

The Effect of Firm Size and Public Accounting Firm Size on Audit Quality with Audit Fee as a Moderating Variable (Survey on Property and Real Estate Companies Listed on IDX in 2022–2024)

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Abstract

This study examines how company size and the size of the Public Accounting Firm (KAP) affect audit quality; the moderating variable is audit fees. The high complexity of reporting in the property and real estate industry, along with issues related to financial statement manipulation and delays, underpins this research. This study employs a quantitative method using Moderated Regression Analysis (MRA) on property and real estate companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. The results show that audit firm size does not affect audit quality, but firm size does. Furthermore, there is no evidence that audit fees moderate the relationship between audit quality and firm or firm size. This study is expected to improve the quality of business governance and the effectiveness of external audits in the property and real estate industry.

Keywords: Firm Size, Public Accounting Firm Size, Audit Quality, Audit Fee, Moderation

INTRODUCTION

The globalization era has accelerated the growth of businesses significantly. As organizations, companies are responsible for all economic events related to financial transactions and must present them in financial statements. Financial reports are considered high quality if the information is understandable, meets the decision-making needs of users, is reliable compared to previous periods, and is free from



misrepresentation and manifest errors. Financial statements should provide adequate assurance to stakeholders, such as investors, creditors, capital market authorities, and other parties involved in decision-making. Therefore, financial statements must be audited by independent public accountants. The purpose of an audit is to examine whether financial statements reflect the company's true condition. Audit results provide an opinion on the fairness of the presentation of financial statements (Charmila, 2022).

Audit quality has a significant influence on financial statement reliability. Audit is a systematic process of obtaining and evaluating evidence objectively, with the goal of determining the degree of conformity between reported statements and established criteria (Rizky Khoirunisa et al., 2019). In Indonesia, the regulation for employing public accountants and PAFs in financial service activities is stipulated in POJK No. 13/POJK 03/2017. This regulation ensures that audits are carried out independently, minimizing material misstatements whether intentional or unintentional. Audit quality is defined as the extent to which an auditor's examination is conducted in accordance with professional standards (SPAP). High-quality audits provide reliable opinions on whether financial statements are fairly presented, thus reducing potential errors in investment and business decisions (Oktaviani & Achmad, 2022).

In 2020, Indonesia experienced the impact of the COVID-19 pandemic, leading the Indonesia Stock Exchange (IDX) to extend the deadline for 2019 annual financial reports from April 30 to June 30. Despite this regulation, many companies failed to meet the deadlines (Kristin et al., 2024). For example, during 2022–2024, IDX recorded a considerable number of property and real estate firms that submitted late reports. This phenomenon underscores the importance of timely financial reporting to maintain investor confidence. Cases involving audit quality issues in Indonesia include PT Waskita Karya (Persero) Tbk, audited by Crowe Indonesia in 2021–2022, which despite receiving unqualified opinions, was later found by the government to contain unreliable information (Putra, 2023; Forddanta, 2023). Similarly, PT Adhi Persada Realti's land procurement scandal also raised concerns regarding audit independence and quality (Susanto & Tendi, 2022).

Audit quality is also a global concern, as evidenced by scandals such as Enron and WorldCom, which led to the introduction of the Sarbanes–Oxley Act in 2002 in the United States. Indonesia responded with several regulations, including MoF Regulation No. 432/KMK.06/2002 and MoF Regulation No. 17/PMK.01/2008, emphasizing auditor independence and restrictions on audit tenure (Harymawan, 2019). Audit quality is influenced by both internal and external factors, among which **firm size** and **PAF size** are

