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Auditors' Communication with Audit Committee: Evidence from Indonesia

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Abstract

The aim of this study is to explore the auditors' communication with those charged with governance (TCWG). Specifically, we examine the communication between auditors and the audit committee on the audit of financial statements in the year 2020 in the Indonesian setting. We use questionnaires to collect the data. Our samples are 72 audit committee members from various industries. We find that most of the auditors have discussed the matters that are required by the audit standards. However, we find that almost ten percent of the respondents reported that there was no kick-off meeting before the start of the audit process. The absence of a kick-off meeting may indicate that the audit plan is not communicated in a timely manner to the audit committee. We also find that face-to-face communication through a meeting is preferred to written communication most of the time.

Keywords: audit committee; communication; external auditor; those charged with governance

INTRODUCTION

The objective of this study is to explore the auditors' communication with those charged with governance (TCWG) in the current audit practice. In listed companies, the responsibility of TCWG often rests upon the audit committee. Surveys conducted by IFAC in 2012 and KPMG in 2018 both concluded that the quality, benefits, and timeliness of communication by auditors to the audit committee is one of the three most important factors for the audit committee in evaluating audit quality (IFAC, 2012; KPMG, 2018).

IAASB (2014) also identifies communication between auditors and TCWG as one of the elements in its audit quality framework. For the auditor, communication with the audit committee can assist the auditor in understanding the entity and its environment, identifying appropriate sources of audit evidence, and providing information about specific transactions or events. For the audit committee, communication made by the auditor can help the audit committee carry out its responsibilities to oversee the financial reporting process so as to reduce the risk of material misstatement in the financial statements and understand matters related to the audit context.

The issuance of ISA 701 further highlighted the importance of communication between auditors and TCWG since Key Audit Matters (KAM) are selected from the matters communicated with TCWG. ISA 260 requires the auditor to share information about the auditor's responsibilities, planned scope and timing, significant findings, and the auditors' independence either in writing or through a meeting with TCWG. By fulfilling the requirements of ISA 260, auditors will be able to find the subset of significant matters that can become KAM (Minutti-Meza, 2021).

Despite the importance of the auditors' communication with the audit committee, we know relatively little about how the auditors communicate with the audit committee in practice, what they actually communicate, and the timing of the communication between these two parties. As such, in this study, we report the results of a survey that examines the practice of auditors' communication with the audit committee from the perspective of the audit committee. By having the audit committee members as participants in the survey, we expect that we will obtain more objective and unbiased evidence about communication between the audit committee and auditors.

We find that most of the auditors have discussed the matters that are required by the audit standards including independence of the auditors, audit plan, significant issues/findings, significant weaknesses in the entity's internal control as well as significant qualitative aspects of an entity's accounting practices. However, we also find that almost ten percent of the respondents reported that there was no kick-off meeting before the start of the audit process. It is through kick-off meetings auditors can deliver their audit plan to both management and the audit committee. Auditors will also be able to obtain information from the audit committee with regard to information relevant to the audit which may assist the auditor in understanding the entity and its environment. The absence of kick-off meeting may indicate that the audit plan is not communicated in a timely manner to the audit committee.

We also find that face-to-face communication through a meeting is preferred to written communication most of the time. This finding supported previous studies which conclude that auditors prefer face-to-face meetings rather than written communication (Carlisle and Hamilton, 2021). A face-to-face meeting is considered more effective since individuals participating in the meeting are more likely to be unbiased and agreement is more likely to be achieved among the parties involved in the meeting (Saiewitz and Kida, 2018).

This study examines communication between auditors and the audit committee on the audit of financial statements in the year 2020 in the Indonesian setting. This research is important for several reasons. First, auditor communication with the audit committee is identified by the IAASB (2014) as one of the key elements of the audit quality framework. This study reports the quality of the audit partly by examining the matters, the form, and the timing of the communication of Indonesian auditors with the audit committee. Second, ISA 701 mandates the auditors to identify matters which have a high risk of material misstatement or requires significant judgment and significant events or transactions that occurred during the audit period and determine from those matters to be reported as KAM in the auditors' report. KAM are selected from those matters communicated with TCWG. Our study provides insights into how Indonesian auditor fulfill their responsibilities to communicate with TCWG as required by ISA 260.

