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Research Article

Differentiation of Audit Quality Between Big 4 and Non-Big 4 Auditors

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Abstract: This study aims to analyze the differences in audit quality between Big 4 and Non-Big 4 auditors in Indonesia, focusing on property and real estate companies listed on the Indonesia Stock Exchange during the 2021–2023 period. The research sample was selected using a purposive sampling method based on certain criteria, such as the availability of audited financial statements and the consistency of auditor use. The total sample consisted of 100 companies, 50 audited by Big 4 auditors and 50 by Non-Big 4 auditors. Over a three-year period, 300 financial statements were collected as observation units. To examine the differences in audit quality between the two groups of auditors, a t-test method was used on three main indicators: audit opinion, audit report lag, and discretionary accruals. The results show that Big 4 auditors tend to provide firmer audit opinions and complete audits more efficiently. However, no consistent differences were found between Big 4 and Non-Big 4 auditors in suppressing earnings management practices. These findings indicate that audit quality is influenced not only by auditor size, but also by institutional factors, independence, and the effectiveness of regulatory oversight. This research provides empirical contributions for regulators, investors, and management in considering auditor selection, as well as expanding the literature on auditing in the property and real estate sector in developing countries.

Keywords: Audit Quality; Audit Opinion; Audit Report Lag; Big 4; Discretionary Accruals

1. Introduction

Auditing plays a crucial role in maintaining the credibility of financial statements used by investors, regulators, and other stakeholders. High-quality audits not only enhance public trust in financial reporting but also contribute to the stability of capital markets. Public Accounting Firms (PAFs) that are part of the international Big 4 network Deloitte, Ernst & Young, KPMG, and PricewaterhouseCoopers are often associated with more reliable audits due to their greater resources, higher professional standards, and more advanced audit technologies compared to Non-Big 4 firms (Francis & Yu, 2009). However, previous studies have reported inconsistent results. Some studies found that Big 4 auditors provide higher audit quality (DeAngelo, 1981; Choi et al., 2010), while others reported no significant difference between Big 4 and Non-Big 4 auditors (Pratiwi, 2010; Pardede, 2010). This inconsistency highlights a research gap that remains highly relevant, particularly in the context of emerging markets such as Indonesia.

In Indonesia, prior studies on audit quality have mainly focused on firm size or corporate governance variables, without explicitly comparing differences in audit quality between Big 4 and Non-Big 4 auditors using comprehensive indicators such as audit opinion, audit report lag, and discretionary accruals (Nindita & Siregar, 2012). Yet, differentiating audit quality between these two groups is crucial because it may influence investor confidence and the effectiveness of market oversight. Moreover, the property and real estate sector, as one of the dominant industries listed on the Indonesia Stock Exchange, provides an interesting context due to its high transaction complexity and significant financial risks.

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Based on this background, the present study aims to analyze the differences in audit quality between Big 4 and Non-Big 4 auditors in the property and real estate sector during the 2021–2024 period. This research is significant because it contributes to the auditing literature by providing updated empirical evidence on audit quality in emerging markets and by testing the consistency of prior findings. Practically, the results of this study are relevant for regulators, investors, and corporate management in making decisions related to the selection of external auditors capable of delivering credible, efficient, and independent audits. Therefore, this research is expected to bridge the existing research gap and provide practical implications for audit practices in Indonesia.

2. Literature Review

Agency Theory

Agency theory explains the relationship between principals (shareholders) and agents (managers) who may have divergent interests. Information asymmetry between these two parties often leads to agency conflicts, such as earnings management or opportunistic behavior by management. In this context, auditors act as independent third parties who reduce information asymmetry by providing assurance that financial statements present a fair view of a company's performance (Jensen & Meckling, 1976). High-quality auditors are therefore expected to reduce agency conflicts by enhancing the credibility of financial reports.

Audit Quality

Audit quality is generally defined as the probability that an auditor will both detect and report material misstatements in financial statements (DeAngelo, 1981). Audit quality depends on two primary dimensions: auditor competence in identifying misstatements and auditor independence in reporting them. Prior research has used various proxies to measure audit quality, including audit opinion, audit report lag, and discretionary accruals (Francis, 2004). Audit opinions reflect the auditor's professional judgment on a company's financial statements; audit report lag represents the efficiency of the audit process; and discretionary accruals indicate the extent to which auditors can constrain earnings management.

