The Effect Of Profitability, Company Complexity, Company Risk And Board Of Commissioners On Audit Fees

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ABSTRACT

This study aims to determine the effect of profitability, company complexity, company risk, and board of commissioners on audit fees in good and beverages sub-sector companies in the consumer goods sector listed on the Indonesia Stock Exchange. The sample of this study was obtained using purposive sampling technique, so that 45 samples were obtained with the research period 2020-2022. Data analysis using the classical assumption test and hypothesis testing using panel data regression analysis using the eviews version 12 tool. The results of this study indicate that company complexity and board of commissioners have an effect on audit fees, while profitability and company risk have no effect on audit fees. From the results of the study also obtained the coefficient of determination (R2) with a value of 0.49 means that the magnitude of the influence of profitability, company complexity, company risk, and board of commissioners is 49%.

INTRODUCTION

The financial statements issued by a company can be used by creditors and investors to make very important decisions. According to Huri & Syofyan (2019), public companies must carry out a review of their company's financial statements to increase creditor and investor confidence in financial statement information. Thus, financial reports need to ensure their quality or accuracy. Financial Services Authority Regulation No. 13 / POJK.03 / 2017 concerning "Use of Public Accountant Services and Public Accounting Firms in Financial Services Activities" states that companies on the stock exchange must disclose their audited financial statements (OJK, 2017).

Putri & Rasmini (2017) explain that the audit process is an examination that is carried out critically and systematically by an independent individual of management's financial statements, along with accounting records and supporting evidence, with the aim of providing an opinion on the fairness of these financial statements. To ensure that the financial statements have been prepared in accordance with generally accepted accounting principles and contain the information required by users of the financial statements, the financial statements require the expertise of an objective external auditor. Thus, the company must pay an audit fee to the external auditor for the services provided by the external auditor.

Audit fees are a dilemma, where the auditor in providing his opinion must be independent, but on the other hand the auditor also gets paid by the client who hired him. The rules regarding the nominal audit fee

are contained in the Indonesian Institute of Certified Public Accountants (IAPI) Regulation No. 2/2016 (IAPI, 2016) and are based on an agreement between the auditee and the auditor. Audit fees charged by public accounting firms in Indonesia can range from tens of millions of rupiah to billions of rupiah per year.

One of the phenomena related to audit fees in Indonesia is the case of PT Tiga Pilar Sejahtera Food. The company's external auditor could not find any irregularities in the 2017 financial statements which received an unqualified opinion. As a result in 2018, the company suffered a loss of more than nine billion rupiah (Septiadi, 2018).

However, despite experiencing losses due to auditor failure, the company's audit fee payments increased by 68.75% compared to the previous year. This increase is quite significant compared to similar sub-sectors that experienced a 20% increase in audit fees. So it is necessary to conduct an academic study on the audit fee indicator because the audit fee is a closed agreement between the auditor and the client (Fitrian Sari et al., 2023).

Previous research related to audit fees including conducted by; Izzani & Khafid, (2022) revealed that profitability has a significant effect on the determination of audit fees. Nazara & Rusmanto (2022) state that company profitability has no effect on audit fees. Sa'diah, et al (2022) show that company complexity has a positive influence on audit fees and is significant.

Cristansy and Ardianti (2018) state that company complexity has no effect on audit fees. Humaira & Syofyan (2020), the study found that company risk has a positive effect on audit fees. Nazara & Rusmanto (2022), company risk on audit fees has no significant effect.

This study refers to the research of Agustina et al. (2023) by adding the board of commissioners variable. A larger board will conduct better monitoring from external auditors, thus causing an increase in audit costs. Therefore, audit costs are strongly associated with a larger board that has various risk committees (Mundiroh & Khikmah, 2021).

LITERATURE RESEARCH
A. Agency Theory
This theoretical review outlines the main concept, namely agency theory. Agency theory refers to the contract between managers (agents) and investors (principals), Agents are managers or management who manage the company's operational activities. While the principals are shareholders / company owners/investors who provide capital, and facilities for the company's operational activities (Amelia et al., 2022). However, due to human nature that thinks of its own interests, there are differences in interests between the two parties.

