

## ABSTRACT

In January 2015, IASSB introduced its new auditing standards, Key Audit Matter (KAM). KAM is part of the new auditor report, which is the Extended Audit Report (EAR). KAM aims to provide transparency and increase the quality of audit report. Indonesia's government will immediately implement ISA 701 soon; therefore, accounting firms must prepare their organization. This study investigates one of the small and local accounting firms (S&L) in Indonesia. This study aims to examine the readiness of Ruslim & Ruslim (R&R) in implementing the new auditing standard of ISA 701. Specifically, it investigates their readiness of organizational context and individual level in preparing their firm to implement ISA 701. In the context, ISA 701 auditor's professional judgment on areas that are high risk of material misstatement in the financial statement on the current period. To analyze the readiness of the organization, this research uses a theoretical framework from Brennan et al. (2012), which analyzes the quality of a new system by using prominent approaches.

This research is using the qualitative method. The data are gathered through interviews with semi-structured questions. The respondents are from managing partner until junior auditor with different experience in auditing. The interview questions are developed from the theoretical framework of readiness to change to provide logical thinking and establish a sense of structure that guides to draw results and conclusions.

After conducting the analysis, this research concludes based on the research questions, which are readiness at an organizational context and individual levels. The organizational context showed that R&R had not prepared their firm for this new regulation since they recently knew this regulation. However, taking into account other indicators, they are ready to implement ISA 701. At the individual level, it shows that most individuals are ready to implement ISA 701. This can be seen from the assessment of each indicator.

**Keywords:** ISA 701, KAM, Key Audit Matter, readiness to change, quality of audit report