

The Effect of Corporate Governance and Key Audit Matters (KAM) on Audit Report Lag (A Study of Property and Real Estate Sector Companies Listed on the Indonesia Stock Exchange During 2022–2024)

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ABSTRACT

Objective: This study examines the effects of corporate governance and Key Audit Matters (KAM) disclosure on Audit Report Lag (ARL) in property and real estate companies listed on the Indonesia Stock Exchange during 2022–2024. Corporate governance is represented by board independence, board size, and audit committee size, while KAM is measured by the number of items disclosed in the independent auditor's report. **Method:** Using a quantitative causal design, the study analyzes 147 firm-year observations from 49 companies selected through purposive sampling. Panel data regression is estimated with a Fixed Effect Model using EViews 12. **Results:** The results show that board independence, board size, audit committee size, and KAM disclosure do not significantly affect ARL. Firm size and profitability have significant negative effects, whereas leverage and Big 4 auditor quality have significant positive effects. **Novelty:** The findings suggest that during the early implementation of SA 701 in Indonesia, company fundamentals and external auditor characteristics are more influential in determining audit timeliness than governance structure or the number of KAM disclosures.

INTRODUCTION

Financial statements are the primary medium through which companies communicate the management of economic resources and value creation to stakeholders. To be decision-useful, financial information must possess the qualitative characteristics specified in the Conceptual Framework for Financial Reporting, including relevance, faithful representation, and timeliness [1]. Even relevant and reliable information loses much of its usefulness when it is available too late. Audit Report Lag (ARL), defined as the number of days between the fiscal year-end and the date of the independent auditor's report, therefore provides a quantitative indicator of audit and reporting timeliness [2].

In Indonesia, the submission of audited annual financial statements is regulated by Financial Services Authority Regulation No. 14/POJK.04/2022, which generally requires annual financial statements to be submitted no later than the end of the third month after the reporting date [3]. Delays can lead to administrative sanctions and can weaken market confidence. The property and real estate sector is particularly relevant because long project cycles, complex financing structures, extensive asset valuation, revenue recognition issues, and relatively high leverage can increase audit complexity and potentially lengthen ARL.

From the perspective of signaling theory, timely audited reporting can function as a positive signal that a company has stronger reporting systems and lower perceived information risk [4]. A longer ARL may instead create negative perceptions about reporting quality, governance, or financial condition. Prior evidence also indicates that the information conveyed through the audit report can influence the market consequences of reporting timeliness [5].

Agency theory explains corporate governance as a monitoring mechanism designed to reduce conflicts of interest and information asymmetry between principals and agents [6]. Effective monitoring by the board of commissioners and audit committee may improve the quality and readiness of financial reporting, facilitate the auditor's work, and reduce audit completion time [7]. However, empirical evidence remains mixed. In Lebanese commercial banks, board-related characteristics were associated with ARL in ways that were not uniformly consistent with the expected monitoring effect [8]. Evidence from Indonesian public companies similarly shows that several governance attributes may be statistically insignificant, while audit committee meeting intensity can be more relevant [9].

Audit-reporting reform has also introduced Key Audit Matters (KAM) through International Standard on Auditing 701 [10]. Indonesia adopted the requirement through SA 701, which became broadly mandatory for relevant entities beginning in 2022 [11]. KAM are matters that, in the auditor's professional judgment, were of most significance in the audit of the current-period financial statements. Theoretically, KAM may lengthen ARL because auditors must devote additional effort to significant risk areas and prepare entity-specific explanations [12]. Conversely, early identification of KAM can improve audit planning and resource allocation, potentially supporting a more focused audit process [13].

Empirical findings on KAM and ARL are also inconsistent across institutional settings. Evidence from Australia indicates that mandatory KAM disclosure is associated with shorter ARL [14], whereas preliminary evidence from Indonesia finds no significant relationship between KAM disclosure and ARL [15]. Indonesian evidence before and after KAM implementation also suggests that the effect of KAM on audit completion time depends on the maturity of implementation and the surrounding audit environment [16]. These mixed findings support further examination during the early years of mandatory SA 701 implementation.

This study addresses three gaps. First, the effect of corporate governance mechanisms on ARL remains inconclusive across countries and institutional settings. Second, evidence on the relationship between KAM and ARL is still limited in Indonesia during the early implementation period of SA 701. Third, relatively few studies jointly examine governance mechanisms and KAM disclosure using recent data from the property and real estate sector. Accordingly, this study examines the effects of board independence, board size, audit committee size, and KAM disclosure on ARL for property and real estate companies listed on the Indonesia Stock Exchange

during 2022–2024.

