DO BIG 4 AND NON-BIG 4 AUDIT FIRMS DIFFER IN KEY AUDIT MATTER DISCLOSURES? EVIDENCE FROM INDONESIAN NON-FINANCIAL LISTED COMPANIES

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Abstract

The adoption of SA 701 in Indonesia has expanded the auditor's report by requiring the disclosure of Key Audit Matters (KAM), which is expected to improve transparency and the usefulness of audit information. However, the extent of KAM disclosure may differ between Big 4 and non-Big 4 audit firms due to differences in resources, expertise, and reputational incentives. This study addresses whether there are differences in the level of KAM disclosure between companies audited by Big 4 and non-Big 4 audit firms. Specifically, this study aims to examine differences in the number of KAM disclosed and the length of KAM descriptions. A descriptive-comparative quantitative approach was used, with 771 firm-year observations from consumer cyclicals, property and real estate, and energy companies listed on the Indonesia Stock Exchange during 2022–2024. Data were collected from annual reports and independent auditor reports. The Mann–Whitney U test was applied to test the differences between the two audit firm groups. The results show no significant difference in the number of KAM disclosed by Big 4 and non-Big 4 audit firms. However, a significant difference is found in the length of KAM descriptions, with Big 4 audit firms providing longer explanations. These findings indicate that differences in KAM disclosure are reflected more in the depth of explanation than in the number of issues disclosed.

Keywords: Key Audit Matters Disclosure, Audit Firms, SA 701, Audit Report

INTRODUCTION

The credibility of audited financial statements has been widely questioned following major corporate collapses that were preceded by auditors' failure to identify and communicate significant risks. These failures weakened public trust in the audit profession and raised concerns about whether traditional audit reports were sufficiently informative for users of financial statements (Rahaman & Bhuiyan, 2024). Major accounting scandals in the early 2000s, particularly Enron, further intensified global pressure to reform audit reporting and develop a more transparent reporting model (Olojede et al., 2020).

For many years, audit reports mainly communicated audit outcomes through standardized opinions, such as unqualified, qualified, adverse, or disclaimer opinions. Although these opinions remain important, they provide limited insight into the audit process, significant auditor judgments, and key risk areas. As users increasingly demanded more relevant and decision-useful information, audit reports were expected to disclose significant matters that received substantial auditor attention during the audit. In response, the International Auditing and Assurance Standards Board (IAASB) issued ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report, in 2015. This standard requires auditors to disclose Key Audit Matters (KAM), namely matters that, in the auditor's professional judgment, were most significant in the audit of the current period's financial statements (IAASB, 2015). KAM disclosure is expected to enhance the communicative value of audit reports by providing clearer insight into areas involving significant risk, complexity, or management judgment. Early evidence from ISA 701 adoption also shows that KAM improves communication with governance bodies, strengthens audit focus on high-risk areas, and increases management accountability in financial reporting (ACCA, 2016; Rahaman & Bhuiyan, 2024).

Indonesia adopted ISA 701 into its national audit framework through SA 701, "Pengomunikasian Hal Audit Utama dalam Laporan Auditor Independen", issued by the Indonesian Institute of Certified Public Accountants in 2021. This adoption is expected to improve the transparency and credibility of audit reports in Indonesia by helping users better understand complex financial statements and focus on matters that are most relevant to decision-making. KAM disclosure may also strengthen investor confidence by providing more detailed information on areas involving uncertainty, complexity, or significant auditor judgment (Moroney et al., 2021).

However, the extent and quality of KAM disclosure may differ across audit firms. Big 4 audit firms generally have stronger technical resources, broader industry expertise, larger professional teams, and wider international networks than non-Big 4 firms. These characteristics may enable Big 4 auditors to identify significant audit matters more effectively and communicate them more comprehensively (Srisuwan, 2024). In addition, reputational pressure and litigation risk may encourage Big 4 firms to provide more transparent KAM disclosures to maintain audit quality and professional credibility (Prasad & Chand, 2017; Rahaman et al., 2023).

