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The Impact of Auditor Selection on Financial Statement Quality: Evidence from Listed Companies in Indonesia

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Abstract: This study aims to analyze the impact of auditor selection on the quality of financial statements by considering factors such as auditor independence, competence, and reputation as key determinants of transparency and accountability in financial reporting. Using a quantitative approach with descriptive and causal-comparative methods, the study analyzes secondary data from companies listed on the Indonesia Stock Exchange (IDX). The sample was selected through purposive sampling based on criteria such as completeness of financial reports and the presence of audited statements. The results reveal that auditor selection whether from Big Four or non-Big Four firms does not significantly affect the quality of financial statements. Instead, total accruals show a significant negative effect, indicating that internal financial practices play a more substantial role than auditor type in determining financial reporting quality. Despite this, prior literature emphasizes that auditor quality, industry specialization, and experience still contribute indirectly by strengthening oversight. Therefore, future research should explore additional variables such as auditor tenure, audit committee effectiveness, and corporate governance as mediators or moderators. Expanding the sample and observation period, as well as applying multi-dimensional measures of financial statement quality, such as earnings persistence and conservatism, can improve the robustness and generalizability of findings.

Keywords: financial Quality, Total Accruals, Total Assets, Net Income.

INTRODUCTION

Accurate and reliable financial reporting is a fundamental element in conducting business activities. One critical factor influencing the quality of financial reporting is selecting the right auditor. Auditors play a role in verifying the fairness of the presentation of financial information and ensuring that financial statements comply with generally accepted accounting principles and standards. Quality financial reporting reflects a company's transparency and accountability, ultimately enhancing the trust of stakeholders, such as investors, creditors, and regulators.

Selecting a competent and independent auditor is crucial for maintaining the integrity of financial statements. Factors such as auditor independence, the reputation of the Public Accounting Firm (KAP), and the auditor's technical competence are indicators that can influence audit quality. Auditors from large KAPs generally have more resources and experience in dealing with companies with complex financial structures, thus being considered capable of providing more reliable audit results (Fauzi & Wardono, 2022). Conversely, companies using auditors from small KAPs may face the risk of less comprehensive audits due to limited resources and experience (Indaryuni et al., 2021).

Furthermore, external factors such as government regulations, economic pressures, and the industry environment also influence the quality of financial reports. Under certain circumstances, pressure to achieve financial performance targets can encourage managers to manipulate financial reports, or engage in earnings management. This strategy is typically used to conceal declining company performance and maintain a positive perception among financial report users (Tang & Fiorentina, 2021). Therefore, when selecting an auditor, companies need to comprehensively consider the auditor's reputation, independence, competence, and experience. Auditors with high integrity and professionalism can provide objective assessments and support the presentation of reliable financial information (Rodrigues et al., 2019). A better understanding of the auditor's role in maintaining the quality of financial reports is crucial for supporting informed management decision-making.

Earnings management is not only a result of tax avoidance but is also influenced by governance mechanisms such as the number of independent commissioners and the presence of female commissioners. Furthermore, audit quality is determined not only by the size of fees but also by compliance with audit standards and auditor independence (Ramadana, 2023). The study's findings indicate that audit quality has no significant effect on earnings management practices. This means that the presence of highly reputable auditors, including those from the Big Four Public Accounting Firms (KAP), is not effective in reducing the likelihood of earnings manipulation by management. This aligns with findings that companies tend to employ high-quality auditors not solely to prevent earnings management, but rather to enhance the credibility and transparency of financial reports in the eyes of investors (Karina 2021).

Financial Statement Quality

The quality of financial statements is a crucial aspect that reflects an entity’s transparency and accountability. According to IASB (2018), high-quality financial statements must meet fundamental characteristics such as relevance and faithful representation, along with enhancing characteristics such as timeliness, comparability, and understandability. Empirically, financial statement quality is often measured using proxies such as discretionary accruals, reporting timeliness, and accuracy of reported earnings estimates (Habib et al., 2019). High-quality financial statements tend to provide information that is free from accrual-based manipulation and support rational economic decision-making (Al-Maghzom et al., 2018).

