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The Effect of Audit Committee Activities, Internal Audit Personnel and Company Complexity on Audit Fees

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Audit fee, audit committee activity, company complexity, internal audit personnel, manufacturing company.

ABSTRACT

The determination of the amount of audit fees paid by companies to public accountants can be influenced by various factors. This study aims to examine the effect of audit committee activity, internal audit personnel, and company complexity on audit fees. The research population is manufacturing companies listed on the Indonesia Stock Exchange for the 2019-2022 period. The total research sample was 165 observation data. The analysis tool uses multiple linear regression. The results showed that company complexity and internal audit personnel had a positive effect on audit fees. Meanwhile, the audit committee activity variable has no positive effect on audit fees. Thus the KAP selection method uses a demand approach. The implications of this study indicate that the selection of KAP tends to be reputable so that no matter how good the supervision carried out by the audit committee or internal audit personnel, the audit fees will also remain high.

INTRODUCTION

Financial statements according to the Statement of Financial Accounting Standards (PSAK) No. 1 of 2022 are a structured presentation of the financial position and financial performance of an entity. Investors need financial statements to assess the company. Based on the Regulation of the Financial Services Authority of the Republic of Indonesia (PJOK) Number 14 / POJK.04 / 2022, public companies have an obligation to submit and publish financial reports periodically to the OJK and the general public. The company requires assistance from a third party, namely an external auditor to assess the financial statements. The reported financial statements are audited financial statements in accordance with what is written in PJOK Number 13/POJK.03/2017 concerning the Use of Public Accountant Services and Public Accounting Firms in Financial Services Activities.

The results of the audit process in the form of an audit opinion will reflect whether the financial statements prepared by management are adequate and comply with applicable standards. As a form of reward for services, companies are required to pay the rights of public accountants called audit fees. The Indonesian Institute of Certified Public Accountants (IICPA) sets the minimum rate of audit fees in IICPA Management Regulation No. 2 of 2016, with the aim of ensuring that public accountants get adequate compensation.

The amount of audit fees must be disclosed by public companies in the company's annual report, in accordance with what is regulated in the Circular Letter of the Financial Services Authority Number 30 / SEOJK.04 / 2016 concerning the Form and Content of the Annual Report of Issuers or Public Companies, however in its application there are still companies that do not disclose audit fees in the annual report separately from other professional fees. The increasing trend in the disclosure of audit fees in manufacturing companies from 2019 to 2022 is shown in graph 1.

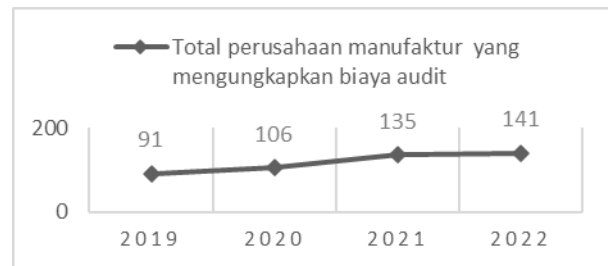


Chart 1. Audit Fee Disclosure

The amount of audit fees agreed by the company and the Public Accounting Firm (KAP) is influenced by various factors. Some of these factors include audit committee activity, internal audit personnel, and company complexity. The approach taken by in choosing a public accountant can be a supply approach or a demand approach. In the supply approach, companies try to minimize risk by conducting good supervision, for example by holding a large number of meetings, optimizing the role of internal auditors. With the supervision that has been carried out, it is expected that audit fees will be smaller (Januarti, et.al.2020). Meanwhile, the demand approach is the opposite, even though supervision has been carried out properly, the company still chooses a reputable KAP with the aim of increasing the company's value, so that the audit fee remains high (Januarti, et.al.2020).

The intensity of meetings held by the audit committee can reduce inherent risk, resulting in lower audit fees (Farooq et al., 2018). However, research conducted by Sukianasih & Tenaya (2016) shows the opposite result.

The bidding method makes internal audit have a negative effect on audit fees. Assessment by internal audit improves the company's control system, so that public accountants can more easily collect reliable evidence so that audit fees are lower (Junita & Pratiwi, 2023).

The request method makes internal audit have a positive effect on audit fees. Companies with good internal audit implementation tend to be willing to make higher payments in order to obtain high audit

quality (Dzikrullah et, al. 2020).

Companies with many subsidiaries will provide a higher level of complexity, so that auditors require greater effort during the audit process, this makes the fees paid by the company for audit services will increase (Yulio, 2016; Hasan, 2017; Januarti & Wiryaningrum, 2018). Meanwhile, the results of research by Indriasih et al (2021) show that company complexity has no effect on audit fees.