Third, Indonesia is well behind its neighboring countries, namely Singapore, Malaysia, Thailand, Philippines which have adopted ISA 701 since 2016. ISA 701 will be effective for financial statements beginning on January 1, 2022, for publicly listed entities in Indonesia. The World Bank has already raised its concerns in its ROSC for the year 2020 about the risk that audits will be performed applying less demanding auditing standards with the consequence of compromising the quality of the audit process. Our study provides evidence about the readiness of the Indonesian auditors to implement ISA 701 as adopted in Indonesia since communication with TCWG is the prerequisite that will enable auditors to report KAM.

Fourth, previous studies in Indonesia were mainly quantitative and has focused more on the characteristics of the audit committee (e.g. audit committee size, age, educational background) or audit committee activities (e.g. number of meetings and attendance at meetings) and how these characteristics help improving audit quality (Yolanda et al., 2019; Fitriany et al., 2019), or affect financial reporting outputs (audit report lag (Susianto, 2019), auditor switching (Dwiphayana and Suputra, 2019) and going concern opinion (Paramitha and Venusita, 2019)). Our study uses a questionnaire to collect more detailed information about the practice of communication between auditors and audit committees.

Finally, ISA 260 places responsibility on the auditor to communicate with the TCWG so that the failure to communicate in accordance with what is stipulated in the standard is a form of violation of professional standards by the auditor. Prior research has focused more on the role TCWG (Salleh and Stewart, 2012) and how the audit committee fulfills its roles (Gendron et al., 2004; Beasley et al., 2009; Dobija, 2015; Brennan and Kirwan, 2015; Compernolle and Richard, 2018). While a number of researchers have provided insight into how auditors communicate with the audit committee (Fiolleau et al. 2019; Compernolle, 2018), how auditors have complied with the requirements in the audit standard remain largely unknown. Our study provides evidence of how auditors in Indonesia communicate, matters that they communicate, and the timing of their communication.

The remainder of this paper is organized as follows. Section 2 presents a literature review related to the communication of auditors with TCWG and its contribution to audit quality. Section 3 provides information about the Indonesian regulatory context regarding the nature of the relationship between the external auditor and the audit committee. Section 4 offers information about the research method. Section 5 discusses the findings of the survey. Section 6 summarizes our conclusions and illustrates possible directions for further research.

LITERATURE REVIEW

This section will explain the role of the audit committee using the agency theory framework and the role of auditors' communication with the audit committee. Jensen and Meckling (1976) define an agency relationship as "a contract under which one or more principals engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent". Within this view, a firm represents an agency relationship between the shareholder as the principal and management as the agent.

To ensure that management's objectives are in line with those of shareholders, a board of commissioners (in a two-tier system) is established whose task is to oversee and provide advice to the board of directors. In carrying out its duties, the board of commissioners may form committees including the audit committee. The audit committee is responsible to assist the Board of Commissioners to monitor the financial reporting process including the effectiveness of internal control. Monitoring external auditor is also part of the audit committee's duties which involves the appointment of the auditor, assessment of the independence of the auditor (including the provision of non-audit services), and also approval of audit fees.

To fulfill this monitoring responsibility, the audit committee relies on information submitted by management, including internal auditors, and external auditors (Beasley et al., 2009; Compernolle, 2018). Communication by the external auditor provides information about the auditor's view of the effectiveness of internal control (IAASB, 2014) thus informing people responsible for the financial reporting function of the entity about the matter they might not be aware of and arranging to implement corrective action. Auditors also communicate areas of financial reporting that involve significant judgments or estimates and other financial reporting risks which will assist the audit committee to conclude on the fair presentation of the financial statements (IAASB, 2014) and to reduce the likelihood of aggressive management choices (Cohen et al., 2007).

Information from auditors is obtained through several means namely reviewing communication from, asking questions, or meeting with auditors (Gendron et al., 2004). Meeting between auditors and the audit committee can be either formal meeting attended by the board of directors or informal (Beasley et al. 2009; Gendron et al. 2004). During this meeting, the study shows that the audit committee emphasize the accuracy of financial statements, appropriateness of the wording used in financial reports, the effectiveness of internal controls, and the quality of the work performed by auditors (Gendron et al. 2004).

Spira (1999) argued that a private meeting between auditors and the audit committee is a recommended practice to show the public that the audit committee supports the independence of the auditor against possible pressure from management. Auditors use informal communication with the audit committee to raise matters of interest or to strengthen the auditors' position vis-à-vis management (Turley and Zaman, 2007).