Moreover, financial reporting quality is influenced not only by accounting practices but also by corporate governance mechanisms and auditor selection. External auditors from reputable public accounting firms, such as the Big Four, have been proven to enhance reporting quality through independent and objective supervision (Hussain et al., 2020). However, research findings indicate that audit quality does not significantly affect earnings management practices. This implies that the presence of reputable auditors, including those from Big Four accounting firms, may not effectively suppress earnings manipulation by management. These findings support the notion that companies may engage high-quality auditors not solely to prevent earnings management, but rather to enhance the credibility and transparency of financial statements in the eyes of investors.

Effect of Auditor Selection on Financial Statement Quality

The selection of auditors, especially when comparing Big Four and non-Big Four auditors, has been found to have no statistically significant impact on financial statement quality. This suggests that the reputation of the auditor alone does not necessarily guarantee an improvement in financial reporting quality. In practice, financial reporting quality depends not only on the external auditor but also on internal control systems, managerial transparency, and adherence to applicable financial reporting standards (Lin & Wang, 2023). In some cases, companies audited by Big Four firms still produce low-quality financial statements due to weak corporate governance and high levels of managerial intervention (Rahman et al., 2021).

Local studies in Indonesia also support this finding. Nugroho and Prasetyo (2020) found no significant difference in accrual quality between companies audited by Big Four and non-Big Four auditors, indicating that auditor reputation does not always translate into more reliable audit outcomes. Additionally, Wahyuni and Sari (2022) noted that in the public sector, limited oversight and weak internal audit capabilities reduce the influence of external auditors on financial statement quality. Siregar and Fitriany (2019) emphasized that the effectiveness of audit committees and corporate governance plays a more pivotal role in maintaining reporting quality than merely hiring well-known auditors

A similar conclusion was drawn by Ado et al. (2020) in a study of Nigerian firms, which highlighted that while large audit firms theoretically improve reporting credibility, in practice, this is not always achieved due to managerial pressure, high audit costs, and tight reporting deadlines. These findings reinforce the perspective that auditor selection alone is not the primary determinant of financial statement quality. A more holistic approach is needed, including improving internal controls and strengthening oversight within the company.

H1: Auditor selection does not have a significant effect on financial statement quality.

Effect of Total Accruals on Financial Statement Quality

Total accruals refer to the difference between reported net income and cash flows from operating activities during a given period. Accruals are classified into two main categories: discretionary accruals and non-discretionary accruals. Discretionary accruals, influenced by managerial decisions to manipulate earnings, can reduce financial statement quality, as managers may use them to present a more favorable view of company performance—potentially misleading stakeholders (Sihombing & Simanjuntak, 2020). In contrast, non-discretionary accruals, which reflect actual economic conditions, result in more transparent and reliable financial reporting.

Proper management of total accruals is expected to improve the quality of financial statements, thereby enhancing investor trust and stakeholder confidence in the information presented. Mulyadi & Rahardjo (2021) found that lower accrual levels are associated with higher-quality financial statements, as operating cash flows closely align with reported earnings. Furthermore, high-quality accruals can reduce a firm's cost of equity by improving financial statement transparency and decreasing uncertainty (Chandra & Yuliana, 2022). Hadi & Rahman (2023) also noted that good accrual quality is linked to reduced information risk and increased market efficiency. Thus, companies must ensure that reported accruals accurately reflect real economic conditions to provide a true and fair view of their financial performance.

H2: Total accruals have a significant effect on financial statement quality.

Effect of Total Assets on Financial Statement Quality

Total assets are commonly used to indicate a company's size. In the context of accounting and financial reporting, larger firms are often assumed to have more resources to implement sound reporting systems. However, several studies suggest that total assets do not have a significant impact on financial statement quality. This is because asset size does not necessarily

reflect the company's level of transparency or accountability in preparing financial reports. Large firms may have complex systems but are still vulnerable to financial statement manipulation due to managerial pressure or stakeholder demands.

These findings are consistent with research by Nugroho and Saputri (2023) in the JRAK: J*urnal Riset Akuntansi Kontemporer*, which reported that total assets do not significantly affect the financial reporting quality of manufacturing companies in Indonesia. The study emphasized that company size does not always reflect the quality of information presented in financial statements. Similarly, Hasibuan et al. (2021) in the JIAFE: Jurnal Ilmiah Akuntansi, Finansial dan Ekonomi concluded that total assets do not meaningfully contribute to improving financial reporting quality, as other variables such as governance and audit effectiveness have greater influence. Therefore, while total assets are often used as a proxy for financial strength, they do not necessarily determine the quality of financial statements—especially in the absence of strong internal controls and adequate auditing systems.