Based on the different results of previous studies, this study aims to provide empirical evidence of the effect of audit committee activities, internal audit personnel, and company complexity on audit fees. The difference between this research and previous research is that it looks at audit fees in a supply - demand approach. Whereas in previous studies the majority saw it from the supply side only.

This research is expected to contribute to the accounting and auditing literature by adopting a supply-demand approach to provide evidence on the chosen approach and the factors that influence the amount of audit fees.

The next section discusses the literature review, framework, and hypothesis development. Followed by an explanation of the research method to the data analysis method, then the presentation of results and discussion. Then, it ends with a closing that contains conclusions, limitations, and suggestions for further relevant research.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory explains the relationship that occurs between two parties in an entity, namely the principal and the agent. The agent will be given delegation of authority to make decisions by the principal (Jensen & Meckling, 1976). Agents in a company have a tendency to utilize company resources and increase income for personal gain (Eisenhardt, 2018).

In terms of monitoring the performance of the agent, the principal requires the role of an independent third party, namely a public accountant. The company will incur a number of costs called monitoring costs in exchange for the services provided by the public accountant. Public

accountants also play a role in providing assurance on the financial statements prepared by agents (Januarti & Wiryaningrum, 2018).

The Effect of Audit Committee Activity on Audit Fees

Agency theory explains that the existence and activities of an audit committee in a company will optimize the supervisory process and reduce agency problems. Meetings conducted by the audit committee are a method of supervision in terms of preventing conflicts of interest between the principal and the agent.

The audit committee has responsibilities related to the assessment of financial statements, the audit process, the company's financial situation and internal control mechanisms in the company (Bshayreh et al., 2021). In the supply method, increasing the number of meetings held by the audit committee can improve the quality of financial statements. The meetings conducted allow the audit committee to oversee accounting records and the quality of internal control more effectively (Hoque et al., 2013; Lisic et al., 2016) so that it can have an effect on reducing audit fees (Afenya et al., 2022). The more routine audit committee meeting intensity indicates the high quality of the audit committee and low company risk, so that the scope of the external audit process carried out by public accountants will be smaller (Farooq et al., 2018). Hasan & Naser (2013) and Yatim et al., (2006) provide evidence that audit committee activity has a negative effect on audit fees.

In the demand approach, when the audit committee conducts many meetings, this indicates that the audit committee wants good quality financial reports. Companies represented by the audit committee tend to choose reputable public accountants in the hope that the resulting audit report can increase company value. thus in the demand approach the frequency of audit committee meetings has a positive effect on audit fees. Yasin & Nelson, (2012), Januarti et al., (2020). Based on the support of previous research and theory, that audit fees can be low or high depending on the approach chosen by the company, so the hypothesis is: **H1:** Audit committee activity has a positive (negative) effect on audit fees

The Effect of Internal Audit Personnel on Audit fees

Agency theory explains that companies form internal audit units from the start as a way of supervision, before the external audit process is carried out by public accountants. Internal audit in the company can reflect adequate corporate governance, where the company is able to produce financial reports in a timely manner (Harymawan & Putri, 2023). Assessment by internal audit is a form of supervision that can help reduce the scope of work of external auditors, so that the audit fees paid will decrease. Yasin & Nelson (2012) internal auditor activity has a positive effect on audit fees.

Based on the support of previous research and theory, the hypotheses proposed in this study are as follows:

H2: Internal audit personnel have a positive (negative) effect on audit fees

The Effect of Company Complexity on Audit fees

According to agency theory, the principal will find it increasingly difficult to supervise the agent's performance as the number of subsidiaries increases. Agency theory also explains the assumption that each individual will act based on their personal interests. The principal requires the services of a third party, namely a public accountant to oversee the performance carried out by the agent.

The complexity of the company can come from the number of subsidiaries it has or can also be influenced by the number of transactions that occur in the company. The complexity of these transactions can reflect an increase in company productivity. The higher the complexity of transactions that occur in the company, the longer the time required for external auditors to conduct audits will be, resulting in an increase in audit fees (Yulio, 2016). Auditors need to collect more audit evidence and expand the scope of the audit with many subsidiaries (Hasan & Nasser, 2013; (Hassan, 2016; Hasan, 2017; Junita & Pratiwi, 2023).

