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Demands for transparency and accountability are increasing in response to various financial cases that have shaken public confidence. This has led to the creation of a new international standard, ISA 701, in 2016, which came into effect in Indonesia in 2021, as outlined in SA 701 regarding the auditor's obligation to communicate the most relevant components of the financial statements and areas with a higher risk of material misstatement. Despite the standardization of audit reports, their implementation is still not optimal in some countries, leading to significant variations in key audit matters, which have a flexible format. This challenge becomes even more complex in developing countries, given the limitations of regulations, oversight mechanisms, and the implementation of international audit standards.

This study aims to analyze the influence of financial distress (Altman Z-Score), litigation risk (leverage), firm complexity (subsidiary ownership), and control variables audit firm (Big 4) on Key Audit Matters, proxied by the number of disclosures made by auditors simultaneously and partially in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2022–2023.

The data used in this study were obtained from the financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2022–2023. The population in this study consisted of 229 companies, with a sample of 183 companies selected based on purposive sampling. This study was quantitative in nature, using panel data regression analysis techniques processed using Eviews 12 software.

The results of this study indicate that financial distress, litigation risk, and firm complexity, along with the control variables of audit firm, simultaneously influence key audit matters. Partially, firm complexity has a positive effect on key audit matters. Meanwhile, financial distress, litigation risk, as well as audit firm as control variables do not influence key audit matters.

The results of this study are expected to provide a reference related to the application of key audit matters, which is still relatively limited in Indonesia, especially by highlighting company characteristics and risk disclosure by auditors. These findings are also expected to provide new insights for investors in evaluating risk. However, the study is limited to company characteristics that influence key audit matters and only covers two years and focuses on the manufacturing sector. Therefore, future research may consider alternative approaches such as interviews or case studies to delve deeper into the dynamics of auditor-client interactions, expand the scope of industrial sectors, and extend the observation period post-implementation.

Keywords: Key Audit Matters, Financial Distress, Litigation Risk, Firm Complexity