

ABSTRACT

This paper aims to examine the effect of audit quality, based on the signalling theory, on firm value in the Indonesian financial service sector from 2016 to 2020. This study uses audit firm size (Big Four vs. Non-Big Four) as the measure for audit quality and Tobin's Q as the proxy for firm value. Using a sample of 60 financial service firms listed on the Indonesia Stock Exchange for five years from 2016 to 2020, this study finds that audit quality has a significantly negative effect on firm value in the Indonesian financial service sector. Following the event of PT Sunprima Nusantara Pembiayaan Tbk.'s audit fraud case in 2018, the Indonesian capital market changes its valuation toward firms that are audited by the Big Four public accounting firms. Higher quality audits in the Indonesian financial service sector cannot be determined by merely using the Big Four or non-Big Four auditors' audit service. Companies and regulators are advised to view both the Big Four and Non-Big Four auditors equally based on their performance.

Keywords: audit quality; firm value; signalling theory; Big Four auditors; Indonesian financial service sector.