B. Deep Pocket Theory
Deep pocket theory explains the relationship between the service fee received by the auditor and the opinion given. Companies or clients that have a high level of litigation risk will certainly also affect the level of risk that auditors have. Therefore, auditors must work more effectively and thoroughly to avoid or reduce errors in providing opinions. This will be related to the greater service fee for the audit services that the auditor has provided. This litigation risk is assessed by assessing company risk (Andini, 2020).

C. Audit Fees
Audit fee is a fee obtained by a public accountant after completing his audit assignment. Many things affect the amount of audit fees. Among them, internal audit activity, assignment risk, work complexity, the structure of the public accounting firm concerned and various other professional considerations (Agoes, 2012).

Audit fees will generally be based on three factors, namely the number of personnel conducting the audit, the length of time personnel spend on the audit process, and the audit speed per hour per personnel. The size of these three factors is adjusted based on the conditions or characteristics of the client or company to be audited. Company characteristics that are taken into consideration in determining audit fees include profitability, company complexity, and company risk (Agustina et al., 2023).

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C. Conceptual Framework

Figure 1. Conceptual Framework
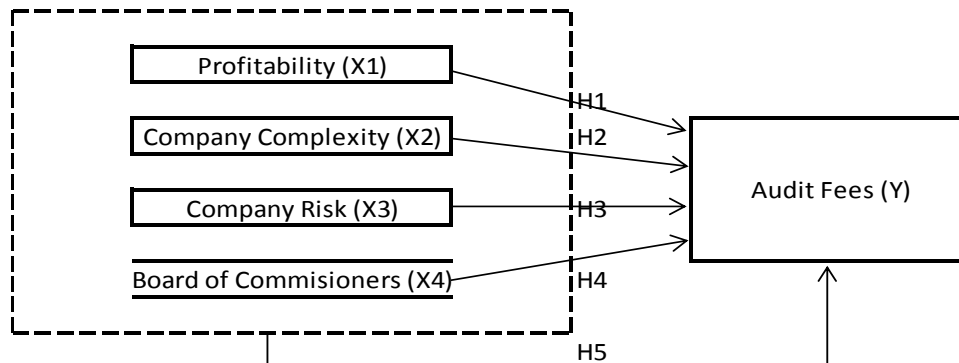
Source : Research Data (2024)

METHOD

A. Population and Sampling Method

Food and beverage sub-sector companies listed on the Indonesia Stock Exchange for the period 2020-2022 as the research population using the purposive sampling method obtained 45 samples from 15 companies with the following criteria::

1. Food and beverage sub-sector companies listed on the Indonesia Stock Exchange during the period 2020-2022;
2. Food and beverage sub-sector that publish annual reports;
3. Food and beverage sub-sector that disclose audit fees in their annual reports

B. Research Variables And Measurement

This type of research is quantitative research. The data used is secondary data obtained from annual company annual reports in the 2020-2022 time span listed on the Indonesia Stock Exchange (IDX) accessed through the site www.idx.co.id.. The measurement of each research variable is outlined as follows:

Table 1. Measurement of Variables

No	Variables		Measurement	Scale
1	Audit Fees	Y	Ln (Audit Fees)	Ratio
2	Profitability	X1	ROA = Net Income/Total Assets	Ratio
3	Company complexity	X2	Number of Subsidiaries	Ratio
4	Company risk	X2	DAR = Total Debt/Total Assets	Ratio
3	The Board of Commissioners	X4	Number of Board of Commissioners	Ratio

Source : Research Data, 2024

For testing in this research, used:

1. Descriptive Statistical Test

Descriptive statistics offer an overview or portrayal of a subject based on various criteria, including measures such as the mean (average), standard deviation, variance, maximum, minimum, sum, range, kurtosis, and skewness (Sugiyono, 2012).