Although prior studies suggest that Big 4 audit firms tend to disclose more KAM than non-Big 4 firms (Wuttichindanon & Issarawornrawanich, 2020; Suttipun, 2021), evidence from Indonesia remains limited, particularly after the implementation of SA 701. Therefore, this study examines whether there is a difference in the level of KAM disclosure between companies audited by Big 4 and non-Big 4 audit firms. The findings are expected to

contribute to audit literature in an emerging economy context and provide practical insights for regulators, audit firms, investors, and other stakeholders in evaluating the usefulness of audit reports in Indonesia.the first part (introduction), without subtitles, contains the background of the problem and a little literature review, and the problem/objective of the research.

REVIEW OF LITERATURE

Number of Key Audit Matters

Key Audit Matters (KAM) are an important element of audit reporting reform introduced by the IAASB through ISA 701. Their inclusion is intended to improve the transparency, accountability, and informational value of the auditor's report. KAM refer to matters that, in the auditor's professional judgment, were most significant in the audit of the current period's financial statements and were communicated to those charged with governance. In identifying KAM, auditors consider areas with a higher risk of material misstatement, matters involving significant estimates or judgments, and major events or transactions that affect the audit process (IAASB, 2016).

The number of KAM disclosed may therefore vary depending on the nature and complexity of the audit engagement. Matters that require substantial management attention, contain higher misstatement risk, or significantly influence audit procedures are more likely to be reported as KAM. Although a large number of KAM may create the impression that a company faces many problems, this interpretation is not always accurate. KAM are not intended to signal poor company condition, but to highlight audit areas that are most relevant for users of financial statements (Rosdini, 2025). In this sense, the number of KAM can provide useful insight into the extent of significant audit matters addressed by the auditor and support a clearer understanding of the audit process (ACCA, 2018).

Length of KAM

KAM description length refers to the amount of explanation provided by auditors for each Key Audit Matter in the audit report. This measure is commonly used in the literature to capture the extent of disclosure, particularly the degree to which auditors explain significant entity risks in a detailed and transparent manner (Rahaman & Bhuiyan, 2025). Longer KAM descriptions may indicate greater audit detail, higher complexity, and a wider audit scope. Auditors usually provide more extensive explanations for areas involving high risk, complex judgment, or broader audit procedures. Evidence from Bangladesh shows that auditors under stronger regulatory pressure tend to present longer KAM descriptions to provide clearer justification for their audit findings (Rahaman et al., 2023).

Audit Firm

Auditor type is commonly classified based on the size of the public accounting firm where the auditor works. Prior studies generally distinguish auditors into two groups: Big 4 auditors and non-Big 4 auditors (Suttipun, 2022). The Big 4 audit firms consist of Deloitte Touche Tohmatsu, Ernst & Young (EY), PricewaterhouseCoopers (PwC), and KPMG, which are recognized as the four largest audit firms in the world in terms of revenue and global presence (Velte, 2018). Big 4 auditors are expected to provide more extensive disclosure. This expectation is based on their greater experience and technical expertise in identifying significant risk areas, as well as their stronger incentive to protect professional

reputation and reduce litigation risk. Their affiliation with international networks also encourages them to maintain audit quality and transparency. Therefore, Big 4 auditors are more likely to disclose KAM in a more detailed and comprehensive manner than non-Big 4 auditors (Rosdini, 2025; Rahaman et al., 2023).

RESEARCH METHOD

This study employs a descriptive-comparative design with a quantitative approach. A comparative study is used to examine whether differences exist in certain variables across different groups or periods. In this study, the comparison focuses on the level of Key Audit Matters (KAM) disclosure between companies audited by Big 4 and non-Big 4 audit firms. The data used in this study are secondary data obtained from annual reports and independent auditor reports. These reports were collected from the official website of the Indonesia Stock Exchange (IDX) and the respective companies' corporate websites. The population consists of companies operating in the consumer cyclicals, property and real estate, and energy sectors listed on the IDX during the 2022–2024 period. These sectors were selected because they are associated with relatively high business risk, complex accounting estimates, and significant auditor judgment.

