	0.17%
TOTAL	579	100%

Figure 1: Percentage frequency of number of KAMs per audit report



Which entities report the least and most KAMs?

Key findings:

- The number of KAMs per audit report varies only very slightly as a positive function of the size of the entity. The average number of KAMs for large entities is 1.36 compared to 1.26 for small entities (see Figure 2).
- The number of KAMs per audit report is very similar across industry sectors with only some minor variation.⁴ The industry with lowest number of KAMs is Utilities (average = 1.00 KAMs) and the highest is Information Technology (average = 1.46 KAMs) (see Figure 3).

Figure 2: Mean number of KAMs by entity size⁵

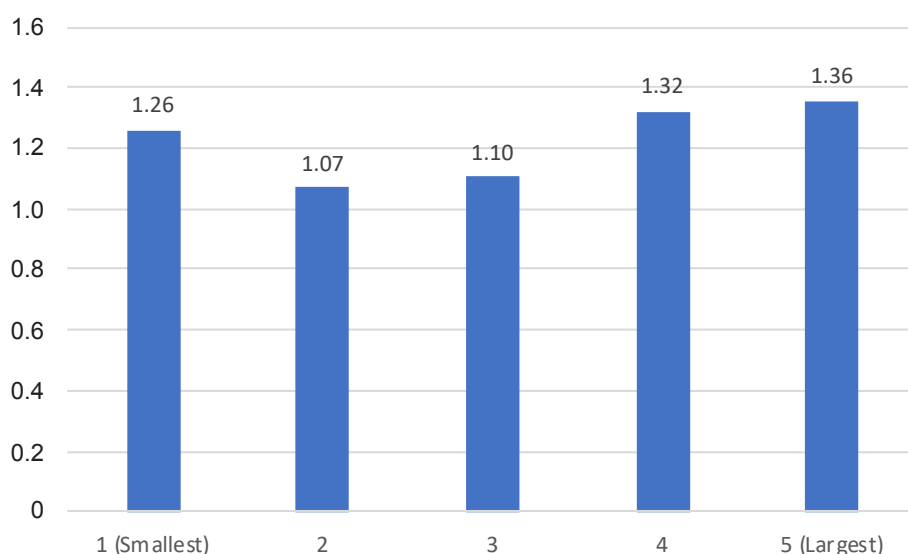
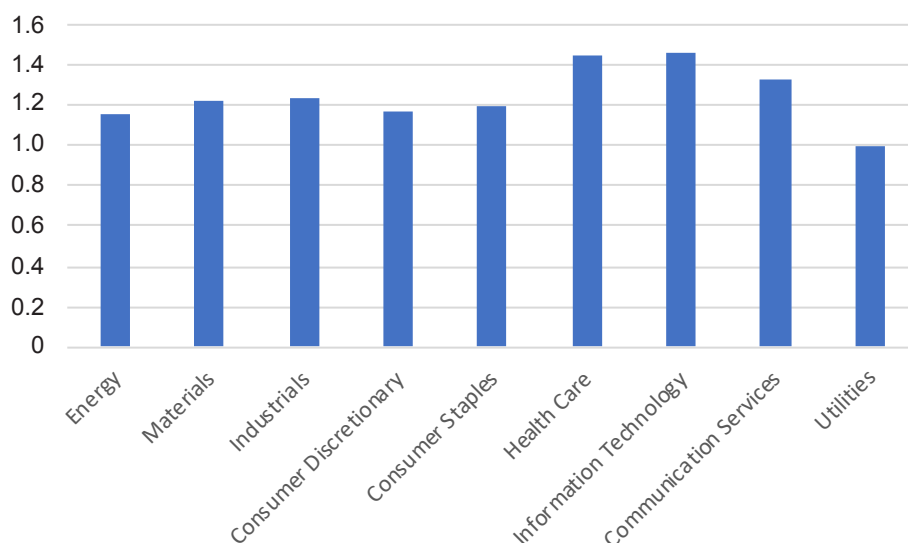


Figure 3: Mean number of KAMs by GICS sector



⁴ We classify industries using the two-digit MSCI/S&P Global Industrial Classification Standard (GICS) codes.