H3: Total assets do not have a significant effect on financial statement quality.

Effect of Net Income on Financial Statement Quality

Net income is a key indicator of a company's financial performance over a specific period. Theoretically, higher net income reflects better financial health and is expected to result in higher-quality financial statements. However, in practice, many studies reveal that net income does not always significantly influence financial statement quality. Ramadhani and Fauzan (2022), in the *Jurnal Ilmu dan Riset Akuntansi* (JIRA), found that net income has no significant effect on financial statement quality. This is because income can be manipulated through opportunistic accounting practices such as earnings management, meaning high reported earnings may not necessarily represent reliable or relevant information.

Similarly, Hasibuan et al. (2021) explained that net income often becomes a target of managerial manipulation to meet certain performance benchmarks, especially in publicly listed firms. This undermines financial reporting quality despite high earnings. These findings align with the positive accounting theory, which posits that managers tend to adopt certain accounting policies to serve personal or short-term corporate interests. As a result, net income is no longer a pure indicator of reporting quality.

H4: Net income does not have a significant effect on financial statement quality.

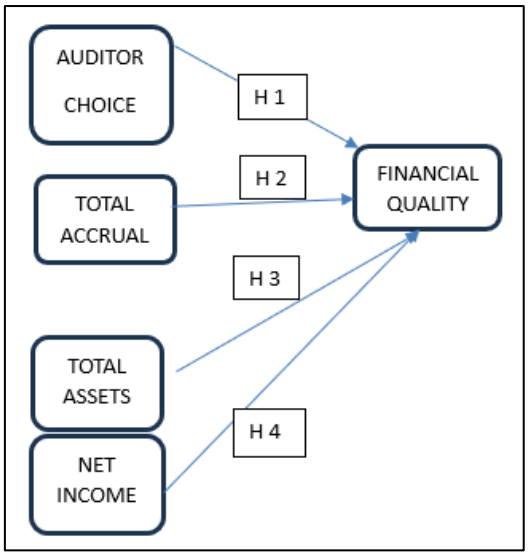


Figure 1. Research framework

Furthermore, the quality of financial reports is influenced not only by accounting practices but also by corporate governance mechanisms and auditor selection. External auditors from reputable public accounting firms like the Big Four have been shown to improve reporting quality through independent and objective oversight (Hussain et al., 2020).

METHODS

This study uses a quantitative approach with descriptive and causal comparative methods. The quantitative approach was used because this study aims to examine the influence of auditor choice on financial report quality by utilizing numerical data and statistical analysis. The data used is secondary data in the form of annual financial reports of listed companies.on the Indonesia Stock Exchange (BEI) during a certain observation period.

The population in this study was all companies listed on the Indonesia Stock Exchange. The sampling technique used purposive sampling, which selects samples based on specific criteria relevant to the research objectives, such as companies that published complete and audited financial statements during the study period. The operational definitions in this study are:

1. Auditor Choice
   Auditor choice is an independent variable that shows the selection of external auditors by the company. This variable is measured using a dummy scale, namely: Value 1 if the company uses an auditor from the Big Four group Value 0 if the company uses a non-Big Four auditor (This measurement refers to Laba et al., 2023)

2. Total Accruals (Total Accruals)
   Financial reporting quality is measured using the total accruals approach. The higher the accruals, the lower the quality of the financial reporting, as financial reporting tends to be more easily manipulated through non-cash accounts. The formula for measuring total accruals follows this approach:

   TAC_it CFO_it

   Information: TAC_it: Total accruals of company i in period t, NI_it: Net profit of company i in period t, CFO_it: Cash flow from operating activities of company i in period t (Laba et al., 2023)

3. Total Assets
   Total assets are used as a control variable to reflect company size. The greater the total assets, the more complex the company's operations. Total assets are measured based on the total asset value in the financial statements based on (Firman & Rambe, 2021)