The sample was selected using a purposive sampling method. The criteria used in the sample selection are as follows: companies must be listed in the consumer cyclicals, property and real estate, or energy sectors on the IDX, and they must consistently publish audited annual reports during the 2022–2024 period. Based on these criteria, 257 firms were included in the final sample, resulting in 771 firm-year observations.

Table 1.
Research Sample

No.	Description	Number of Firms
1.	Consumer cyclicals, property and real estate, and energy firms listed on the IDX.	346
2.	Firms that did not consistently publish audited financial statements during 2022–2024.	(89)
Final sample firms		257
Total observations (2022–2024; 3 years)		771

Source: Data processed (2026)

This study uses two measures of KAM disclosure. First, the number of KAM is measured by counting the total number of KAM items reported in the independent auditor's report (Kitiwong & Sarapaivanich, 2020). Second, the length of KAM disclosure is measured by the number of words used to describe the first KAM reported in the independent auditor's report for each year. The first KAM is selected to maintain comparability across firms, as the number of KAM disclosed varies between companies. In addition, auditors generally place the most significant KAM at the beginning of the KAM section (Rahaman et al., 2023). The audit firm variable is classified based on whether the company is audited by a Big 4 or non-Big 4 audit firm. Companies audited by Big 4 audit firms are coded as 1, while companies audited by non-Big 4 audit firms are coded as 2.

Before conducting the difference test, a normality test is performed to determine the appropriate statistical method. If the data are normally distributed, the independent sample t-

test is used. However, if the data do not meet the normality assumption, the Mann–Whitney U test is applied as a non-parametric alternative.

RESULTS AND DISCUSSION

Before testing the differences between Big 4 and non-Big 4 audit firms, a normality test was conducted to determine the appropriate statistical method.

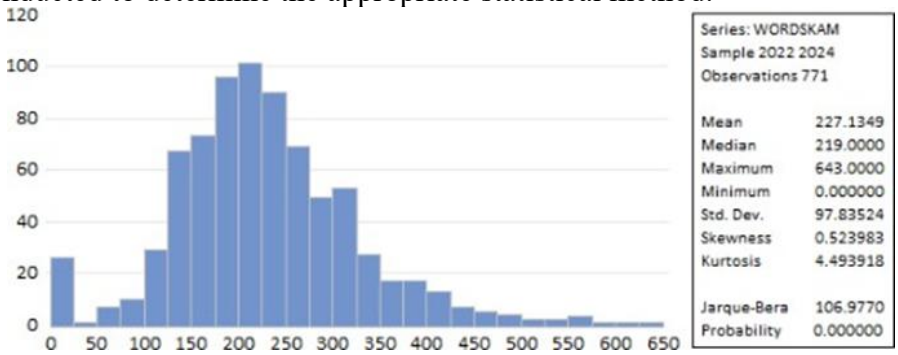

Figure 1.
Normality Test Result for the Number of KAM
Source: Data processed (2026)

The normality test for the number of KAM variable shows a probability value of 0.00, which is lower than the 0.05 significance level. This result indicates that the data are not normally distributed. Therefore, the Mann–Whitney U test was used as a non-parametric alternative to examine whether there is a difference in the number of KAM disclosed by Big 4 and non-Big 4 audit firms.

Table 3.
Mann–Whitney U Test Result for the Number of KAM

Method	df	Value	Probability
Wilcoxon/Mann-Whitney		0.166950	**0.8674**
Wilcoxon/Mann-Whitney (tie-adj.)		0.208272	0.8350
Med. Chi-square	1	0.187174	0.6653
Adj. Med. Chi-square	1	0.106761	0.7439
Kruskas-Walls	1	0.027942	0.8672
Kruskas-Walls (tie-adj.)	1	0.043486	0.8348

van der Waerden	1	1.845376	0.1743

Kelompok	Count	Median	> Overall Median	Mean Rank	Mean Score
Big 4	140	1.000000	35	388.8464	0.062955
Non-Big 4	631	1.000000	169	385.3685	0.030633
All	771	1.000000	204	386.0000	0.036502