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2. Classic Assumption Test
  a. Data Normality Test
        The function of this test is to find out in a normally distributed data regression model. Generally, data normality can be found through the distribution of points on the diagonal axis by looking at the histogram of the residuals. According to Ghozali (2016) the normality test is analyzed by looking at the Jarque Bera (JB) probability criteria as follows:
    - If the probability value is <0.05 then H0 is rejected, which means the data is not normally distributed.
    - If the probability value is> 0.05 then H0 is accepted, which means the data is normally distributed.
  b. Multicollinearity Test
        The purpose of conducting a multicollinearity test is to determine whether there exists a The multicollinearity test is useful for testing whether or not there is a perfect or large correlation between independent variables in a particular regression model. A multiple regression model can be considered good if the regression model whose independent variables do not show a high correlation or are free from multicollinearity. This can be done by looking at the tolerability value and variable inflation factor (VIF)..
  c. Autocorrelation Test
        The autocorrelation test is carried out to determine whether there is a correlation between sample members or observation data sorted by time with the previous period. To determine whether or not there is autocorrelation, the Langrange Multiplier Test (LM test) is carried out. The determination of this test assessment is if the probability value> 0.05 then there is no autocorrelation problem.
  d. Heteroscedasticity Test
        The heteroscedasticity test is conducted to examine whether there is a disparity in variance among residual observations within the multiple regression model under examination. The Glejser test is the method employed in this study to determine the presence or absence of heteroscedasticity. An ideal regression model exhibits homoscedasticity, where variances are uniform across observations. This study employed the Glejser test to assess the presence or absence of heteroscedasticity. In the Glejser test, if an independent variable significantly affects the dependent variable, it may indicate the presence of heteroscedasticity (Ghozali, 2018).

3. Hypothesis Test
  a. t test
        The t test aims to look at the significance results generated from variable X on variable Y partially. The significance level in the test is 5%, in other words, if the significance value is above 0.05, it will be said to be insignificant. The following panel data regression analysis equation is used:

$$Y_{i,t} = \beta 0 + \beta 1 X1it + \beta 2 X2it + \beta 3 X3it + \beta 4 X4it + t\ eit$$

RESULTS AND DISCUSSION
1. Descriptive Statistical Test

Table2. Descriptive Statistical Test

	Y	X1	X2	X3	X4
Mean	20.57920	0.061643	5.111111	0.424807	3.800000
Median	20.72327	0.050947	4.000000	0.439416	3.000000
Maximum	22.77354	0.599025	13.00000	0.738913	8.000000
Minimum	18.83444	-0.191144	0.000000	0.073565	2.000000
Std. Dev.	1.084305	0.118032	4.333916	0.173358	1.618080
Observations	45	45	45	45	45

Source: Research Data, 2024

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The Audit Fee variable (Y) has a minimum value of 18.83444 and a maximum value of 22.77354 with an average value of 20.57920 and a standard deviation of 1.084305.

The Profitability variable (X1) has a minimum value of -0.191144 and a maximum value of 0.599025 with an average value of 0.061643 and a standard deviation of 0.118032.
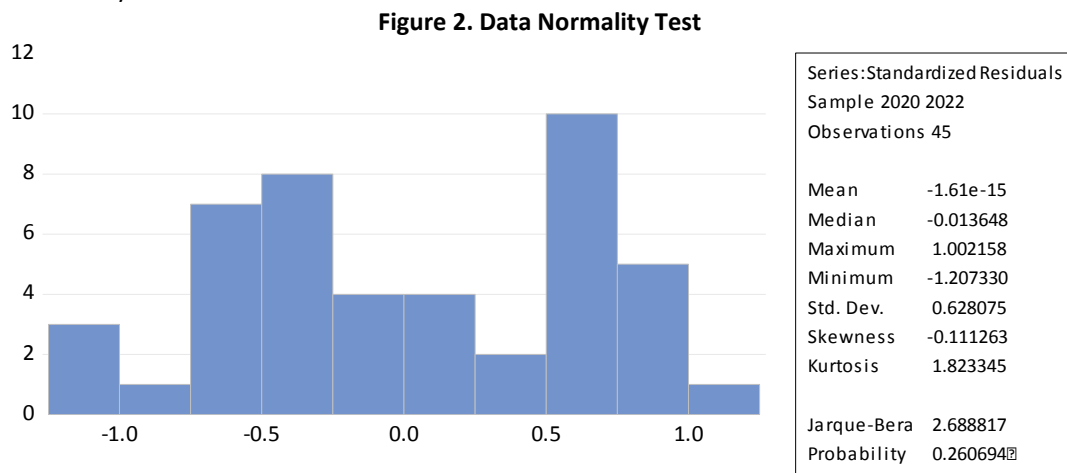
The Corporate Complexity variable (X2) has a minimum value of 0.00000 and a maximum value of 13.00000 with an average value of 5.111111 and a standard deviation of 4.333916..