   Total Assets = Current Assets + Non Current Asset

4. Net Income
   Net income reflects a company's profitability and is used as a control variable (Matofani et al., 2021). This value is calculated from:

Net Income = Revenue - (Operating Expenses + Tax Expenses + Interest Expenses)

RESULTS AND DISCUSSION

Table 1 Descriptive Statistics

	Financial Quality	Auditor Choice	Total Accruals	Total Asset	Net Income
Mean	1.265500	0.323596	518561.4	1893218.	1711467.
Median	0.978948	0.000000	342092.9	1364113.	1307705.
Maximum	15.25462	1.000000	3986680.	7518989.	8257874.
Minimum	0.000000	0.000000	23026.18	57148.93	21619.24
Std. Dev.	1.616430	0.468374	544978.3	1405807.	1488774.
Skewness	3.639648	0.754111	2.633819	1.515330	1.884949
Kurtosis	22.39833	1.568683	12.01697	4.862769	6.677146
Jarque-Bera	7959.627	80.16305	2022.038	234.6412	514.2258
Probability	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	563.1476	144.0000	2.31E+08	8.42E+08	7.62E+08
Sum Sq. Dev.	1160.104	97.40225	1.32E+14	8.77E+14	9.84E+14
Observations	445	445	445	445	445

Source: Eviews 12 (2025)

Based on the descriptive statistics, the Auditor Choice variable has an average of 0.323, indicating that 32.36% of companies use Big Four auditors. All research variables, namely Financial Quality, Auditor Choice, Total Accruals, Total Assets, and Net Income, have significant Jarque-Bera values at the 1% level ($p < 0.01$), indicating that the five variables are not normally distributed. In addition, high skewness and kurtosis values also reinforce the irregularity of the data distribution. These results are important to determine whether further testing needs to consider a non-parametric statistical approach or perform data transformation to maintain the validity of the analysis.

Table 2 Chow Test

Effects Test	Probability	Conclusion
Cross Section Chi-Square	0.0414	FEM

Source: Eviews 12 (2025)

Based on the results of the Chow Test shown in the table above, the probability value in the Cross-section F is 0.2185, while in the Cross-section Chi-square it is 0.0414. Because the probability value in the Chi-square test is 0.0414 <0.05, the decision taken is that H_0 is rejected, which means that the more appropriate model to use is the Fixed Effect Model (FEM) compared to the Common Effect Model (CEM). Thus, based on the results of the Chow test, it is concluded that there are significant differences between cross-sections (companies), so the FEM model is more appropriate in explaining the influence of independent variables on Financial Quality in this study.

Table 3 Hausman Test

Test Summary	Chi-sq. Statistics	Prob	Conclusion
Random cross section	9.389963	0.0521	FEM

Source: Eviews 12 (2025)

Based on the results of the Hausman Test in the table above, a probability value of 0.0521 was obtained. This value is greater than 0.05, so according to statistical rules, H_0 should be accepted and the model that should be used is the Random Effect Model (REM). However, according to the statement, namely HAUSMAN FEM (0.0521 < 0.05), then if referring to the statement, it is considered that because 0.0521 is close to 0.05, the decision taken is still to use the Fixed Effect Model (FEM) as the best model. This can be considered because the difference in value between 0.0521 and 0.05 is very small and can still be tolerated in research decision

making. Thus, the results of this Hausman test indicate that the Fixed Effect Model (FEM) is still chosen because this model is considered better in dealing with the correlation between the independent variables and the error in the model.

Table 4 Lagrange Multiplier Test

Test Hypothesis	Probability	Conclusion
Breusch-Pagan	0.8108	REM

Source: Eviews 12 (2025)

The Lagrange Multiplier test results show that the probability value for the cross-section (p = 0.8108) is insignificant, indicating no individual effects between companies. However, the probability values for the time effect and both effects are highly significant (p = 0.0000), indicating a strong influence of time on the model. Thus, the two-way Random Effects model is recommended as a more appropriate choice than the Common Effects Model, as it is able to capture variations caused by time differences in panel data.