Source: Data processed (2026)

Based on the Mann–Whitney U test, the probability value is 0.8674, which is higher than the 0.05 significance level. This result indicates that there is no significant difference in the number of KAM disclosed by companies audited by Big 4 and non-Big 4 audit firms. Big 4 audit firms have a median value of 1.00 and a mean rank of 388.8464, while non-Big 4 audit firms have the same median value of 1.00 and a mean rank of 385.3685. The identical median values and the small difference in mean ranks suggest that both auditor groups tend to disclose a similar number of KAM in the independent auditor's report.

After examining the number of KAM, this study further tested the difference in the length of KAM descriptions. Similar to the previous variable, a normality test was first conducted.

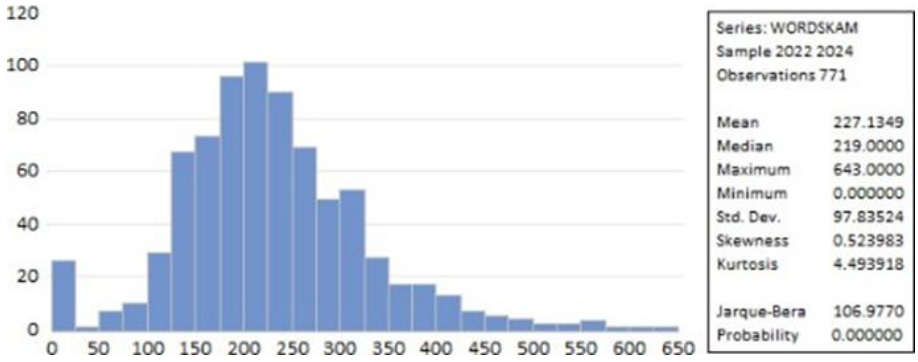

Figure 2.
Normality Test Result for the Length of KAM Descriptions
Source: Data processed (2026)

The result shows a probability value of 0.00, which is below the 0.05 significance level. This indicates that the data for the length of KAM descriptions are also not normally distributed. Accordingly, the Mann–Whitney U test was applied to examine the difference between Big 4 and non-Big 4 audit firms.

Table 4.
Mann–Whitney U Test Result for the Length of KAM Descriptions

Method	df	Value	Probability
Wilcoxon/Mann-Whitney		8.415453	**0.0000**
Wilcoxon/Mann-Whitney (tie-adj.)		8.415739	0.0000
Med. Chi-square	1	38.22716	0.0000
Adj. Med. Chi-square	1	37.08066	0.0000
Kruskas-Walls	1	70.82338	0.0000
Kruskas-Walls (tie-adj.)	1	70.82820	0.0000
van der Waerden	1	81.69896	0.0000

Kelompok	Count	Median	> Overall Median	Mean Rank	Mean Score
Big 4	140	260.5000	103	529.3036	0.683830
Non-Big 4	631	205.0000	282	354.2052	-0.148360
All	771	219.0000	385	386.0000	0.002751

Source: Data processed (2026)

The Mann–Whitney U test result shows a probability value of 0.00, which is lower than the 0.05 significance level. This finding indicates that there is a significant difference in the length of KAM descriptions between Big 4 and non-Big 4 audit firms. The descriptive statistics show that Big 4 audit firms have a median value of 260.5 and a mean rank of 529.3. In contrast, non-Big 4 audit firms have a lower median value of 205.0 and a mean rank of 354.2. These results suggest that companies audited by Big 4 audit firms tend to receive longer KAM descriptions than those audited by non-Big 4 audit firms.

Overall, the results show that the difference between Big 4 and non-Big 4 audit firms is not reflected in the number of KAM disclosed, but in the extent of the explanation provided. While both groups report a relatively similar number of KAM, Big 4 audit firms provide more extensive narratives in explaining the identified audit matters.

