

FACTORS AFFECTING AUDIT FEES IN FINANCIAL SECTOR COMPANIES IN INDONESIA STOCK EXCHANGE

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ABSTRACT

The purpose of this study is to collect data from empirical studies on the relationship between audit fees and firm size, profitability firm risk, and status of audit firm. 43 companies in the financial sector that have been listed on the Indonesia Stock Exchange for three years, from 2018 to 2020, represent the research sample. Secondary data was used in this study. Panel data regression was chosen as the data analysis model in this study, and EViews 12 SV was used to process the data. The findings of this study indicated that a company's size had a positive effect on audit fees. According to the study's findings, audit fees are not significantly affected by profitability, firm risk, or the status of the audit firm.

Keywords: *firm size, profitability, firm risk, status of audit firm.*

1. INTRODUCTION

A company's financial statements show its financial situation and can serve as the basis for decision-making for stakeholders. Therefore, companies must present quality, relevant and credible financial reports to maintain the neutrality of these reports, the services of an independent third party, namely auditors.

In expressing their opinion, the auditor must express their opinion by applicable professional standards and be neutral. The company must pay for services that the auditor has provided in the form of audit fees. The fee is still based on negotiations between the company and the public accountant. There are several cases of financial scandals in this country, one of which is the SNP Finance case that occurred in 2018 where the financial statements were not relevant to the actual situation. This case raises many questions about the independence of the auditor which affects the audit fee given. Therefore, the company must pay attention to the factors that can affect the amount of the audit fee that will be given. In Indonesia, not all companies have included the number of audit fees they paid to KAP in their financial statements. According to Hasan (2017), because it is still a voluntary disclosure.

Many factors can affect audit fees, both internal and external factors. Internal factors include company size, profitability, and company risk. The larger the size of the company, the higher the profitability and risk of the company, indicating the more significant the audit risk that will be faced. The status of audit firm is an external factor that might affect audit fees. Companies tend to choose the Big Four KAPs because they are believed to have higher credibility in maintaining their independence.

This study refers to Januarti & Wiryaningrum (2018), which examines the effect of size, profitability, risk, complexity, and independent audit committee on audit fees. Compared to earlier studies, this one has quite a few of modifications, including (1) Companies in the financial industry that are listed on the Indonesia Stock Exchange are used in this study, (2)

This study uses the period from 2018-2020 (3), and there is an additional variable, namely the status of audit firm from Mulyadi & Prasadhita (2020). The effect of firm size, profitability, firm risk, and the status of audit firms on audit fees needs to be reanalyzed because of the above framework.

According to Widiastari & Yasa (2018), company size is a scale to classify the size of a company based on total assets, total sales, the value of company shares, and so on. The larger the scale of the company, the greater the level of risk that will arise.

According to Kieso et al. (2020), profitability is one of the ratios used to measure the company's ability to earn profits based on total sales, total assets, and share capital at a certain level. A company needs to stay profitable in order to maintain its operations over the long term as well as for it to demonstrate its future prospects. ROA is obtained from the percentage of net income in one year to total assets in the same year. Increased ROA shows that the survival of a company will be more guaranteed.

According to Darma et al. (2019), corporate risk is a condition in which some possibilities can cause a company's performance to be lower due to uncertain conditions (uncertainties) in the future. DAR is obtained from the percentage of total debt in one year to total assets in the same year. The higher the debt ratio of a company can indicate the higher its risk due to the possibility that the company has difficulties paying its debts.

According to Arens et al. (2021), public accountants are individuals who have met the requirements set and are responsible for carrying out the audit function of a company's financial statements. In carrying out these functions, there is a Public Accounting Firm. A public accounting company called Public Accounting Firm (KAP) offers expert services for financial statement audits. According to Naser and Hassan (2016), internationally affiliated KAP have higher experience and professionalism than non-big four KAP, so companies tend to choose internationally affiliated KAP / big four KAP.

2. LITERATURE REVIEW

Agency Theory

The relationship that exists between the company's management as an agent and the shareholders as the principal is explained by the theory of agency. The company's principal is always interested in finding out about all the business's activities. Therefore, through the accountability report, the principal gets the information needed and, simultaneously, as an assessment tool for the agent's performance in a certain period.

