

ABSTRACT

This study was conducted to examine the effect of the number of Key Audit Matters (KAMs) disclosures by auditors on the risk of financial distress experienced by companies. In line with the effective implementation of SA 701 regarding KAMs communication, it is expected to enhance transparency and accountability by disclosing the most significant matters in the audit of financial statements by auditors. This study also has implications for external parties to identify the current company financial condition, that allowing for more accurate and precise decision-making and reducing potential risks.

The population in this study consists of companies in the consumer cyclicals sector listed on the Indonesia Stock Exchange (IDX) from 2022 to 2023 by applying documentary method to the published company annual reports. Using a purposive sampling technique, a final total sample of 244 companies were selected as the research objects. The analytical method employed is linear regression analysis to test the research hypothesis. This study also applies control variables to define the research scope, including audit quality, auditor industry specialization, and audit report lag.

The results indicate that the number of KAMs disclosures has a significant impact on financial distress. The more KAMs disclosed by auditors, the higher risk of financial difficulties faced by the company.

Keywords: *Key Audit Matters, Financial Distress, Information Disclosure, Indication*