The Company Risk Variable (X3) as measured using the dept to assets ratio has a minimum value of 0.073565 and a maximum value of 0.738913 with an average value of 0.424807 and a standard deviation of 0.173358.

The Board of Commissioners variable (X4) has a minimum value of 2.00000 and a maximum value of 8.00000 with an average value of 3.80000 and a standard deviation of 1.618080..

2. Classic Assumption Test

a. Data Normality Test

Figure 2. Data Normality Test

Series: Standardized Residuals	
Sample 2020 2022	
Observations 45	
Mean	-1.61e-15
Median	-0.013648
Maximum	1.002158
Minimum	-1.207330
Std. Dev.	0.628075
Skewness	-0.111263
Kurtosis	1.823345
Jarque-Bera	2.688817
Probability	0.260694

The results of testing the normality of the data show that the data passes the normality test where the JB value is 0.260694 > α = 0.05, so the data is normally distributed.

b. Multicollinearity Test

Multicollinearity test, where the results of the VIF value of Profitability (X1) 1.012387, VIF value of Company Complexity (X2) 1.736780, VIF value of company risk (X3) 1.337038, and VIF value of the Board of Commissioners (X4) of 1.366613 where from the four variables the VIF value is <10, it can be concluded that there is no multicollinearity problem and the regression model can be said to be good.

c. Autocorrelation Test

The Heteroscedasticity test uses the glejser test to see the absolute value of the residuals against the independent variable. If the result of the confidence level of the white test test> 0.05 then there is no heteroscedasticity. this study gets a value of 0.2> 0.05 which means that there is no heteroscedasticity in this research model.

d. Heteroscedasticity Test

The Autocorrelation test aims to test whether in a linear regression model there is a correlation between confounding errors (residuals) in period t with errors in period t - 1 (previous). The Breusch-Godfrey test or called the Lagrange Multiplier gets a probability Chi-Square value of 0.6968 greater than 0.05. This means that the regression model used does not occur autocorrelation.

3. Hypothesis Test

Of the three models that have been estimated through the chow test, Hausman test and LM test, it can be seen that the selected model is Random Effect Model

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a. T test

The t test shows how much influence one independent variable has on the variation of the dependent variable. A significance value below 0.05 indicates acceptance of the hypothesis, and a significance value above 0.05 indicates rejection of the hypothesis. The following table is the result of the t test.

Table 3 Panel Data Regression Test

Dependent Variable: Y
Method: Panel EGLS (Cross-section random effects)
Sample: 2020 2022
Periods included: 3
Cross-sections included: 15
Total panel (balanced) observations: 45
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.883467	0.385108	48.90754	0.0000
X1	-0.021077	0.347787	-0.060604	0.9520
X2	0.100569	0.039411	2.551775	0.0146
X3	0.622465	0.565264	1.101192	0.2774
X4	0.254574	0.069208	3.678413	0.0007
R-squared				0.48648
Prob(F-statistic)				0.00001

Based on table IV.10, the conclusion of the t-test results is as follows:
1. The profitability variable (X1) is known to have a t value = - 0.06060 < t table = 2.2020 and a significance value of 0.9520> 0.05. So it can be stated that the profitability variable partially has no effect on the audit fee variable.
2. The company complexity variable (X2) is known to have a t value = -2.551775> t table = 2.2020 and a significance value of 0.0146 <0.05. So it can be stated that the company complexity variable partially has a significant effect on the audit fee variable.
3. The company risk variable (X3) is known to have a t value = 1.101192 < t table = 2.2020 and a significance value of 0.2774> 0.05. So it can be stated that the company risk variable partially has no significant effect on the audit fee variable.
4. The board of commissioners variable (X4) is known to have a t value = 3.678413> t table = 2.2020 and a significance value of 0.0007 <0.05. So it can be stated that the board of commissioners variable partially has no effect on the audit fee variable.