According to Jensen and Meckling (1976), the genetic relationship between the principal and the agent can lead to conflict due to differences in interests between the principal and the agent. The existence of a conflict of interest will cause agency costs. This agency conflict can be minimized by equating the interests of the principal and agent with the help of an independent third party, namely the auditor.

An auditor can understand the problems that arise of both agents and principals by using this agency theory. Auditors are third parties who act as an intermediary between the principle and the agent for the agent to be held accountable to the principal. The auditor's role is enormous, requiring the auditor to work independently and objectively in carrying out his

work.

Compliance Theory

Compliance theory is a theory that explains a situation in which a person obeys directions or rules provided to them. According to Tyler, there are two perspectives on compliance, namely instrumental and normative. For example, in Indonesian Constitution Number 8 Year 1995, companies active in the Indonesian capital market submit annual financial reports promptly.

The Effect of Firm Size on Audit Fees

Firm size is one indicator of the size of a company. Large companies usually carry out complex transactions and activities. Agency theory states that agency conflicts occur due to differences in interests between the agent and the principal. Therefore, large companies are more likely to have a high conflict between management and principals than small companies; the more significant the company's size, the more difficult for the principal to monitor management actions.

This can affect the auditor's work process because the auditor requires a longer time and more audit staff to examine the existing evidence. Therefore, it can be concluded that the larger the company's size, the greater the costs to be incurred by the company for audit fees.

The Effect of Profitability on Audit Fees

Profitability is one indicator to estimate the level of success or failure of the company in a period which is reflected in the financial statements. The higher the profit generated, the more the agent has done their job well. However, the agent's responsibility will also be greater towards the principal. Therefore, to ensure that the agent has done his job correctly and that there are no errors, there is a third party, namely the auditor.

Companies with a high level of profitability will report more information about their transactions and business activities. This causes the auditor's time to be longer in carrying out the audit process because the auditor needs to test the validity of the company's revenue and expense recognition whether it is appropriate so that the company will incur higher costs for audit fees.

The Effect of Firm Risk on Audit Fees

Firm risk is the future uncertainty that may occur to the company, which causes losses and decreases the company's performance. Agency theory assumes that management uses debt in its operational activities to increase capital to increase company profits. Growing money for company activities will increase profitability for shareholders, but this shows that the company has a high risk because it uses debt in its operational activities.

The high risk of the company causes the audit process to be quite complicated and lengthy because the auditor needs to detect fraud that may be happened by the company. The more time the audit takes the higher the company's costs for audit fees. In line with the compliance theory, when a company reports financial statements that are not timely, the company will be considered not to meet the quality and standards in carrying out the rules that have been

determined to increase audit fees.

The Effect of Status of Audit Firm on Audit Fees

Public Accounting Firm is an office that provides professional services to audit a company's financial statements. Agency theory explains that the presence of an auditor is an alternative to reduce agency conflict between the principal and the agent. The company believes that internationally affiliated KAPs have higher experience and professionalism and provide better service quality than non-big four KAPs. The better the audit quality produced, the KAP tends to charge higher fees. This supports that the greater the status of the audit firm, the higher the audit fees that the company must incur.

3. RESEARCH FRAMEWORK AND METHODOLOGY

Theoretical Framework

The model in this study is presented in Figure 1 as follows:

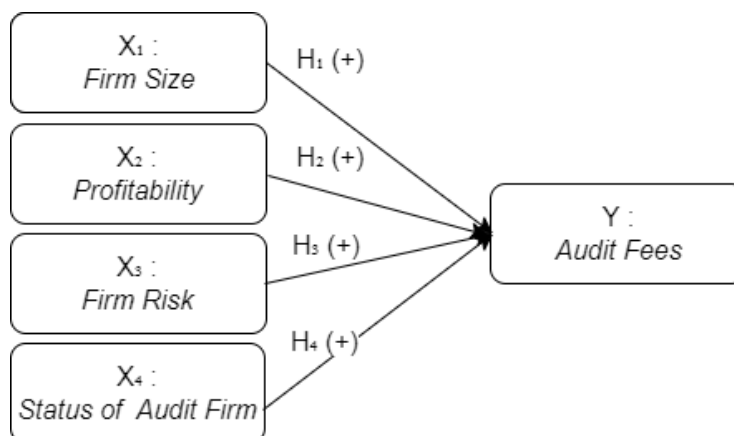


Figure 1 Theoretical Framework

Based on the previous explanation, the following hypothesis can be formulated:

Ha1: Firm size has a positive effect on Audit Fees

Ha2: Profitability has a positive effect on Audit Fees.