Big 4 and Non-Big 4

The classification of audit firms into Big 4 and Non-Big 4 has long been used as a proxy for audit quality. The reputation hypothesis argues that large audit firms such as the Big 4 have stronger incentives to maintain audit quality because they face greater reputational and litigation risks if they fail to perform adequately (DeAngelo, 1981). Big 4 auditors are generally considered to have more resources, advanced technology, standardized quality control systems, and global reach compared to Non-Big 4 firms (Francis & Yu, 2009). Empirical studies have shown that Big 4 auditors are often more effective in constraining earnings management and providing credible audit opinions (Choi et al., 2010). However, evidence from emerging markets such as Indonesia has been mixed, with some studies reporting no significant differences between Big 4 and Non-Big 4 auditors (Pratiwi, 2010; Pardede, 2010).

Based on the literature, this study develops hypotheses to test the differentiation of audit quality between Big 4 and Non-Big 4 auditors in the property and real estate sector.

a. H1: Auditor type has a significant effect on audit opinion. Big 4 auditors are more likely to issue stricter and more objective opinions compared to Non-Big 4 auditors.
b. H2: Auditor type has a significant effect on audit report lag. Big 4 auditors are expected to complete audits more efficiently due to greater resources and expertise.
c. H3: Auditor type has a significant effect on discretionary accruals. Companies audited by Big 4 firms are expected to exhibit lower levels of discretionary accruals, indicating better monitoring of earnings management.

This framework assumes that Big 4 auditors deliver higher audit quality than non-Big 4 auditors, supported by evidence that larger public accounting firms generally enhance audit quality through better resources and expertise (Nugraha, 2024; Yolandita & Cahyonowati, 2022; Nuryani, Harnovinsah, & Djaddang, 2025; Hardiansyah & Sari, 2025; Putri Majid & Yanthi, 2023; Fauzi, 2024; Harla, Baharudin, Rahman, & Hidayat, 2024; Anonymous, 2024).

3. Research Method

Research Design

This study adopts a quantitative comparative research design to investigate whether there are significant differences in audit quality between companies audited by Big 4 and Non-Big 4 audit firms. The comparative approach is appropriate because the objective of this study is not only to measure the level of audit quality but also to determine whether the auditor type is associated with differences in audit outcomes. The analysis focuses on companies in the property and real estate sector listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period.

Population and Sample

The population of this study comprises all property and real estate companies listed on the IDX within the 2021–2024 period. The sample selection follows a purposive sampling method, which means that companies are selected based on predetermined criteria that ensure data consistency and relevance. The sampling criteria are as follows:

a. The company consistently published annual financial statements audited by an independent auditor during the 2021–2023 period.
b. The company was audited by either a Big 4 or a Non-Big 4 public accounting firm.
c. The company's financial statements contained sufficient information to calculate audit report lag and discretionary accruals.

Based on these criteria, the final research sample consists of 100 companies, of which 50 are audited by Big 4 auditors and 50 are audited by Non-Big 4 auditors. Because the study covers three fiscal years (2021, 2022, and 2023 reports, audited in 2022–2023), the total dataset comprises 300 firm-year observations. This sample size is considered sufficient to ensure statistical validity for comparative testing.

Data Source

This study relies entirely on secondary data. The primary sources of data are the audited annual reports and financial statements of the sampled companies, which are publicly available on the Indonesia Stock Exchange's official website (www.idx.co.id) as well as on the respective companies' websites. Auditor type (Big 4 or Non-Big 4) is determined from the auditor's signature and the public accounting firm's name disclosed in the independent auditor's report.

Variables and Measurement

Audit quality in this study is measured using three main indicators widely used in auditing literature:

a. The type of audit opinion issued by the auditor is classified into four categories: unqualified, qualified, adverse, and disclaimer. The distribution of opinions provides insight into the auditor's objectivity and professional judgment.
b. ARL is measured as the number of calendar days between the company's fiscal year-end (December 31) and the date on which the independent auditor's report is signed. A shorter ARL indicates greater efficiency in the audit process, while a longer ARL may signal audit complexity or delays.
c. DA is used as a proxy for earnings management. It is estimated using the Modified Jones Model (1995), which decomposes total accruals into discretionary and non-discretionary components. A lower level of DA suggests stronger monitoring by the auditor and, therefore, higher audit quality.