Discussion

The results of the difference tests on the number and length of KAM descriptions indicate that Big 4 audit firms tend to provide longer and more detailed KAM narratives than non-Big 4 firms. However, the difference between the two groups is not mainly reflected in the number of KAM topics disclosed, but rather in the depth of information presented in the KAM descriptions. This suggests that Big 4 firms do not necessarily disclose more KAM issues, but they explain the identified matters in a more comprehensive and informative way. This finding is consistent with Shao (2020), who states that Big 4 firms place greater emphasis on the depth of KAM discussion than on the quantity of KAM topics. The Big 4's stronger emphasis on narrative depth indicates that their KAM disclosure is more focused on the quality of explanation rather than merely increasing the number of disclosed matters. This approach is in line with the main objective of KAM disclosure, which is to improve audit quality and enhance the communicative value of the independent auditor's report (Baatwah et al., 2022). More elaborative explanations strengthen the informative function of KAM because they provide users of financial statements with clearer insight into significant audit issues, the auditor's professional judgment, and the audit response to areas with higher risk. Therefore, the value of KAM disclosure depends not only on whether significant matters are disclosed, but also on how clearly and meaningfully those matters are explained.

This condition may be related to the characteristics of Big 4 firms, which generally have stronger technical resources, broader industry experience, and more established internal review mechanisms. These characteristics may support the preparation of KAM narratives that are more structured, specific, and detailed. In addition, Big 4 firms face higher social expectations and stronger reputational pressure. Therefore, they are likely to maintain a higher level of audit quality and provide more informative disclosure, consistent with the expectations of their international Big 4 networks (Rahaman et al., 2023).

The findings are also in line with Prasad and Chand (2017), who found no significant difference between Big 4 and non-Big 4 firms in terms of the number of issues disclosed as KAM, but reported that Big 4 firms tend to provide more detailed KAM descriptions than non-Big 4 firms. Similarly, in the early stage of ISA 701 implementation, Big 4 audit reports have been viewed as a useful reference for identifying significant audit matters and articulating KAM more clearly (Srisuwan, 2024). Overall, this study shows that differences in KAM disclosure practices between Big 4 and non-Big 4 firms are more evident in the depth and clarity of the narrative than in the number of issues disclosed.

CONCLUSION

The adoption of SA 701 in Indonesia represents an important step toward improving the transparency and informativeness of audit reports. In this context, this study examines whether Key Audit Matters (KAM) disclosure differs between companies audited by Big 4 and non-Big 4 audit firms. Using 771 firm-year observations from consumer cyclicals, property and real estate, and energy companies listed on the Indonesia Stock Exchange during 2022–2024, this study focuses on two disclosure dimensions: the number of KAM and the length of KAM descriptions.

The findings show that there is no significant difference in the number of KAM disclosed by Big 4 and non-Big 4 audit firms. This indicates that the quantity of KAM is not mainly determined by audit firm type, but is more closely related to the auditor's professional

judgment, the nature of the client's business, and the risks identified during the audit. Therefore, the number of KAM should not be interpreted simply as a reflection of audit firm size.

However, this study finds a significant difference in the length of KAM descriptions. Big 4 audit firms tend to provide longer explanations than non-Big 4 firms. This suggests that differences in KAM disclosure are more evident in the depth of explanation rather than in the number of issues disclosed. The longer descriptions provided by Big 4 auditors may reflect stronger technical resources, broader industry experience, and greater reputational incentives to communicate audit matters more clearly.

This study contributes to the audit literature by providing empirical evidence on KAM disclosure practices in Indonesia as an emerging economy. The findings show that the informativeness of KAM disclosure should not be assessed only by the number of KAM reported, but also by the extent and clarity of the explanation provided. Practically, the results highlight the importance for regulators and audit firms to pay attention not only to compliance with SA 701, but also to the quality and usefulness of KAM narratives.

This study is limited to three sectors and the 2022–2024 observation period. Future research may expand the sample across more industries and longer periods. Further studies may also examine qualitative aspects of KAM disclosure, such as readability, specificity, boilerplate language, and the extent to which KAM descriptions reflect entity-specific audit risks.

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