Communication from auditors can be either written or verbal communication (Fiolleau et al. 2019). Verbal communication through face-to-face meetings is preferred when it relates to more complex information while less complex information can be conveyed through written communication (Cohen et al. (2007). Saiewitz and Kida (2018) provide further evidence that audio or visual inquiry will be responded with less biased information compared to an email inquiry. Fiolleau et al. (2019) show that auditor tailors their communication to the audit committee oversight approach. They found that auditor provide the highest level of detail of information to an audit committee characterized as having a reputation of being proactive in asking questions and relying on auditors on issues that have been resolved between the auditors and management.

Indonesian Regulatory Context

The general requirement for the establishment of an audit committee is stipulated in Company Law No. 40/2007. This Law, however, does not specify the size or the duties of the audit committee. Further details regarding the audit committee are set out in a separate regulation concerning State-Owned Enterprise (SOE) issued by the Ministry of SOE (Ministry of SOE Regulation PER-09/MBU/2012) and listed entities issued by the Indonesian Financial Services Authority (OJK regulation 55/POJK.04/2015).

For listed entities, the size of the committee is at least 3 (three) members and it should be chaired by an independent commissioner. The other 2 members are from outside the company. The Audit Committee is appointed and dismissed by the Board of Commissioners, and is responsible to the Board of Commissioners. At least one member should have an educational background and expertise in accounting and finance.

Responsibilities of the audit committee include assisting the Board of Commissioners in ensuring the effectiveness of the internal control system and the effectiveness of the external and internal auditors' duties; assessing the quality of audits carried out by both internal and external auditors; providing recommendations on the improvement of the management control system; and ensuring that there is a satisfactory review procedure for all information issued by the Company. Further, the appointment of an auditor by the Board of Commissioner should consider the viewpoint of the audit committee. The audit committee is required to report on its activities as part of the annual report of a listed company.

Audits of annual financial statements of listed companies are required in Indonesia. A similar requirement applies to companies that collect or manage public funds, issue debt-acknowledgments to the public, public companies, state-owned enterprises, and companies with assets exceeding RP 50 billion. The auditors of state-owned enterprises are required by law not only to perform financial statement audits but also compliance audits.

It is the responsibility of the professional organization, the Institute of Certified Public Accountants (IAPI), to set auditing standards in Indonesia. In 2012, IAPI adopted ISAs (2010) as auditing standards in Indonesia effective for financial statements beginning on January 1, 2013, for entities that trade on the Indonesian stock exchange. ISAs are translated into Bahasa Indonesia. The auditing standards applicable until the year 2021 have still been based on ISAs (2010). Consequently, the applicable standard on the communication of auditors with TCWG for the financial statement audit of 2020 still uses the ISAs (2010) version. The World Bank in its ROSC (2020) has raised its concern over the non-adoption of the latest ISA. One of the significant impacts is that auditors are not required to report on key audit matters when auditing listed entities. In 2021, the Auditing Standards Board of IAPI has issued auditing standards adopted from ISAs (2018) which will be effective in the audit of financial statements beginning on January 1, 2022.

The independence of auditors is maintained through several regulations. First, POJK regulation No. 13/POJK.03/2017 stipulates a 3-year rotation period for individual audit partners. This 3-year rotation requirement is more stringent than international practice and, while it may provide a fresh perspective for the auditee, the audit team may not obtain sufficient knowledge and expertise about the entity as well as the industry within this period. A two-year cooling-off period is required for audit partners and engagement quality review partners before they can re-audit the previous client. There is no requirement for audit firm rotation.

Second, auditors cannot provide non-assurance services and assurance services simultaneously to the same listed entity during the same period. Public Accountant Law No. 5 of 2011 prohibits auditors to provide accounting, financial, and management advisory services to their listed audit clients. Third, the audit committee gives recommendations on auditor appointments taking into consideration independence, experience, audit fees, past performance, and auditor rotation requirements. The responsibility for auditors' appointment falls upon the annual general meeting of shareholders. The auditor appointment can be delegated to the board of commissioners however, the annual shareholders meeting should provide an explanation of the reason for such delegation. Resignation/termination or change of an auditor for publicly listed entities is considered a material fact that should be reported to OJK and in the media (newspaper or website) within two working days.

To maintain auditors' competency, Public Accountant Law No. 5 of 2011 57 requires the auditor to follow continuing professional development (CPD) training with certain minimum credits that should be obtained per year. To be able to provide audit services to listed companies, auditors must register with OJK.