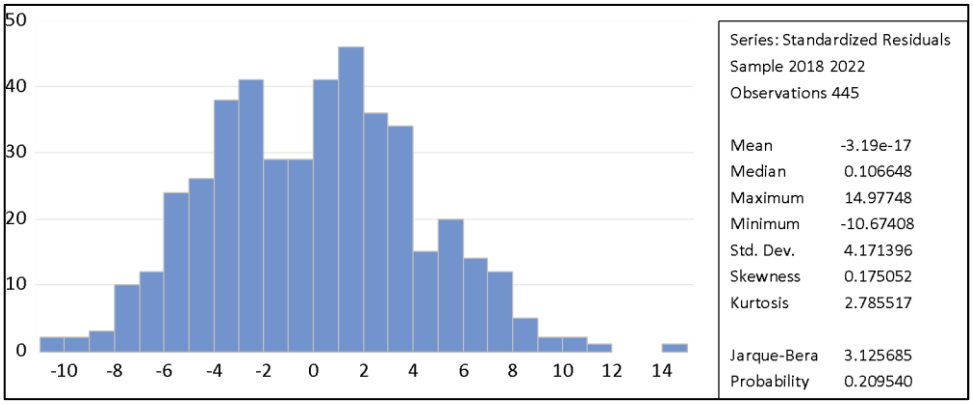
Table 4 FEM Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.197760	0.768434	2.860049	0.0045
Auditor Choice	-0.331628	0.395077	-0.839401	0.4018
Total Accruals	-2.46E-06	3.87E-07	-6.357244	0.0000
Total Asset	-9.56E-08	4.31E-07	-0.222118	0.8244
Net Income	3.68E-07	3.99E-07	0.923117	0.3566
Effects Specification				

Source: Eviews 12 (2025)

The FEM table results show that only the Total Accruals variable has a significant effect on Financial Quality with a probability value of 0.0000 (p < 0.01). Meanwhile, the Auditor Choice, Total Assets, and Net Income variables are not significant because they have probability values above 0.05. The R-squared value of 0.3189 indicates that the model can explain approximately 31.89% of the variation in Financial Quality. The F-statistic probability of 0.000535 is also significant (p < 0.01), indicating that the overall regression model is suitable for use in this study.

Table 5 CLASSICAL ASSUMPTION DATA



Source: Eviews 12 (2025)

Based on the histogram of standardized residuals, the Jarque-Bera statistic value of 3.125685 with a probability of 0.209540 (greater than 0.05) indicates that the residuals are

statistically normally distributed. This can be concluded that the residual data meets the assumption of normality, so the regression model used is worthy of interpretation.

Table 6 Autocorrelation Data

Cross-section fixed (dummy variables)			
R-squared	0.318921	Mean dependent var	1.265500
Adjusted R-squared	0.126014	S.D. dependent var	1.616430
S.E. of regression	1.511155	Akaike info criterion	3.856934
Sum squared resid	790.1223	Schwarz criterion	4.768641
Log likelihood	-759.1679	Hannan-Quinn criter.	4.216437
F-statistic	1.653240	Durbin-Watson stat	2.369496
Prob(F-statistic)	0.000535		

Source: Eviews 12 (2025)

To meet the Durbin-Watson test criteria, the number of samples (n) = 445, the number of independent variables (k) = 4, and the significance level of 5%. Based on the Durbin-Watson table, the values of dL = 1.6739 and dU = 1.7597 are obtained. Therefore, the value of 4 - dL = 2.3261 and 4 - dU = 2.2403. The Durbin-Watson value obtained is 2.369496, which means it is greater than 4 - dL, which is 2.3261. This means that H_0 is accepted, so there is no autocorrelation in the regression model. This condition indicates that the regression model used has met the classical assumptions of autocorrelation so it is suitable for use for further testing without the need for model improvement.

Table.7 Multicollinearity Data,

	Financial Quality	Auditor Choice	Total Accruals	Total Asset	Net Income
Financial Quality	1.000000	0.019631	-0.007598	0.016100	0.028358
Auditor Choice	0.019631	1.000000	0.340198	0.317575	0.335269
Total Accruals	-0.007598	0.340198	1.000000	0.765313	0.811593
Total Asset	0.016100	0.317575	0.765313	1.000000	0.868959
Net Income	0.028358	0.335269	0.811593	0.868959	1.000000

Source: Eviews 12 (2025)

The multicollinearity test aims to determine whether there is a strong correlation between independent variables in a regression model. A good regression model should not experience multicollinearity problems so that the parameter estimation results are more accurate and can be interpreted properly. In this study, the multicollinearity test was conducted using the Variance Inflation Factor (VIF) approach. As a reference, if the VIF value is <10, the model is considered not to experience serious multicollinearity problems. Based on the test results, all independent variables have VIF values below 10. This indicates that there are no symptoms of multicollinearity in the regression model used. All independent variables in the model can be entered simultaneously without causing distortion to the analysis results. The regression model in this study can be said to meet the assumption of being free from multicollinearity.