4. Results and Discussion

This study examines the differentiation of audit quality between Big 4 and Non-Big 4 auditors using three indicators: Audit Report Lag (ARL), Audit Opinion, and Discretionary Accruals (DA). Theoretically, Big 4 auditors are expected to deliver higher audit quality, reflected in shorter ARL (greater efficiency), more objective audit opinions, and lower DA as a sign of better monitoring of earnings management. However, the empirical findings reveal otherwise.

Audit Report Lag

ARL is measured as the number of days between the fiscal year-end (December 31) and the date of the independent auditor's report. In theory, Big 4 auditors should complete audits faster due to greater resources, more efficient audit procedures, and global experience.

Test Statistics[a]

	ARL
Mann-Whitney U	2101.000
Wilcoxon W	2566.000
Z	-.408
Asymp. Sig. (2-tailed)	.683

a. Grouping Variable: Auditor_Type

Figure 1. Audit Report Lag

Nevertheless, the Mann-Whitney U-Test produced a p-value of 0.683 (> 0.05), indicating no significant difference in ARL between Big 4 and Non-Big 4 auditors. This finding suggests that audit efficiency is not solely determined by auditor size, but may also be influenced by the inherent complexity of property and real estate companies, which often leads to similar audit durations across both groups of auditors.

Audit Opinion

Audit opinions were coded as 1 = Unqualified Opinion and 0 = Other Opinions. Logically, Big 4 auditors, with their international reputation, are expected to be more stringent and objective, and therefore more likely to issue modified opinions when irregularities are detected.

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	1.935[a]	1	.164		
Continuity Correction[b]	.874	1	.350		
Likelihood Ratio	3.440	1	.064		
Fisher's Exact Test				.360	.180
Linear-by-Linear Association	1.924	1	.165		
N of Valid Cases	177				

a. 1 cells (25.0%) have expected count less than 5. The minimum expected count is 1.53.

b. Computed only for a 2x2 table

Figure 2. Audit Opinion

However, the Chi Square test yielded a p-value of 0.164 (> 0.05), meaning there is no significant association between auditor type and audit opinion. Both Big 4 and Non-Big 4 auditors tend to issue similar audit opinions, with the majority being unqualified opinions. This finding suggests that the application of auditing standards in Indonesia creates consistency in opinion issuance, reducing the influence of auditor reputation on the outcome.

Discretionary Accruals (DA)

DA is calculated based on accounting data (Net Income, CFO, Revenue, Receivables, and Total Assets), where higher DA reflects greater earnings management and therefore lower audit quality. Theoretically, Big 4 auditors are expected to constrain earnings management more effectively, resulting in lower DA among their clients.

Test Statistics[a]

	DA
Mann-Whitney U	1817.000
Wilcoxon W	2282.000
Z	-1.517
Asymp. Sig. (2-tailed)	.129

a. Grouping Variable: Auditor_Type

Figure 3. Discretionary Accruals (DA)

Yet, the Mann-Whitney U-Test produced a p-value of 0.129 (> 0.05), showing no significant difference in DA between firms audited by Big 4 and Non-Big 4 auditors. This implies that the extent of earnings management is not significantly affected by auditor size, but rather by company-specific factors such as corporate governance practices, management incentives, and regulatory oversight.

5. Conclusion

Overall, the results indicate that no significant differentiation in audit quality exists between Big 4 and Non-Big 4 auditors in Indonesia's property and real estate sector, as reflected in ARL, audit opinion, and DA. These findings are consistent with Pratiwi (2010) and Pardede (2010), who also reported no significant differences, but contrast with DeAngelo (1981) and Choi et al. (2010), who argued that Big 4 auditors deliver superior audit quality.

The findings imply that in the Indonesian context, particularly in the property and real estate sector, audit quality is shaped not only by auditor reputation but also by institutional environments, the effectiveness of OJK and IDX regulatory enforcement, and the internal governance mechanisms of the companies themselves.

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