METHOD

We contacted the audit committee association network and obtained responses from 72 audit committee members. Auditor communication with the audit committee is essentially a two-way communication benefiting both auditors and the audit committee. However, ISA 260 put the responsibility of this communication upon the auditors. There's a concern that auditors will tend to fill out the questionnaire considering what is expected from the auditors according to ISA 260 rather than describing their actual performance. Therefore, we collect data from audit committee members, instead of auditors, to obtain more objective and unbiased responses.

As shown in Table 1, participants included 72 audit committee members from various industries. More than one-third of the respondents' age was between 31 and 45 years, and they have served the role of the audit committee with an average of more than 3 years. More than 50% of participants indicated that the companies they serve were State-Owned Enterprises (SOEs), were listed on the Indonesian Stock Exchange. More than 50% of the respondents were audited by the Big 4 public accounting firms for the year 2020. The highest education level (19.4%) was a doctoral degree. The majority of the respondents (74.3%) were male.

Table 1. Statistics Descriptive

	Frequencies	Mean or percent
Gender		
Male	52	74.3%
Female	20	26.7%
Age		
31 – 45	25	34.7%
46 – 50	12	16.7%
51 – 60	17	23.6%
Above 60	18	25.0%
Education level		
S1	15	20.8%
S2	43	59.7%
S3	14	19.4%
Years as an audit committee in the current company		
Under 1	7	9.7%
Between 1 – 3	32	44.4%
Between 3 – 5	14	19.4%
Above 5	19	26.4%
Business fields		
Financial services	17	23.6%
Mining	12	16.7%
Construction, property, and real estate	7	9.7%
Agriculture and farming	6	8.3%
Non-financial services	6	8.3%
Manufacture	6	8.3%
Infrastructure, Utilities, & Transportation	5	6.9%
Trading	1	1.4%
Others	12	16.7%
Company Status		
SOEs	42	58.3%
Non-SOEs	30	41.7%
Company Go Public Status		
Listed	39	54.2%
Non-Listed	33	45.8%
Audit Firm Size		
Big 4	38	52.8%
Non-Big 4	34	47.2%

A questionnaire was developed based on a review of the literature on auditor communication with the audit committee and requirements related to auditor communication described in the ISA 260: Communication with Those Charged with Governance. Since the objective of this study is to document how the auditors fulfill their responsibility related to ISA 260 requirements, we divide the structure of the questionnaire into three main parts namely matters that are communicated, forms of communication, and timing of communication.

To increase construct validity, we conducted two rounds of pilot testing. First, three researchers with significant audit committee experience examined the instrument. The revised instrument was then pilot tested with four audit committee members from different entities. The average audit committee experience for pilot study participants was 3.8 years.

Pilot testing provided us with feedback on certain instrument design issues. First, we initially considered asking participants their experience with auditors without specifically requiring certain financial statements period. However, the pilot study participants indicated that it is possible that different regulations apply in different financial reporting periods. In addition, respondents will have stronger memories of the financial reporting period that has just ended, namely the year 2020. Second, Indonesian regulations allow individuals to serve as audit committees in several companies. Respondents can fill out more than one questionnaire only if the audit team of the two entities has different audit partners. Third, ISA 260 explains that the auditor's responsibility regarding financial statements is one of the things that the auditor must communicate to the TCWG. However, the auditor's responsibilities were not included in the questionnaire because an explanation of the auditor's responsibilities has become part of the engagement letter as stipulated in ISA 210.

RESULTS AND DISCUSSION

The role of auditors in the context of an audit of financial statements is to help TCWG carry out its duties to fulfill its oversight responsibilities over the entity's financial reporting process including its internal control effectiveness. Auditors' communication with TCWG is designed to assist TCWG to provide views on financial reporting risks and areas of financial statements that warrant significant audit attention, consider whether sufficient audit resources will be allocated for the audit to be effectively performed and also evaluate the independence of the audit team (IAASB, 2014).

Table 2 shows what matters have been communicated with TCWG in the audit of financial statements for the year 2020. For each matter communicated, we further analyze by auditor category (Big 4/non-Big 4) and entity category (listed/non-listed entity). Big 4 and non-big 4 classifications have long been used by researchers as a representation of audit quality where Big 4 auditors are perceived to provide higher audit quality than non-Big 4 auditors. Publicly listed entities are perceived to have a higher audit risk than non-listed entities considering the larger number of users of financial statements. Furthermore, the litigation risk of listed entities is most likely higher compared to non-listed entities and we expect that auditors adjust their audit responses accordingly.