Theoretical foundation and variable relationships

Agency theory emphasizes monitoring mechanisms that constrain managerial opportunism and reduce information asymmetry [6]. External audit, boards of commissioners, and audit committees are expected to reduce agency costs and improve reporting discipline. Stronger governance may lower the risk of material misstatement and reduce the need for extended audit procedures, although the effectiveness of governance depends on competence, independence, and actual involvement rather than formal structure alone [7], [8].

Signaling theory explains how better-informed parties communicate credible information to reduce market uncertainty [4]. A shorter ARL may signal stronger reporting quality and lower operational or financial uncertainty. KAM disclosure can also provide an additional signal by increasing transparency about areas that required significant auditor attention [14].

ARL reflects both audit complexity and audit efficiency. Companies with complex operations, higher risk, weaker internal control, or greater financing pressure may require more extensive audit procedures and consequently experience longer ARL [2]. In this study, corporate governance is represented by board size (BSIZE), board independence (BIND), and audit committee size (ACSIZE), while KAM is measured by the number of KAM items disclosed in the independent auditor's report.

Hypothesis development

Board size (BSIZE) and ARL

Larger boards may provide broader expertise and distribute monitoring responsibilities more effectively, which can improve internal control and facilitate audit completion [8]. Nevertheless, very large boards may create coordination costs that offset these benefits. The expected monitoring effect leads to the following hypothesis:

H_{1a}: Board size (BSIZE) has a negative effect on Audit Report Lag.

Board independence (BIND) and ARL

Independent commissioners strengthen external monitoring within the governance structure. A higher proportion of independent commissioners may improve oversight of the financial reporting process and support the external auditor's verification work [17].

H_{1b}: Board independence (BIND) has a negative effect on Audit Report Lag.

Audit committee size (ACSIZE) and ARL

The audit committee serves as a communication bridge among management, internal auditors, and external auditors. A larger committee may provide greater capacity to monitor reporting, resolve audit issues, and facilitate document availability [18].

H_{1c}: Audit committee size (ACSIZE) has a negative effect on Audit Report Lag.

Key Audit Matters (KAM) and ARL

A greater number of KAM may indicate higher audit complexity and more areas requiring significant auditor attention. Accordingly, more KAM items may require additional audit procedures and reporting effort, although empirical evidence remains mixed [12], [14], [15], [16].

H₂: The number of Key Audit Matters (KAM) has a positive effect on Audit Report Lag.

RESEARCH METHOD

Research design and data sources

This study uses a quantitative causal research design to examine the effects of corporate governance and KAM disclosure on ARL. A quantitative design is appropriate for testing hypothesized relationships among measurable variables [19]. The study uses secondary data obtained from audited annual financial statements, independent auditor reports, and corporate governance reports of property and real estate companies listed on the Indonesia Stock Exchange. Data were collected through documentation from the IDX website and the official websites of the sampled companies.

Population and sample

The population consists of all property and real estate companies listed on the Indonesia Stock Exchange during 2022–2024. Purposive sampling was applied using the following criteria: the company was listed throughout the observation period, published audited annual financial statements and independent auditor reports, disclosed complete corporate governance data, and was not excluded because of delisting or prolonged trading suspension. The sampling procedure produced 49 companies and 147 firm-year observations.

Table 1. Sample selection

Description	Number
Property and real estate companies listed on IDX as of December 31, 2024	86
Less: companies listed after 2022	(5)
Less: companies without annual financial statements	(4)
Less: companies without independent auditor reports	(8)
Less: companies with incomplete governance data, delisting, or suspension	(20)
Sample companies	49
Observation period (years)	3
Firm-year observations	147

Source: processed data (2026).

Operational definitions and measurement

Table 2. Operational definitions of variables

Variable	Proxy	Measurement
Audit Report Lag (Y)	ARL	Number of days between fiscal year-end and the independent auditor's report date
Corporate Governance (X1)	BSIZE	Number of board of commissioners members
	BIND	Independent commissioners / total board of commissioners
	ACSIZE	Number of audit committee members
Key Audit Matters (X2)	KAM	Number of KAM items disclosed in the independent auditor's report
Firm Size (control)	FSIZE	Natural logarithm of total assets
Profitability (control)	ROA	Net income / total assets
Leverage (control)	LEV	Total liabilities / total assets
Auditor Quality (control)	KAP	Dummy variable: 1 = Big 4 auditor, 0 = non-Big 4 auditor

Source: processed data (2026).

