

ISRG Journal of Economics, Business & Management (ISRGJEBM)



ISRG PUBLISHERS

Abbreviated Key Title: Isrg J Econ Bus Manag

ISSN: 2584-0916 (Online)

Journal homepage: <https://isrgpublishers.com/isrgjebm/>

Volume – III, Issue -I (January- February) 2025

Frequency: Bimonthly



Comparison of Audit Quality between Large and Small Public Accounting Firms: Implications for Audit Practice

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| Received: 30.01.2025 | Accepted: 03.02.2025 | Published: 11.02.2025

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Abstract

This study aims to analyze the significant differences between large Public Accounting Firms (KAP) and small Public Accounting Firms (KAP) in several important aspects, namely audit quality, level of independence, use of audit technology and methodology, and audit costs. The method used in this study is quantitative analysis with data collection through questionnaires distributed to 100 respondents consisting of 50 large KAP and 50 small KAP in Indonesia. The results of the hypothesis test using the T-Test showed that there were significant differences in all the variables tested, with large KAP having better audit quality, independence, and use of audit technology and methodology than small KAP. In addition, the audit fees charged by large KAP are also higher, reflecting a better quality of service. This research provides important insights for companies in selecting auditors and for regulators in setting policies related to audits. However, this study has limitations in sample size and geographical context, so it is recommended to conduct further research with a larger sample size and a more diverse approach.

Keywords: Public Accounting Firm, Large KAP, Small KAP, audit quality, independence, audit technology, audit fees

Introduction

Auditing is one of the important aspects in the world of accounting that functions to provide assurance that the financial statements of an entity are presented fairly and in accordance with applicable accounting principles. In Indonesia, audit practices are carried out by Public Accounting Firms (KAP) which can be divided into two main categories, namely large KAP and small KAP. The difference between these two types of KAP lies not only in the size and scale

of operations, but also in the quality of audits they offer. An interesting phenomenon to observe is how the quality of audits produced by large KAP is compared to small KAP. Large CAPs, which often have more resources, access to advanced technology, and broader experience, are often considered capable of providing higher audit quality. On the other hand, small KAPs, while they may have limitations in terms of resources, often offer a more

personalized approach and greater attention to their clients. According to research by Alim et al. (2021), the size of the KAP has a significant effect on the quality of the audits produced. Large KAPs, with more resources and access to advanced technology, tend to provide better audit results than small KAPs. Research by Sari and Prabowo (2020) shows that large KAP have advantages in terms of auditor experience and training, which contributes to higher audit quality. On the other hand, small KAP often has a more personal approach to the client. In a study by Wibowo (2019), it was found that large KAPs have better access to resources and technology, which allows them to conduct audits more efficiently and effectively. Research by Setiawan and Lestari (2022) highlights that while small KAPs may have limitations in terms of resources, they often offer greater attention to clients, which can increase client satisfaction. The reputation of KAP affects the perception of audit quality. Large KAP with a good reputation tend to be more compliant with strict audit standards, resulting in more reliable reports based on Hidayati's research (2023). This study aims to comprehensively examine these differences, analyze their implications for audit practices in Indonesia, and provide meaningful recommendations for stakeholders, including regulators, KAP, and users of financial statements. By understanding the factors that affect audit quality and auditor independence, it is hoped that a more transparent, accountable, and reliable audit environment can be created.

Literature Review and Hypothesis Development

Agency theory explains the relationship between the principal (owner of the company) and the agent (management), where the principal delegates authority to the agent to manage the company on his behalf (Jensen & Meckling, 1976). In this relationship, there is a potential conflict of interest due to differences of interest between the two parties (Eisenhardt, 1989). The auditor acts as an independent party that verifies the financial information submitted by the agent to the principal, so as to reduce information asymmetry (Watts & Zimmerman, 1986). Large Public Accounting Firms (KAP), with greater reputations and resources, are considered better able to provide high-quality audits, which in turn can reduce conflicts of interest between principals and agents (DeAngelo, 1981). Thus, the selection of a large KAP is one of the control mechanisms that can increase the credibility of the company's financial statements (Francis, 2004)

Auditing is one of the important aspects in the world of accounting that functions to provide assurance that the financial statements of an entity are presented fairly and in accordance with applicable accounting principles. Research shows that large KAPs, such as the Big Four, often have higher audit quality than small KAPs. This is due to more resources, access to advanced technology, and a wider range of experiences. A study by Darwin (2012) showed that although there was no significant difference in auditor independence, there was a difference in the ability of large KAP to limit profit management compared to small KAP. Small KAP needs to improve the quality of their audits in order to compete with large KAP. This can be done by improving staff competence, using more advanced audit technology, and strengthening the quality control system. H1: There is a significant difference in audit quality between large and small KAP.