The majority of auditors have already communicated their audit plans with TCWG, however, there were 3 auditors who failed to discuss their plans with TCWG. At this stage, the auditor discusses the audit and accounting issues that are expected to arise and how the auditor plans to address them (Salleh and Stewart, 2012). Based on this information, the audit committee assesses whether the audit plan reflects an understanding of contextual matters that may have an impact on audit risk. Auditors themselves could gain insights from TCWG that will increase their

Table 2. Matters Communicated with TCWG

Matters communicated	Reference in standard	Number of Entity	Big 4/ Non-Big 4	Listed/ Non-listed Entity
The auditor's independence	260.17	Yes 70 No 2	60%/40% 50%/50%	56%/44% 0%/100%
Audit plan	260.15	Yes 69 No 3	58%/42% 100%/0%	55%/45% 33%/67%
Significant difficulties	260.16 (b)	Yes 66 No 6	59%/41% 67%/33%	59%/41% 17%/83%
Disagreements between auditor and management	260.A22	Yes 69 No 3	62%/38% 0%/100%	57%/43% 0%/100%
Significant weaknesses in the entity's internal control	SA 265.9	Yes 67 No 5	61%/39% 40%/60%	54%/46% 40%/60%
Significant qualitative aspects of the entity's accounting practice	260.A19	Yes 62 No 10	59%/41% 67%/33%	57%/43% 33%/67%

understanding of the entity and its environment. Therefore, failure to discuss the audit plan with TCWG will not benefit both auditors and TCWG.

There were three auditors who reported not discussing their audit plan with TCWG. Auditors may view that TCWG lacks the expertise (Brennan and Kirwan, 2015) that auditors do not see the benefits of discussing the audit plan with TCWG. What is surprising is the fact that there is one audit committee that reported that their Big 4 auditor did not communicate their audit plan. There are two possibilities related to this finding. First, this auditor did not follow his/her firm's policy. Second, this finding occurred at a subsidiary company where their auditors explain their plan at the kick-off meeting held for the whole group, and this particular audit committee member did not attend that meeting.

Auditors may encounter several difficulties during the audit engagement including the unavailability of entity personnel or unwillingness by management to provide information, unreasonably brief time within which to complete the audit, or other restrictions imposed by management. Among the 6 audit committee members that did not report any difficulties during the audit engagement, four of them responded that the auditors did not explain whether there were any difficulties arose. This could probably be due to either management having already settled the issues with management or the auditor deciding to modify the opinion due to the scope limitation imposed by management.

Disagreements between the auditor and the audit committee are likely to occur in areas that require considerable judgment. This is the role particularly emphasized for the audit committee to create an environment where disagreement between management and auditor could be resolved. Salleh and Stewart (2012) showed that only very material accounting issues that cannot be resolved between management and the auditor will be raised with the audit committee while fewer material issues are normally resolved without the involvement of the committee. Further, Salleh and Stewart (2012) explained that audit committees use several mediation techniques including controlling agendas, gathering information, advising, and problem-solving in order to facilitate consensus between these two sides.

Table 2 displays that there were three auditors engaged in auditing non-listed entities that did not explain whether there was any disagreement that arose during the audit process. We predict that there was either no disagreement or disagreement has been resolved between auditors and management before their meeting with TCWG. Compernolle and Richard (2019) give evidence that there are often formal and informal discussions between auditors and management before meeting with the audit committee to prepare how to bring the issue to the audit committee and also to exchange ideas for the meeting with the audit committee.

Beattie et al. (2000) show that management letters and internal control are the most frequently discussed issues between auditors and the audit committee. Similarly, Gendron et al. (2004) also provided evidence that the effectiveness of internal control is a matter emphasized during the audit committee meeting. Dobija (2015) even reported that only one respondent analyzed internal control on a regular basis, while most other respondents relied on the judgment of auditors or did not oversee the internal control at all because many respondents considered internal control to be the domain of the management. In this survey, there are three cases where the auditors did not explain whether there are any significant weaknesses in internal control.

The last issue addressed by ISA 260 is significant qualitative aspects of the entity’s accounting practices including significant accounting policies, estimates, or financial statements disclosures. 14% of the respondent reported that the auditor did not explain the significant qualitative aspects of the entity's accounting practices. Ernawati and Aryani (2019) provide evidence that only 39% of the audit committee members among 244 listed companies in Indonesia possess accounting expertise. Knowing this lack of expertise, auditors may be either reluctant to report accounting issues or the audit committee does not understand the issue when being discussed by the auditor. Without accounting expertise, audit committee actions are likely to be ceremonial rather than substantive (Cohen et al. 2010; Beasley et al. 2009).