Ha3: Firm risk has a positive effect on Audit Fees

Ha4: Status of Audit Firm has a positive effect on Audit Fees.

Research Methodology

All financial sector companies that were consistently listed on the Indonesia Stock Exchange between 2018 and 2020 are the population used in this study. Purposive sampling is used in this research when selecting the sample. The following criteria were used to select the sample: (1) Financial sector firms that consistently list on the Indonesia Stock Exchange; (2) Financial sector firms that consistently present financial statements that ended on December 31, 2013; (3) Financial sector firms that consistently present the amount of audit fees; and (4) Financial sector firms that do not suffer a loss. A sample of 43 businesses was selected based on these parameters, and 129 data were collected over a three-year period, from 2018 to 2020.

The information is gathered from the financial statements of all businesses continually listed on the Indonesia Stock Exchange between 2018 and 2020 in the financial sector companies. Next, EVIEWS is used to process the obtained data.

Audit fees are the dependent variable in this study, whereas firm size, profitability, firm risk, and status of the audit firm are the independent variables which explained in the Table 1 as follows:

Table 1 Operationalization of Research Variable

Variable	Proxy	Scale	References
<i>Audit Fees</i>	$AUFEE = \log \text{ natural audit fees}$	Ratio	Naser & Hassan [20]
<i>Firm Size</i>	$SIZE = \log \text{ natural total asset}$	Ratio	Naser & Hassan [20]
<i>Profitability</i>	$ROA = \frac{\text{Profit after tax}}{\text{Total asset}}$	Ratio	Brigham & Houston [21]
<i>Firm Risk</i>	$DAR = \frac{\text{Total liabilities}}{\text{Total asset}}$	Ratio	Kieso <i>et al.</i> [7]
<i>Status of Audit Firm</i>	<i>Variable dummy : 1 = company uses KAP Big Four ; 0 = company does not use KAP Big Four (non-big four)</i>	Nominal	Sinaga & Rachmawati [21]

4. RESULT AND DISCUSSION

With a three-year research period from 2018 to 2020, as many as 129 data were acquired using the previously specified criteria to choose a sample of 43 organizations. The tables below show the statistical descriptions for each variable. (See Table 2)

Table 2 Descriptive Statistics

Description	AUFEE	SIZE	ROA	DAR	KAP
Observation	129	129	129	129	129
Minimum	18.60300	26.93298	0.00071	0.00001	0.00000
Maximum	23.46564	34.95208	1.53130	0.09204	1.00000
Mean	20.90171	30.68052	0.66191	0.02330	0.55814
Std. Deviation	1.22565	2.13235	0.26100	0.02141	0.49854

The value of audit fees ranges from 18.60300 to 23.46564. with a mean of 20.90171 and a standard deviation of 1.22565. A small range of audit fee data is indicated by the mean audit fee value exceeding the standard deviation. Firm Size ranges from a minimum of 26.93298 to a maximum of 34.95208. with a mean value of 30.68052 and a standard deviation of 2.13235. A small range of firm size data is indicated by the mean value of firm size exceeding the standard deviation. Profitability (ROA) ranges from a minimum of 0.00071 to a maximum of 1.53130. with a mean value of 0.66191 and standard deviation of 0.26100. Profitability's standard deviation is closer to the mean. This suggests that profitability data are not widely distributed. Firm Risk (DAR) ranges from a minimum of 0.00001 to a maximum of 0.09204. with a mean value of 0.02330 and standard deviation of 0.02141. There is a small dispersion

in the data on the size of the companies since the mean value of firm risk is bigger than the standard deviation. Status of Audit Firm ranges from a minimum of 0.00000 to a maximum of 1.000000. with a mean value of 0.55814 and standard deviation of 0.49854. The mean value of the status of audit companies exceeds the standard deviation. which results in a limited distribution of audit company status.