Data analysis

The hypotheses were tested using panel data regression in EViews 12 because the dataset combines cross-sectional observations (49 companies) and time-series observations (three years). Panel estimation allows the model to control for unobserved firm-specific heterogeneity [20]. Model selection was conducted using the Chow test, Hausman test, and Lagrange Multiplier test to compare the Common Effect Model, Fixed Effect Model, and Random Effect Model. Classical diagnostic procedures included multicollinearity and heteroskedasticity assessment [21]. The regression model is specified as follows:

$$ARL = a + \beta_1 BIND + \beta_2 BSIZE + \beta_3 ACSIZE + \beta_4 KAM + \beta_5 FSIZE + \beta_6 ROA + \beta_7 LEV + \beta_8 KAP + \varepsilon$$

Hypothesis testing uses the coefficient of determination (R^2), the F-test for joint significance, and t-tests for partial significance at the 5% level.

RESULTS AND DISCUSSION

Result

Descriptive statistics

The study uses 147 firm-year observations from 49 property and real estate companies. Table 3 presents the descriptive statistics.

Table 3. Descriptive statistics

Variable	Min	Max	Mean	Median	Std. Dev.
ARL (days)	45	118	85.83	86.00	14.02
BSIZE	2	16	3.93	3.00	2.33
(members)					
BIND (%)	0.25	0.75	0.419	0.41	-
ACSIZE	2	4	3.01	3.00	0.38
(members)					
KAM (items)	0	4	1.24	1.00	0.91
FSIZE (ln total assets)	-1.92	-0.21	-0.890	-0.871	0.296
ROA (%)	0	12	3.09	2.85	1.88
LEV	2.10	12.45	7.17	7.19	2.00
KAP	0	1	0.1837	0.00	0.388
(dummy)					

Source: EViews 12 output (2026).

The mean ARL is 85.83 days, which remains below the 90-day regulatory benchmark, although the maximum of 118 days indicates that some companies exceeded the expected reporting period. The mean proportion of independent commissioners is 41.9%, above the commonly applied minimum governance threshold. The mean KAM disclosure is 1.24 items, while audit committee size has a standard deviation of only 0.38. This low dispersion indicates substantial homogeneity in formal governance structures, which may reduce their ability to explain differences in ARL.

Diagnostic tests and panel model selection

The highest pairwise correlation among the independent variables is -0.765 between BSIZE and ACSIZE, below the 0.80 threshold commonly used to indicate serious multicollinearity [21]. The Glejser test identifies heteroskedasticity in BSIZE, ACSIZE, and LEV, with an overall Prob. F-statistic of 0.000019. The Fixed Effect Model is retained, but this condition is acknowledged when interpreting standard errors.

The Chow test produces a probability of 0.0000, indicating that the Fixed Effect Model (FEM) is preferred to the Common Effect Model. The Hausman test reports a chi-square statistic of 19.691 with a probability of 0.0116, supporting FEM over the Random Effect Model. The Lagrange Multiplier test also confirms significant cross-sectional effects. Accordingly, the final model is estimated using Fixed Effect Panel Least Squares.

The estimated equation is:

$$ARL = 180.72 + 0.734 BSIZE - 16.324 BIND - 8.118 ACSIZE - 1.899 KAM - 2.436 FSIZE - 47.170 ROA + 18.192 LEV + 7.343 KAP$$

Table 4. Model feasibility and coefficient of determination

Measure	Value
F-statistic	4.304664
Prob. (F-statistic)	0.000119
R ²	0.1997
Adjusted R ²	0.1533

Source: EViews 12 output (2026).

The F-statistic of 4.305 with a probability of 0.000119 indicates that the model is jointly significant. The adjusted R² of 0.1533 shows that the independent and control variables explain 15.33% of the variation in ARL, while the remaining 84.67% is attributable to factors outside the model.