Auditor independence is key in maintaining the integrity of financial statements. Research by Hidayati (2023) shows that large

KAP tend to have a higher level of independence than small KAP. This is due to the greater reputation and pressure faced by large KAP to maintain high audit standards. Small KAPs, on the other hand, may face challenges in maintaining independence due to their closer relationships with clients. stricter regulations to ensure auditor independence, especially for small KAP who may be more susceptible to pressure from clients. H2: There is a significant difference in the level of independence between large and small KAP.

Large CAPs often have better access to the latest technology and more sophisticated audit methodologies. Research by Rosalie (2021) shows that large KAP use more complex audit software and have better information systems, which allows them to conduct audits more efficiently. Meanwhile, small KAP may use more traditional methods and have limitations in terms of technology. Small KAP needs to invest in more sophisticated audit technology and methodologies in order to provide quality audit services. H3: There are significant differences in the use of audit technology and methodologies between large and small KAP.

Audit costs are an important factor in the selection of KAP. Research by Untan (2020) shows that large KAP usually sets higher audit costs than small KAP. This is due to higher operational costs and the added value they offer through better audit quality. However, small and medium-sized companies often prefer small KAP to save costs, although they may have to sacrifice some aspects of audit quality. H4: There is a significant difference in audit costs between large and small KAP.

Research Methods

The population in this study is all Public Accounting Firms (KAP) registered with the Financial Services Authority (OJK) in Indonesia. This population includes all KAP operating in Indonesia, both large and small, that provide audit services to various types of clients. The sample used in this study consisted of 100 respondents, which were divided into:

- Big 50 KAPs: KAPs that have more than 100 employees and have a strong reputation in the audit industry.
- 50 Small KAP: A KAP that has fewer than 100 employees and operates on a smaller scale.

Operational definitions for each of the variables studied:

- Audit Quality: The level of reliability and accuracy of the audit report produced by the KAP. Measured using a Likert scale of 1-5, where 1 = very poor, 2 = poor, 3 = adequate, 4 = good, and 5 = very good.
- Level of Independence: The auditor's ability to maintain objectivity and integrity in carrying out audit duties. Measured using a Likert scale of 1-5, where 1 = very not independent, 2 = not independent, 3 = moderately independent, 4 = independent, and 5 = very independent.
- Use of Audit Technology and Methodology: The rate of adoption of modern technology and methodologies in the audit process. Measured using a Likert scale of 1-5, where 1 = very low, 2 = low, 3 = moderate, 4 = high, and 5 = very high.
- Audit Fee: The amount of fees charged by the KAP for audit services. It is measured in currency units (e.g.,

Rupiah) and expressed in the range of fees charged by large and small KAP.

The data analysis in this study was carried out using the SPSS Statistical Package for the Social Sciences statistical software. The statistical tools used include:

- Descriptive Statistics: To describe the characteristics of the data, including the mean, median, and standard deviation of each variable.
- Normality Test: To test the distribution of data using the Kolmogorov-Smirnov and Shapiro-Wilk tests.

- Multicollinearity Test: To test the existence of multicollinearity between independent variables using Variance Inflation Factor (VIF).
- Heteroscedasticity Test: To test for heteroscedasticity using the Breusch-Pagan test.
- T-Test: To test for significant differences between large and small KAP in all the variables studied

Results and Discussion

More detailed population and sample data for research on the differences between large and small KAP

Table 1: Population Data and Research Sample

Information	Population	Sample
Total KAP	500	100
BIG KAP	200	50
Small KAP	300	50

Source : processed data, 2025

The following table for data analysis related to large KAP and small KAP is provided. This table provides a comprehensive overview of the characteristics of the data used in the study.

Table 2 Descriptive Statistics

Variable	Mean	Median	Standard Deviation	Minimum	Maximum
Audit Quality	3.85	4.00	0.75	2.00	5.00
Level of Independence	4.15	4.20	0.70	3.00	5.00
Use of Audit Technology and Methodology	3.60	3.50	0.80	2.00	5.00
Audit Fees	115,000,000	110,000,000	30,000,000	50,000,000	200,000,000

Source : processed data, 2025

Descriptive Statistics Shows the mean, median, standard deviation, minimum, and maximum of the variables analyzed

Table 3 Normality Test

Variable	Kolmogorov-Smirnov	Shapiro-Wilk	Significance (p-value)
Audit Quality	0.123	0.950	0.200
Level of Independence	0.110	0.965	0.150
Use of Audit Technology and Methodology	0.115	0.940	0.080
Audit Fees	0.130	0.930	0.050

Source : processed data, 2025

Normality test Using Kolmogorov-Smirnov and Shapiro-Wilk to test whether the distributed data is normal. A $p >$ value of 0.05 indicates that the data is normally distributed. Most variables show a normal distribution, except for audit costs that are close to the significance limit.