5. Discussion
a. Profitability has no Effect on Audit Fee
Based on the results of the hypothesis test, it states that the first hypothesis is rejected. So it can be concluded that the profitability variable has no partial effect on audit fees. Profitability is the ability of a company to generate profits effectively and efficiently. Total profit from the ability of high asset value does not affect the auditor in carrying out his job function in auditing a company which has an impact on the high cost of external audits in order to maintain the code of ethics or auditor independence. In addition, companies with a high level of profit will not pay higher audit fees either. This is because companies that have a high level of profit will not require testing the validity and recognition of income and costs, so that in carrying out the audit it will not take longer and this will not cause the high audit fees that will be received by public accountants..

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The results of this study are in line with research conducted by Nazara & Rusmanto (2022), and Nurin (2018) which suggest that profitability has no effect on audit fees However, it is rejected by research conducted by Agustina et al. (2023) and izzani (2022), which state that profitability affects the determination of audit fees..

b. Company Complexity Affects Audit Fee.

From the results of hypostesis testing, it states that the second hypothesis is accepted, where company complexity affects audit fees. The results of this study are in accordance with the agency theory proposed by Jensen & Meckling (1976) that one of the agency costs is monitoring costs. External audit fees in complex companies are higher than those in non-complex companies, because the more complex a company is, the more complicated the transactions carried out by the company will be, so that external auditors need more time to test and evaluate the company's consolidated reports. This causes high monitoring costs

The results of this study are in line with research conducted by Januarti, Indira, & Wiryaningrum, Mutiara Sukma (2018). Sibuea, et al (2022) state that the number of subsidiaries represents the complexity of the audit services provided. The higher the complexity of the company, the higher the audit fee paid. Companies that have many subsidiaries have more complex transactions that occur in the company (Mundiroh & Siti Noor Khikmah 2021).

c. Company risk has no effect on audit fees

From the results of hypostesis testing, it states that the third hypothesis is rejected, where company risk has no effect on audit fees. The results of this study are in line with the results obtained by Nazara & Rusmanto (2022), where he stated that company risk has no significant effect on audit fees, which means that large or small company risks will not make audit fees paid to external auditors higher or lower. Research researched by Yulianti et al., (2019) and Januati (t.t.) who also found no significant effect of company risk on audit fees. The high and low leverage ratio owned by the company cannot affect the amount of the audit fee.

The results of this study can occur because if the auditor finds the auditee's risk, whether it is high or low, it will not affect the auditor's effort and time in carrying out his responsibilities (Sibuea & Arfianti, 2021). Another reason that can also cause the debt ratio to have no effect on audit fees is that even though the company's leverage ratio is high, this high leverage ratio is part of a business that has been adjusted to the company's competitive ability where the company is still able to manage the debt.

d. Board of Commissioners Affects Audit Fee

From the results of hypostesis testing, it states that the fourth hypothesis is accepted, where the board of commissioners has an effect on audit fees. This is in line with agency theory which explains that each individual, both agents and principals, has the nature to act in accordance with their respective interests (self interest). The more the board of commissioners is able to influence the occurrence of fraud in the financial statements (Izzani & Khafid, 2022). The large number of commissioners will lead to ineffective internal control of the company and not ideally in evaluating the reported financial information. The ineffectiveness of the board of commissioners will cause the financial statements to lack quality so that the auditors need longer time due to additional work resulting in an increase in the audit fee paid.

This research is in line with the results of research by Mundiroh & Siti Noor Khikmah (2021) and Sitompul (2019) which explain that the board of commissioners has a significant positive effect on audit fees.

CONCLUSION

This study aims to determine the effect of profitability, company complexity, company risk and the board of commissioners on audit fees in food and beverage sub-sector companies listed on the Indonesia Stock Exchange (IDX) in 2020-2022. Based on the research results as previously described, the following conclusions can be drawn:

1. Profitability has no effect on Audit Fee in food and beverage sub-sector companies listed on the Indonesia Stock Exchange (BEI) in 2020-2022.

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2. Company complexity affects Audit Fee in food and beverage sub-sector companies listed on the Indonesia Stock Exchange (IDX) in 2020-2022.
3. Company Risk has no effect on Audit Fee in food and beverage sub-sector companies listed on the Indonesia Stock Exchange (IDX) in 2020-2022.
4. The Board of Commissioners has an effect on Audit Fee in food and beverage sub-sector companies listed on the Indonesia Stock Exchange (IDX) in 2020-2022

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