Table 3 displays the frequency of meetings and who has attended those meetings. There are 16.7% of respondents reported 1 to 2 meetings during one cycle of the audit process. For this proportion, this meeting most likely consists of a kick-off meeting and closing meeting further accentuated the ceremonial role audit committee in Indonesia.

Table 3. Frequency and Attendee of Meeting Between Auditors and TCWG

Frequency of meeting	Percentage	Attendee	Percentage of Attendance
1 -2 times	16.7%	Finance Director	98.6%
3 – 4 times	48.6%	Finance employee below Director Level	98.6%
5 -6 times	11.1%	Other Directors	76%
More than 6 times	23.6%	Head of Internal Audit	96%
		Other Divisions	85%

Table 4. Forms of Communication

1. Did you obtain written meeting materials (softcopy or hardcopy) for the issues discussed in the meeting between the external auditor and the audit committee before the meeting started?	Yes 54 No 18	
2. If you received meeting materials before the meeting started, how many days/hours did you receive written meeting materials (softcopy or hardcopy) for the issues discussed in the meeting between the external auditor and the audit committee before the meeting started?	A few hours before meeting	13
	1 – 2 days	31
	3 – 4 days	4
	Other	5
	No answer	25
3. Matters Communicated:	Meeting	Writing
Auditor independency	76%	24%
Audit plan	86%	14%
Significant weaknesses in internal control	91%	9%
Significant qualitative aspects of entity's accounting practice	92%	8%

Table 5. Timing of Communication

Is there a kick-off meeting before the audit process starts?	Big 4/Non-Big 4	Listed /Non-listed Entity
Yes 65	62%/38%	55%/45%
No 7	43%/57%	43%/57%

Table 4 displays forms of communication frequently used by the auditors. 75% of the participants obtain meeting materials before the meeting started with the largest percentage obtaining those materials within 1-2 days. The availability of meeting materials before the meeting taking place will enable the audit committee to comprehend or gather information relevant to the issue at sufficient time and be ready to provide insights about the matter to the auditors. Compernolle (2018) provides evidence that the auditor needs time to prepare the material for the meeting which entails a meticulous selection of words and messages. Further, coordination often occurs between management and auditors to discuss what issues will be raised in the meetings.

For all matters displayed in Table 2, we also asked respondents indicate whether they receive the information of the matter through a meeting or writing. For all matters, most of the auditors communicate through meetings with the audit committee. This finding is consistent with the survey by Carlisle and Hamilton (2021) where most auditors (71.88 percent) report a preference for face-to-face communication citing that face-to-face communication is associated with more positive and productive client interactions. Specifically, management is more likely to respond in a cooperative manner and agree with an auditor's proposed adjustment when receiving information through face-to-face interaction (Saiewitz and Kida, 2018).

Table 5 shows that there were seven cases where auditors did not have any kick-off meeting before the start of the audit process with more than 50% involving non-Big4 audit firms and non-listed entities. This indicates audit plan was not communicated in a timely manner to the TCWG.

CONCLUSION, IMPLICATION AND LIMITATION

Our study examines the communication between auditors and the audit committee on the audit of financial statements in the year 2020 in the Indonesian setting. We use questionnaires to collect the data from audit committee members from various industries. We find that most of the auditors have discussed the matters that are required by the audit standards including independence of the auditors, audit plan, significant issues/findings, significant weaknesses in the entity's internal control as well as significant qualitative aspects of an entity's accounting practices. We also find that face-to-face communication through a meeting is preferred to written communication most of the time. A face-to-face meeting is considered more effective since individuals participating in the meeting are more likely to be unbiased and agreement is more likely to be achieved among the parties involved in the meeting (Saiewitz and Kida, 2018). Almost half of the respondents reported 3-4 meetings throughout the audit process mostly attended by Finance Director and Head of Internal Audit.

Our study collect data from only 72 audit committee members. Care should, therefore, be taken in interpreting the findings since larger base of samples might convey different conclusions. However, despite these potential shortcomings, the findings of this study enhance the appreciation of the importance of communication between auditors and the audit committee in helping the audit committee fulfilling their roles mainly related to the oversight of entity's financial reporting system. This study also provides insight to the Indonesian regulators regarding the readiness of the Indonesian auditors to implement ISA 701 as adopted in Indonesia since communication with TCWG is the prerequisite that will enable auditors to report KAM.

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