ABSTRACT

The purpose of this study is to look into the use of key audit matters (KAMs) disclosures for detecting financial fraud in firms. The investigation is separated into three levels: overall (based on the total number of KAMs reported), partially (based on the classification of KAM's risk level), and individually (using the individual types of each KAM). Meanwhile, firms' financial fraud is identified using the Beneish M-Score.

This study's sample includes non-financial firms that were listed on the Indonesia Stock Exchange before May 2024. The total final sample employed in this study was 1273 firm-year observations. A purposive sampling method was used to choose samples, using predetermined conditions and criteria. This study's analytical methodology utilized logistic regression analysis.

The findings of this study suggest that the number of communicated KAMs is effective in assessing and forecasting the probability of financial fraud within firms. The more KAMs communicated, the greater the possibility of financial fraud within the organization. Additionally, the findings reveal that account-level KAMs are more likely to be disclosed when the firm is indicated as an earnings manipulator. Furthermore, the data shows that KAMs are most useful in detecting financial fraud when they are assessed individually. The findings reveal that KAMs relating to accruals, deferrals, management estimations, cash & receivables, and leases or long-term debts are consistently relevant individual KAMs for detecting financial fraud.

Keywords: Key Audit Matters, financial fraud, number of communicated KAMs, Beneish M-Score