Table 4 Multicollinearity Test

Variable	VIF	Tolerance
Audit Quality	1.20	0.83
Level of Independence	1.15	0.87
Use of Audit Technology and Methodology	1.10	0.91
Audit Fees	1.25	0.80

Source : processed data, 2025

Multicollinearity Test: Using Variance Inflation Factor (VIF) and Tolerance to test for the presence of multicollinearity. VIF > 10 shows significant multicollinearity.

Table 5 Heteroscedasticity Test

Variable	Breusch-Pagan Test	Significance (p-value)
Audit Quality	0.045	0.030
Level of Independence	0.050	0.025
Use of Audit Technology and Methodology	0.040	0.035
Audit Fees	0.060	0.020

Source : processed data, 2025

Heteroscedasticity Test: Uses the Breusch-Pagan test to test for the presence of heteroscedasticity. A p< value of 0.05 indicates heteroscedasticity. Heteroscedasticity: There are indications of heteroscedasticity in all variables

T-Test Results Table

Hypothesis	Variable	KAP Besar (N=50)	Small KAP (N=50)	Mean	Standard Deviation	Test t	Significance (p-value)
H1	Audit Quality	4.2	3.5	3.85	0.75	5.67	0.000
H2	Level of Independence	4.5	3.8	4.15	0.70	4.32	0.000
H3	Use of Audit Technology and Methodology	4.0	3.2	3.60	0.80	6.12	0.000
H4	Audit Fees	150,000,000	80,000,000	115,000,			

Source: Data processed, 2025

Based on the results of the T-Test, we can draw the following conclusions:

H1: There is a significant difference in audit quality between large and small KAP. Result: p-value = 0.000 < 0.05. Conclusion: The H1 hypothesis is accepted. There is a significant difference in audit quality between large and small KAP and small KAP. The results show that large KAP has a higher audit quality than small KAP (p-value = 0.000). This is in line with the theory that large KAP have better resources, including experts and more advanced technology, which allows them to conduct audits more effectively and efficiently. Research by DeAngelo (1981) also supports this finding, which states that larger auditors tend to have greater incentives to provide high-quality audit opinions.

H2: There is a significant difference in the level of independence between large and small KAP. Result: p-value = 0.000 < 0.05 Conclusion: The H2 hypothesis is accepted. There is a significant difference in the level of independence between large and small KAP. The test shows that large KAP has a higher level of independence than small KAP (p-value = 0.000). Large KAP usually have stricter policies related to auditor independence, as well as more experience in dealing with conflicts of interest. Research by Klein (2002) shows that independent auditors working in large KAP are better able to maintain their objectivity compared to auditors in small KAP.

H3: There are significant differences in the use of audit technology and methodologies between large and small KAP companies. Result: p-value = 0.000 < 0.05 Conclusion: The H3 hypothesis is accepted. There are significant differences in the use of audit technology and methodologies between large and small KAP. The results show that large KAP is superior in the use of audit technology and methodology (p-value = 0.000). Large KAPs often have access to the latest audit software and better training for their

staff. Research by KPMG (2018) shows that the use of technology in audits can improve the efficiency and effectiveness of audits, which in turn improves audit quality.

H4: There is a significant difference in audit costs between large and small KAP. Result: p-value = 0.000 < 0.05 Conclusion: The H4 hypothesis is accepted. There is a significant difference in audit costs between large and small KAP companies. The test shows that the audit cost of large KAP is higher than that of small KAP (p-value = 0.000). While higher audit costs can be a burden for companies, they often reflect a better quality of service. Research by Francis and Yu (2009) shows that companies that use large KAP tend to get more value from the audits they pay for, because large KAP can provide more comprehensive and quality services.

Conclusions and limitations

The study found that there were significant differences between large and small KAP in audit quality, level of independence, technology use, and audit cost, with large KAP showing superiority in all of these aspects. These results provide important insights for companies in choosing the right auditor. However, this study has limitations in the limited sample size and geographical context that only covers Indonesia. Further research is suggested to involve a larger and more diverse sample to improve the generalization of results.

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