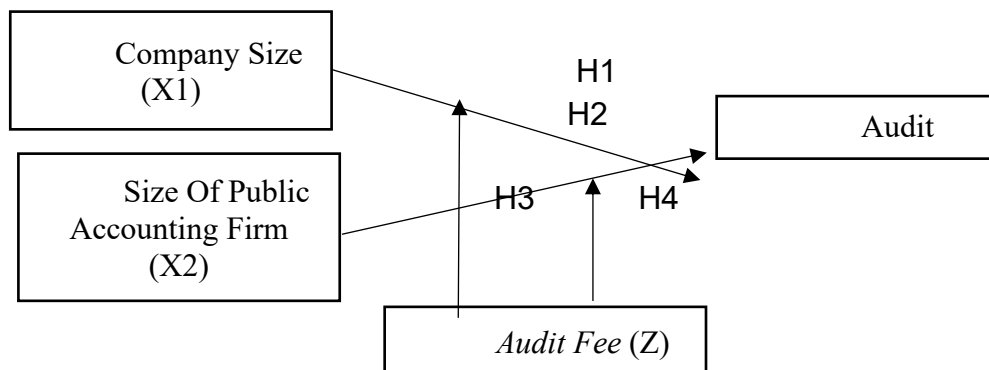


considered critical. Larger firms tend to have better internal controls, which facilitate higher audit quality (Manik & Laksito, 2019). Similarly, larger PAFs, particularly the Big Four, are perceived as more capable of delivering reliable audit services due to their resources, expertise, and independence (Paputungan & Kaluge, 2018).

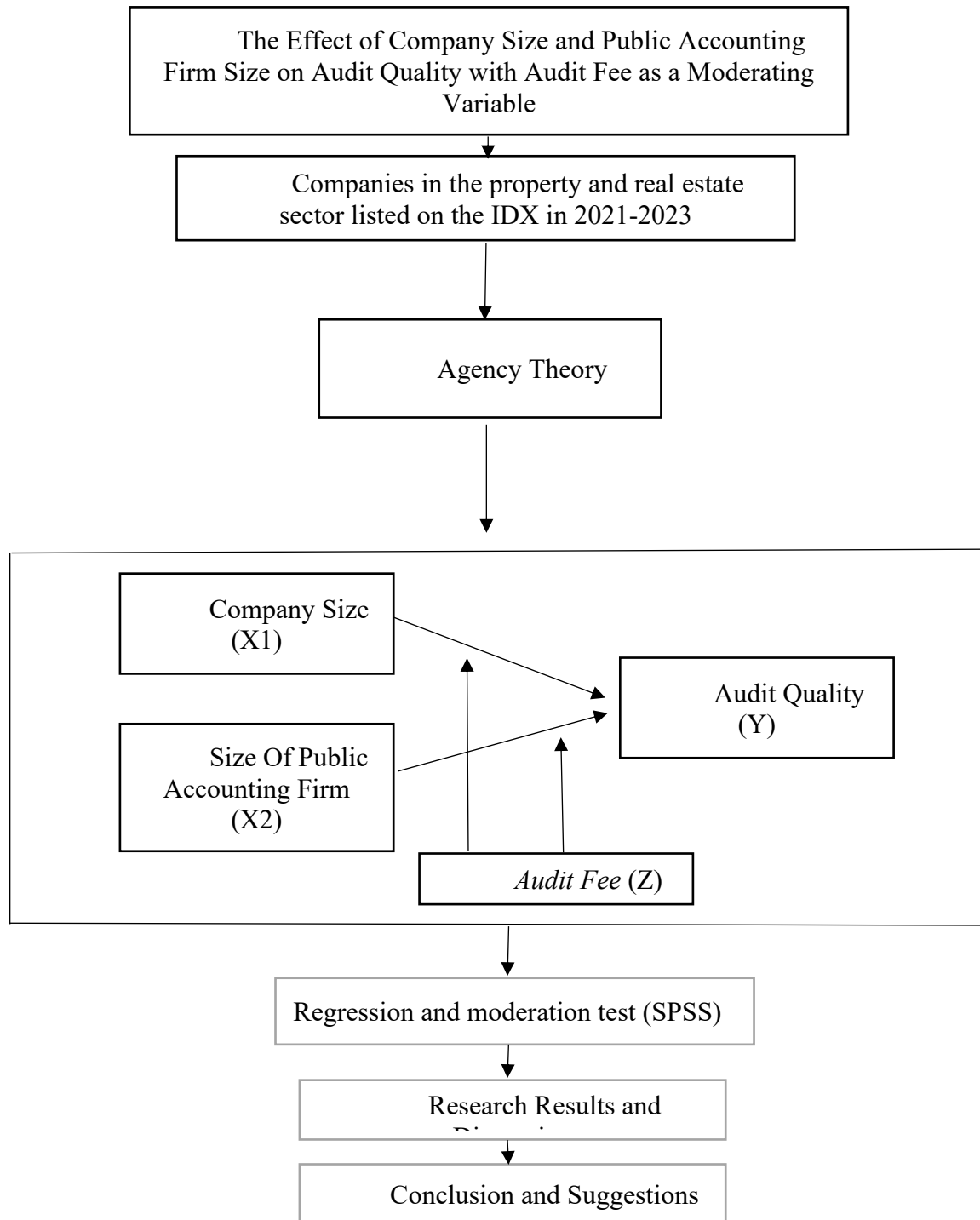
Additionally, **audit fee** is considered a factor that may strengthen or weaken the relationship between firm/PAF size and audit quality. Some studies argue that higher fees reflect higher audit effort, while others contend that audit fees do not necessarily guarantee quality (Hidayat, 2018; Rahayu, 2016). Based on these considerations, this study formulates the following research questions:

1. Do firm size and PAF size influence audit quality among property and real estate firms listed on IDX in 2022–2024?
2. Does firm size significantly influence audit quality?
3. Does PAF size significantly influence audit quality?
4. Does audit fee moderate the relationship between firm size and audit quality?
5. Does audit fee moderate the relationship between PAF size and audit quality?

FRAMEWORK OF THOUGHT & RESEARCH HYPOTHESIS



Source: Processed data, 2024



Hypothesis:

H1: Firm Size and Accounting Firm Size Influence Audit Quality.

H2: Firm Size Influences Audit Quality.

H3: Public Accounting Firm Size Influences Audit Quality

H4: Audit Fee Moderates the Relationship Between Firm Size and Audit Quality.

H5: Audit Fee Moderates the Relationship Between Accounting Firm Size and Audit Quality.

RESEARCH METHODOLOGY

This research used a causal-comparative quantitative design. Property and real estate companies listed on the Indonesia Stock Exchange (IDX) between 2022 and 2024 were the subjects. The sample was selected using purposive sampling based on criteria such as: (1) firms consistently listed during the study period, (2) availability of complete financial reports, and (3) disclosure of audit fees. A total of 70 firm-year observations were included.

1) Variables and Measurement

- **Firm Size (X1):** measured using the natural logarithm of total assets.
- **PAF Size (X2):** dummy variable, coded 1 for Big Four and 0 for non-Big Four.
- **Audit Fee (Z):** measured using disclosed audit costs (natural logarithm).
- **Audit Quality (Y):** proxied by audit opinion (unqualified vs. others) and timeliness of report submission.

2) Data Analysis

Data were analyzed using **Moderated Regression Analysis (MRA)** with SPSS version 26. The analysis included:

1. **Descriptive Statistics** for each variable.
2. **Traditional Assumption Tests**, such as the Durbin-Watson test for autocorrelation, the Glejser test for heteroskedasticity, the Kolmogorov-Smirnov test for normality, and the VIF and tolerance test for multicollinearity.
3. **Hypothesis Testing**, conducted with F-tests for joint effects, t-tests for individual effects, and interaction terms for moderation analysis.



RESULTS AND DISCUSSION**1. Descriptive Statistics**

3) The descriptive analysis showed that firm size ranged from 21.03 to 36.71 (mean 28.19), PAF size was mostly large (mean 0.76), audit fee ranged from 11.56 to 29.98 (mean 21.44), and audit quality ranged from 47.76 to 79.25 (mean 60.97).