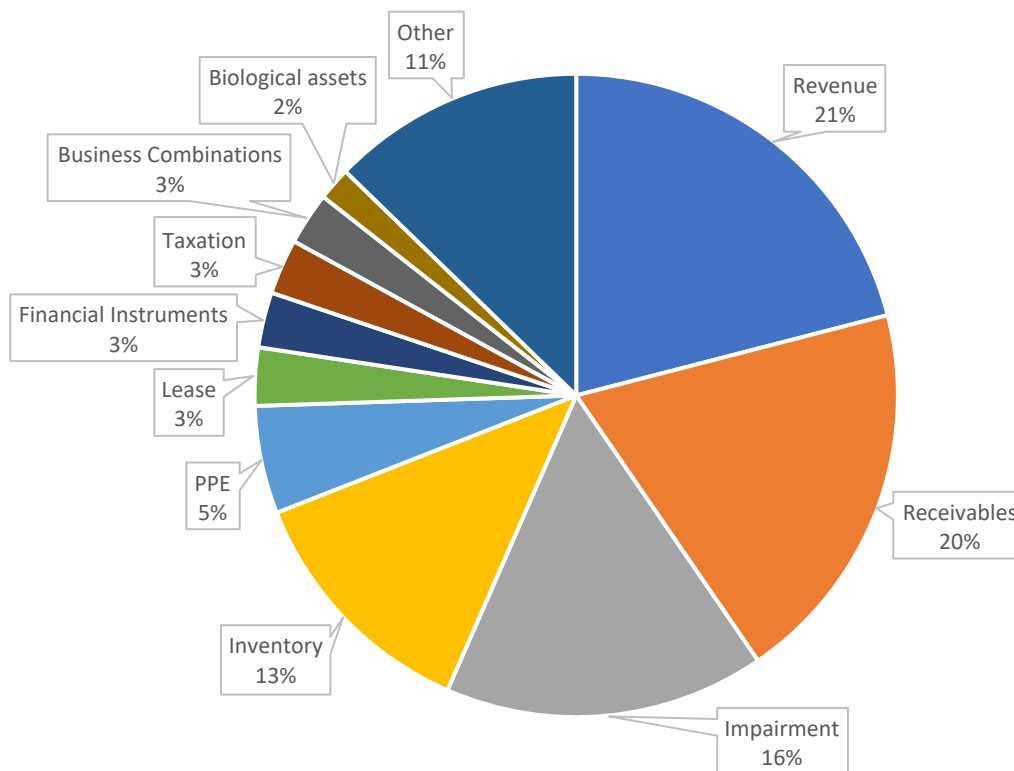
⁵ We divide listed companies into five size portfolios from smallest to largest based on rank-order of reported total assets.

What subject matters do KAMs cover?

Key findings:

- Overall, we have classified 26 distinct KAM subject matters implying there is a broad range of different areas that are been identified as being of most significance in audits of financial reports.⁶ See the full list of subject matters in the table in the Appendix.
- These subject matters can be classified into a set of 10 categories that are most frequent and account for 87% of all KAMs and another set of 16 categories that are infrequent and account for the remaining 13% of KAMs.
- The most frequent KAM subject matter was revenue representing 21% of all KAMs. The next most frequent in order were: receivables (20%); impairment (16%); inventory (13%); PPE (5%); leases (3%); financial instruments (3%); taxation (3%), business combinations (3%) and biological assets (2%) (see Figure 4).⁷
- There is a large and diverse number of less frequent areas. Examples include related party transactions, and going concern.

Figure 4: KAM by subject matter



⁶ The methodology for classification of the KAM subject matter is discussed in the research methodology section of this report.

⁷ The “impairment” category includes impairments regarding all assets except those associated with an exploration and evaluation asset. The exploration and evaluation asset category includes all subject matters associated with this asset including impairments.

What is the length of KAMs?

Key findings:

- The median number of words in the “Why Significant” section of a KAM across all entities is 132.
- The median number of words in the “Audit Procedures” section of a KAM across all entities is 120.
- The range of the word count in the “Why Significant” section of a KAM is tightly clustered around the median with most KAMs in a range between 96 and 169 words. Therefore, a KAM with less (greater) than 96 (169) words could be considered short (long)⁸ (see Figure 5).
- There is some variation in the median number of words in the “Why Significant” section of a KAM across each of the areas ranging from a low of 97 words for Business Combinations through to 184 words for leases (see Figure 6). Appendix tabulates the median and a benchmark of high and low number of words for each KAM area for both “Why Significant” and “Audit Procedures”

Figure 5: Percentage frequency of number of words in “why significant” section of KAM