As seen below, the Chow test findings indicate that the probability value of F is 0.0000 or less than 0.05, indicating that the fixed effect model was chosen.

Table 3 Chow Test Result

Redundant Fixed Effects Tests
 Equation: FEM
 Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	18.097364	(42,82)	0.0000
Cross-section Chi-square	300.462515	42	0.0000

Source: Data Processing Using EViews 12

The Hausman test is carried out after the fixed effect model has been chosen. The Hausman test's findings indicate that the probability value of random is 0.0000 or less than 0.05, indicating that the fixed effect model was chosen. The fixed effect model is the best fit for this research out of the two tests that have been done.

Table 4 Hausman Test Result

Correlated Random Effects - Hausman Test
 Equation: REM
 Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	12.463112	4	0.0142

Source: Data Processing Using EViews 12

The multiple regression analysis results based on the chosen fixed effect model are as follows.

Table 5 Result of Multiple Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.397235	2.040609	1.174765	0.2435
SIZE	0.606190	0.067948	8.921413	0.0000
ROA	-0.191910	0.282122	-0.680239	0.4983
DAR	-3.596498	2.684013	-1.339970	0.1840
KAP	0.209813	0.136285	1.539515	0.1275

Effects Specification			
Cross-section fixed (dummy variables)			
R-squared	0.979893	Mean dependent var	20.90171
Adjusted R-squared	0.968614	S.D. dependent var	1.225651
S.E. of regression	0.217137	Akaike info criterion	0.059009
Sum squared resid	3.866161	Schwarz criterion	1.100956
Log likelihood	43.19393	Hannan-Quinn criter.	0.482373
F-statistic	86.87569	Durbin-Watson stat	2.940560
Prob(F-statistic)	0.000000		

Source: Data Processing Using EViews 12

The regression equation can be formulated as follows using the test result above.

$$AUFEE = 2.397235 + 0.606190 X_1 - 0.191910 X_2 - 3.596498 X_3 + 0.209813 X_4 + e$$

Notes:

- AUFEE : Audit Fees
- $\beta_{1,2,3,4}$: Coefficient Regression
- X_1 : Firm Size
- X_2 : Profitability
- X_3 : Firm Risk
- X_4 : Status of Audit Firm
- e : Error

5. DISCUSSION

The Firm Size Effect on Audit Fees

According to the fixed effect model's test results in Table 5, the firm size variable has a positive t-statistics of 8.921413, which indicates that its impact on the natural logarithm of total asset proxy is positive. In addition, the test results show that the value of the probability of firm size is 0.0000, which is less than the level significance of 5%. It is clear that the size of a company has a big impact on audit fees.

The results of this study are consistent with those of Januarti & Wiryaningrum (2018), Dilie (2016), Cristansy & Ardiati (2018), Musah (2017), Baiyuri et al. (2019), Sastradipraja (2021), Nastiti & Rahayu (2018). This study is inconsistent with research by Mulyadi & Prasditha (2020), and Sanusi and Purwanto (2017) which states that firm size has a positive but insignificant effect on audit fees. The firm size in this study is determined by total assets, indicating that the more the total assets managed by the organization, the more complex the audit will be; a larger firm size will also increase the time and effort required by the auditor to carry out his duties.

The larger the company's size, the more total assets company has, indicating that the company is going to disclose more information to the public. Therefore, to avoid a conflict between the principal (owner) and agent (management), more effective audit services are needed so that the costs the company incurs for audit fees will also be higher for external auditors

The Profitability's Effect on Audit Fees

According to the fixed effect model's test results in Table 5, the profitability variable has a negative t-statistics of -0.680239, which indicates that its impact on the return on total asset proxy is negative. In addition, the test results show that the value of the probability of firm size is 0.4983, which is more than the level significance of 5%. It can be stated that profitability affects the audit fees negatively but not significantly.