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ukuran_perusahaan	207	21,03	36,71	28,1923	2,1336
ukuran_kap	207	,00	1,00	,7681	,42306
audit_fee	207	11,56	29,98	21,4450	1,84281
kualitas_audit	207	47,76	79,25	60,9749	6,93065
Valid N (listwise)	207				

2. Classical Assumption Tests

- **Normality Test:** Residuals were normally distributed ($p = 0.084 > 0.05$).
- **Multicollinearity Test:** Tolerance > 0.10 and VIF < 10 , indicating no multicollinearity.
- **Heteroskedasticity Test:** Glejser test results showed no heteroskedasticity.
- **Autocorrelation Test:** DW statistic = 2.207, within acceptable range, indicating no autocorrelation.

3. Hypothesis Testing

- **F-Test:** Firm size and PAF size jointly influenced audit quality ($F = 4.320$, $p = 0.015$).

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	402,025	2	201,013	4,320	,015 ^b
	Residual	9492,948	204	46,534		
	Total	9894,973	206			

a. Dependent Variable: kualitas_audit

b. Predictors: (Constant), ukuran_kap, ukuran_perusahaan

- **t-Test:** Firm size positively and significantly affected audit quality ($\beta = 0.643$, $p = 0.004$). PAF size had no significant effect ($\beta = -0.589$, $p = 0.601$).



Coefficients ^a							
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	43,303	6,367		6,801	,000	
	ukuran_perusahaan	,643	,223	,198	2,886	,004	1,000
	ukuran_kap	-,589	1,124	-,036	-,524	,601	1,000

a. Dependent Variable: kualitas_audit

- **MRA:** The association between PAF size and audit quality ($p = 0.300$) and business size and audit quality ($p = 0.394$) was not moderated by audit fee.

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1(Constant)	-28,655	79,470		-,361	,719
ukuran_perusahaan	3,263	2,915	1,005	1,119	,264
ukuran_kap	12,238	12,420	,747	,985	,326
audit_fee	3,162	3,685	,841	,858	,392
X1Z	-,115	,135	-1,294	-,854	,394
X2Z	-,597	,575	-,790	-1,039	,300

a. Dependent Variable: kualitas_audit

4. Discussion

The findings support agency theory by confirming that larger firms, due to higher agency costs and greater scrutiny, demand higher audit quality. However, PAF size showed no significant effect, suggesting that non-Big Four auditors in Indonesia have been able to deliver audit services comparable to Big Four firms. The non-significant moderating effect of audit fee suggests that audit quality depends more on auditor competence and independence than on the level of fees. This finding aligns with Rahayu (2016), who argued that audit fee is not a reliable proxy for audit quality.

The implications of these findings are important for stakeholders. For regulators, the results highlight the need to strengthen audit oversight regardless of PAF size. For companies, the findings underline the importance of transparency and internal



governance mechanisms to support audit quality. For auditors, the results emphasize the primacy of professionalism and independence over financial incentives.

CONCLUSION AND RECOMMENDATIONS

Conclusion

1. The size of the audit firm significantly improves the quality of the audit.
2. The size of the audit firm has no discernible impact on the quality of the audit.
3. The association between audit firm size and audit quality is not moderated by audit fees.
4. The association between audit firm size and audit quality is not moderated by audit fees.

Recommendations

- **For Companies:** Large firms should maintain transparent financial reporting to sustain audit quality and investor trust.
- **For PAFs:** Regardless of size, PAFs must prioritize competence, independence, and adherence to professional standards to ensure high audit quality.
- **For Auditors:** Focus on professionalism and ethical standards, rather than relying solely on audit fees, to guarantee reliable audits.
- **For Future Researchers:** Extend the scope by including additional variables such as audit tenure, audit delay, and auditor rotation, as well as expanding samples across different sectors.

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