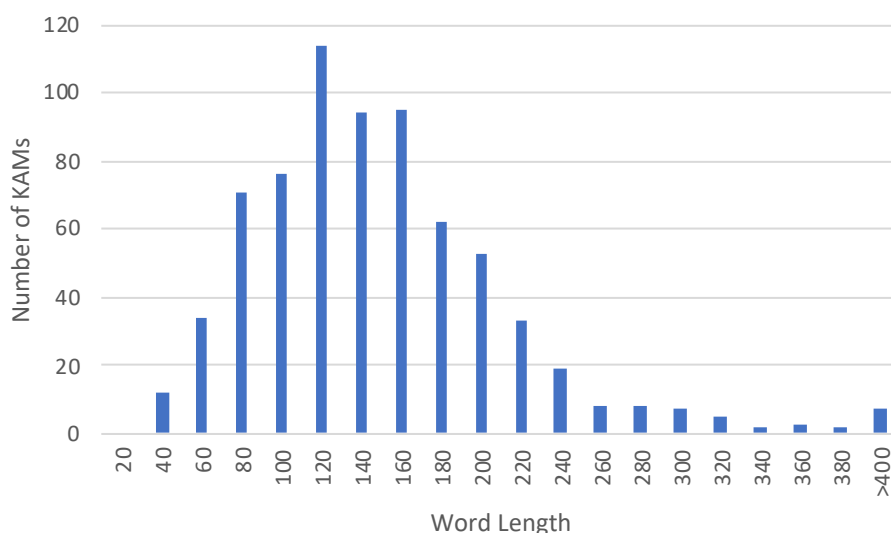
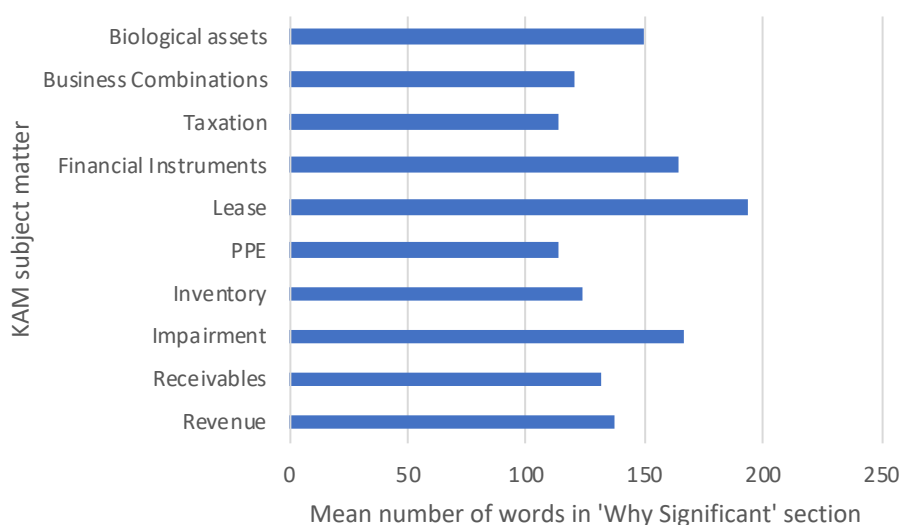


Figure 6: Mean length of “why significant” section of KAM by 10 most frequent KAM subject matters



⁸ The 96 and 169 words are the 25th and 75th percentile respectively of the distribution of the word count.

Appendix: Frequency and length of KAMs by subject matter

Account	Frequency		Word Count					
			Why Significant			Audit procedure		
	Number	Percentage	P25	Median	P75	P25	Median	P75
Revenue	151	21.42%	87	127	164	108	135	176
Receivables	140	19.86%	105	127	156	86	108	136
Impairment	116	16.45%	118	156	198	93	122	153
Inventory	90	12.77%	85	117	148	90	118	155
PPE	39	5.53%	84	114	139	75	94	150
Lease	21	2.98%	133	184	217	117	143	182
Financial Instruments	20	2.84%	119	147	188	77	105	155
Taxation	20	2.84%	92	119	145	91	113	175
Business Combinations	19	2.69%	69	97	155	76	114	140
Biological assets	12	1.70%	117	153	190	104	118	146
Land	10	1.42%	71	132	152	102	140	151
Provision	10	1.42%	180	212	218	175	196	227
Equity Method	8	1.13%	67	156	182	122	150	183
Exploration and Evaluation Asset	6	0.85%	161	176	183	127	158	182
Investment properties	6	0.85%	89	120	141	97	122	134
Accruals	5	0.71%	177	178	256	180	182	198
Going concern	5	0.71%	45	48	161	46	104	178
Intangibles	5	0.71%	162	171	190	93	138	176
Advance payments	4	0.57%	75	83	114	51	65	83
Employee benefits liabilities	4	0.57%	84	113	147	110	127	134
Related Party Transactions	4	0.57%	62	67	116	71	83	94
Assets under Construction	3	0.43%	68	110	165	62	76	101
Actuarial Gain and Loss	2	0.28%	117	118	118	121	121	121
Currency	2	0.28%	107	111	114	68	77	85
Internal Controls	2	0.28%	102	112	123	130	154	177
Trade Payables	1	0.14%	79	79	79	96	96	96
Total	705							

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