These results are consistent with the research of Mulyadi & Prasditha (2020) and Sastradipraja (2021), but not consistent with the research of Musah (2017) which states that that profitability significantly negatively affects audit fees. The findings of this study also differ with previous research. of Januarti & Wiryaningrum (2018) and Azizah et al. (2021) which stated that profitability had a significant positive effect on audit fees. It is also inconsistent with research by Dilie (2016) and Sanusi and Purwanto (2017) which states that profitability has a positive but not significant effect on audit fees.

The greater the profitability of a company, the audit fees that the company will spend for external audits will be even higher. This is because the company has many transactions and causes the auditor to examine the audit evidence longer. Profitability, however, did not significantly impact audit fees in this study, indicating that the company's profitability is not the primary determinant of the amount of expenses expended for external audit fees.

The Firm Risk Effect on Audit Fees

According to the fixed effect model's test results in Table 5, the firm risk variable has a negative t-statistics of -1.339970, which indicates that its impact on the debt asset to ratio proxy is negative. In addition, the test results show that the value of the probability of firm size is 0.1840, which is more than the level significance of 5%. The conclusion is that firm risk influences audit fees negatively but not significantly.

These results are consistent with research by Baiyuri et al. (2019), but not consistent with research by Rahman and Utami (2021) which states that there is a significant negative effect between company risk on audit fees. The results of this study also contradict the research of Mulyadi and Prasditha (2020), Azizah et al. (2021), and Sanusi and Purwanto (2017) who state that company risk has a significant positive effect on audit fees. Also inconsistent with the research of Januarti & Wiryaningrum (2018), Dilie (2016), Musah (2017), and Sastradipraja (2021) stated that company risk has a positive but not significant effect on audit fees.

The results of this study indicate that not all companies in the financial sector in Indonesia take the company risk in determining audit fees. Another thing that states that company risk cannot be the primary determinant in determining audit fees is the difficulty of measuring company risk. Auditors need to consider several proxies in determining company risk.

The Status of Audit Firm Effect on Audit Fees

According to the fixed effect model's test results in Table 5, the firm risk variable has a negative t-statistic of -1.539515, which indicates that its impact status of audit firm proxy is positive. In addition, the test results show that the value of the probability of firm size is 0.1275, which is more than the level significance of 5%. It is obvious that firm risk affects audit fees positively but not significantly.

These results are consistent with the research of Dilie (2016), Mulyadi & Prasaditha (2020), and Azizah et al. (2021), but not consistent with the research of Cristansy & Ardiati (2018), Musah (2017), Rahman and Utami (2021), Sanusi and Purwanto (2017), and Nastiti and Rahayu (2018), which states that there is a significant positive effect between the status of audit firms on audit fees.

The status of the audit firm cannot be the primary factor for the company to consider when deciding the amount of audit fees paid to independent auditors. It can be seen from the case that happened to Delloite, where the results of the examination of the SNP Finance company did not match the results of the OJK examination, so the status of the audit firm could not be the main determining factor for the to consider when deciding the amount of audit fees paid to independent auditors.

6. CLOSING

This research intended empirical proof of the positive effects of firm size, profitability, firm risk, and status of audit firms on audit fees, as well as the positive effects of audit fees on firm size, profitability, and status. The results of this study indicate that firm size has a positive impact on audit fees, profitability and firm risk have a non-significant negative effect on audit fees, and the status of the audit firm has a non-significant positive effect on audit fees.

There are several limitations in this study, the following are the limitations of this study:

1. The sample of this study only uses companies in the financial sector listed on the Indonesia Stock Exchange.
2. The research period used is only 3 (three) years, namely 2018 - 2020, so it is only able to explain the conditions in the 2018 - 2020 period.
3. The variables used in this study are limited to only four variables, namely company size, profitability, company risk, and status.

Based on these constraints, several suggestions for further research could be given in order to advance this research, including the following items:

- (a) It is expected to be able to examine other sectors that are not limited to financial sector companies.
- (b) It is expected to use a research period of more than 3 years, for example 5 years so that the research results are more accurate.
- (c) It is expected to add variables from internal and external factors of the company such as subsidiary variables and audit report lag, where these variables can be one of the determinants of the amount of audit fees that will be issued by the company for independent auditors.

The purpose of this research is to assist in helping the companies determine audit fees in a way that does not affect the independence of an auditor.

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