Table 5. Partial significance test (t-test), Fixed Effect Model

Variable	Coefficient	t-Statistic	Prob.	Interpretation
BIND	-16.324	-1.601	0.1116	Not significant
BSIZE	0.734	1.239	0.2175	Not significant
ACSIZE	-8.118	-1.920	0.0569*	Not significant at 5%
KAM	-1.899	-1.054	0.2938	Not significant
FSIZE	-2.436	-2.789	0.0060	Significant negative
ROA	-47.170	-2.590	0.0106	Significant negative
LEV	18.192	2.750	0.0067	Significant positive
KAP	7.343	2.062	0.0411	Significant positive

Source: EViews 12 output (2026). *Significant at the 10% level; the primary significance level is 5%.

Discussion

Board independence and ARL

The BIND coefficient is -16.324 with $p = 0.1116$, so H1b is not supported. Although the negative direction is consistent with agency theory, the proportion of independent commissioners does not significantly determine audit completion time. Independent commissioners primarily perform strategic monitoring rather than the technical execution of the external audit. This finding is consistent with Indonesian evidence showing that formal board independence may not directly shorten ARL [9]. It also

supports the argument that governance effectiveness depends on qualitative factors such as competence and active involvement rather than formal compliance alone [7].

Board size and ARL

BSIZE has a coefficient of 0.734 with $p = 0.2175$, so H1a is not supported. The positive coefficient is consistent with the possibility that larger boards create coordination and free-rider problems, but the effect is not statistically strong. This result is consistent with recent Indonesian evidence in which board size was not a significant determinant of ARL [9]. The sector's relatively homogeneous governance structure may also limit variation in board characteristics.

Audit committee size and ARL

ACSIZE has a coefficient of -8.118 with $p = 0.0569$. The coefficient is negative and marginally significant at 10%, but it is not significant at the primary 5% level; therefore, H1c is not supported. The direction is consistent with the monitoring role of the audit committee [18]. However, the sample shows limited variation in audit committee size, with a mean of approximately three members and a standard deviation of 0.38. This suggests that qualitative dimensions such as accounting expertise, meeting frequency, and engagement may matter more than committee size alone.

Key Audit Matters and ARL

KAM has a coefficient of -1.899 with $p = 0.2938$, so H2 is not supported. The number of disclosed KAM does not significantly affect ARL. This result is consistent with Indonesian evidence showing no significant effect of KAM disclosure on ARL during the early period of mandatory implementation [9], [15]. It differs from Australian evidence, where KAM disclosure was associated with shorter ARL [14]. The contrast indicates that the effect of KAM on audit timeliness is context-dependent and may be influenced by the maturity of KAM implementation, auditor experience, reporting practices, and institutional conditions.

Control variables

Firm size has a significant negative effect on ARL (coefficient = -2.436; $p = 0.0060$), indicating that larger firms may benefit from stronger internal control systems and greater reporting resources. Profitability also has a significant negative effect (coefficient = -47.170; $p = 0.0106$), which is consistent with the tendency of profitable firms to accelerate the disclosure of favorable information. Leverage has a significant positive effect (coefficient = 18.192; $p = 0.0067$), suggesting that highly leveraged firms require additional audit procedures, including going-concern and financing-risk assessments. Big 4 auditor quality has a significant positive effect (coefficient = 7.343; $p = 0.0411$), which may reflect more extensive and standardized audit procedures by larger audit firms.

CONCLUSION

Fundamental Finding: This study examines the effects of corporate governance and KAM disclosure on ARL using 147 firm-year observations from 49 property and real estate companies listed on the Indonesia Stock Exchange during 2022–2024. The Fixed

Effect Model shows that board independence, board size, audit committee size, and the number of KAM disclosures do not have significant effects on ARL at the 5% level. In contrast, firm size and profitability have significant negative effects, while leverage and Big 4 auditor quality have significant positive effects. **Implication:** The findings indicate that during the early mandatory implementation of SA 701 in Indonesia, company fundamentals and external auditor characteristics are more influential in determining audit completion time than formal governance structures or the number of KAM items. The results also suggest that governance effectiveness may depend more on qualitative dimensions, such as expertise and monitoring intensity, than on structural measures alone. **Limitation:** This study has two main limitations. First, not all published annual reports contain complete independent auditor reports. Second, governance data are incomplete for several companies, which reduces the available sample and the variability of governance indicators. **Future Research:** Future research should extend the sample to other sectors, use a longer post-SA 701 observation period, and incorporate qualitative governance measures such as meeting frequency, accounting expertise, and financial competence. Future studies may also apply robust standard errors or alternative panel estimators to address heteroskedasticity.

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