The Influence of Auditor Selection on the Quality of Financial Reports

Variables Auditor Choicehas a probability value of 0.4018, greater than the 0.05 significance level, making it insignificant. This indicates that auditor selection (Big Four or non-Big Four) does not significantly impact financial reporting quality. This finding corroborates the research findings of Lin and Wang (2023), which stated that the presence of a highly reputable auditor does not guarantee improved financial reporting quality. Factors such as corporate governance, compliance with accounting standards, and internal control systems are more important determinants of report quality (Siregar & Fitriany, 2019). Nugroho and

Prasetyo (2020) also found no significant difference in accrual quality between Big Four and non-Big Four auditors in Indonesia.

The Effect of Total Accruals on the Quality of Financial Reports

The Total Accruals variable has a probability value of 0.0000, which is far below the 0.01 significance level. This means the effect of total accruals on financial reporting quality is statistically significant. The negative coefficient indicates that higher accruals (especially discretionary accruals), lower financial reporting quality. This is consistent with the opinion of Sihombing and Simanjuntak (2020), who stated that accruals can be used for earnings manipulation. Mulyadi and Rahardjo (2021) found that low accruals result in financial reporting that is closer to reality. Chandra and Yuliana (2022) added that high-quality accruals reduce information uncertainty and increase stakeholder trust.

The Influence of Total Assets on the Quality of Financial Reports

The Total Assets variable shows a probability value of 0.8244, well above the 0.05 significance limit. Thus, total assets do not significantly impact financial report quality. This supports research by Nugroho and Saputri (2023), which concluded that company size does not reflect the quality of financial information. Hasibuan et al. (2021) stated that although large assets can provide more resources for the reporting system, without good governance and internal controls, report quality does not improve.

The Influence of Net Income on the Quality of Financial Reports

The Net Income variable shows a probability value of 0.3566, making it insignificant. This means that high net income does not necessarily indicate good reporting quality. Ramadhani and Fauzan (2022) stated that net income is often the object of misleading earnings management. Hasibuan et al. (2021) also showed that public companies tend to manipulate earnings for strategic purposes. This is consistent with positive accounting theory, which explains that managers have personal incentives to present certain profit figures, even if they do not reflect actual performance.

CONCLUSION

Based on the results of the study on the impact of auditor selection on the quality of financial statements, it was found that auditor selection does not have a significant effect on financial statement quality. This means that the type of auditor chosen such as those from the Big Four or non-Big Four firms does not directly enhance or diminish the quality of financial statements within the model used. Instead, the variable that shows a significant influence is total accruals, which negatively affects financial statement quality, indicating that factors other than auditor selection play a greater role in determining financial reporting quality.

Nevertheless, according to previous literature and research, high auditor quality, auditor experience, and industry specialization remain important, as they can strengthen the oversight function over financial statements and indirectly improve quality when qualified auditors are involved. Therefore, high audit quality is important as a supporting element of oversight and may serve as a moderating variable that strengthens the relationship between audit committee quality and financial reporting quality, although its moderating effect may vary across studies.

For future research, it is recommended to focus more deeply on the role of auditor quality by considering additional variables such as auditor experience, industry specialization, and the duration of the auditor-client relationship, rather than merely distinguishing based on auditor type. Future studies could also incorporate moderating or mediating variables such as audit quality, audit committee oversight, and corporate governance to explore the mechanisms through which auditor selection affects financial statement quality more comprehensively.

Furthermore, expanding the research sample and the testing period will yield more representative results and enable a better understanding of the longitudinal dynamics of auditor quality and financial reporting. Finally, using a more comprehensive and multi-dimensional method to measure financial statement quality such as evaluating earnings persistence, predictability, and conservatism can enhance the validity of research findings.

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