Based on the support of previous research and theory, the hypotheses proposed in this study are as follows:

H3: Company complexity has a positive effect on audit fees

RESEARCH METHODS

Population and Sample

The research population is manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022. The secondary data source in this study uses the company's annual report which is accessed through the official website of each company or the Indonesia Stock Exchange website. The research sample uses several criteria. Table 1 shows the sample determination:

Table 1. Research Sample

Criteria	Number of Samples
Manufacturing companies listed on the IDX from 2019 to 2022	827
Companies that do not present annual reports	(73)
Annual reports do not have the researched data	(589)
Number of Samples	165

Operational Definition and Variable Measurement

The dependent variable is the audit fee, which is a nominal amount based on an agreement between the two parties, namely the client company and KAP, which is paid to the public accountant by the related company (Premananda & Badera, 2018). Audit fees are measured using the natural logarithm of the amount of audit fees in the annual report.

$$LNAUFEE = \text{Ln}(\text{Audit fees})$$

The first independent variable, the audit committee, is a committee within the company that is responsible for audit quality and oversight of external auditors during the audit process (Alhababsah & Yekini, 2021). Audit committee activity is measured based on the frequency of meetings held by the audit committee during the current period.

$$ACMEET = \text{Number of audit committee meetings during the year}$$

The second independent variable, internal audit, is an evaluation activity carried out by the internal audit unit independently and objectively with the aim of assisting management (Yusica &

Sulistyowati, 2020). Measurement of the internal audit personnel variable is seen from the number of personnel in the internal audit unit.

IAP = Number of internal audit personnel during the year

The third independent variable, company complexity, is assessed based on the level of complexity of transactions carried out in the company (Yusica & Sulistyowati, 2020). Company complexity is measured based on the number of parent and subsidiary companies.

CC = Total parent and subsidiaries during the year

Hypothesis testing is carried out using multiple linear regression analysis models. The regression equation model used is shown as follows:

$$LNAUFEE = \alpha_0 - \beta_1 (LNACMEET) - \beta_2 (LNIAP) + \beta_3 (LNCC) + \varepsilon$$

Description:

LNAUFEE : Audit fees

LNACMEET : Number of audit committee meetings during the year

LNIAP : Number of internal audit personnel during the year

LNCC : Total parent and subsidiaries during the year

α_0 : constant

$\beta_1 - \beta_2 - \beta_3$: coefficient

ε : error coefficient

RESULT AND DISCUSSION

Descriptive Statistics

The sample of companies selected for observation from 2019 to 2022 is 165 observation data. Table 2 shows the results of the descriptive statistics of each variable.

Table 2. Descriptive Statistics

Variabel	N	Min	Max	Mean	Std. Deviation	Median
LNAUFEE	165	18.32	25.56	20.83	1.36	20.54
ACMEET	165	1	80	9.96	12.02	5.00
IAP	165	2	45	8.89	8.12	7.00
CC	165	1	271	12.82	38.02	4.00

Based on table 2, the LNAUFEE variable has an average value of 20.820. The minimum value of 18.32 comes from PT Panasia Indo Resources Tbk. in 2021 and 2022. The maximum value of 25.56 comes from PT Astra International Tbk. in 2022. The standard deviation value of 1.358, smaller than the average value, indicates that the distribution of audit fees data is homogeneous.

The audit committee activity variable has a minimum value of 1 from PT Avia Avian Tbk in 2021 and a maximum value of 80 from PT Krakatau Steel Tbk in 2022. Audit committee meetings that were held less than four times during one period indicate that the company has not fulfilled OJK Regulation Number 55 / POJK.04 / 2014 regarding the implementation of audit committee meetings at least once every three months. The companies are PT Indonesian Tobacco Tbk, PT Era Mandiri Cemerlang, and PT Avia Avian Tbk. The average value of 9.958 indicates that on average manufacturing companies hold audit committee meetings 9 times and have fulfilled OJK Regulation Number 55 / POJK.04 / 2014. The distribution of audit committee activity data is heterogeneous because the standard deviation value of 12.02 is greater than the average value.

The minimum value of the internal audit personnel variable is 2 personnel. Meanwhile, the maximum value of 45 personnel in the internal audit unit occurred in 2020 at PT Astra Internasional Tbk. The average number of personnel in the internal audit unit in manufacturing companies is 8.885 or around 8 to 9 personnel. This is in accordance with OJK Regulation Number 56/ POJK.04/2015 which states that the composition of members in the internal audit unit consists of one or more personnel. Internal audit personnel data has a homogeneous data distribution because the average value is greater than the standard deviation.

The average value of the company complexity variable is 12.82, which means that the average total parent and subsidiary companies in the manufacturing sector are 12 to 13 companies. The maximum value of 271 comes from PT Astra Internasional Tbk in 2022, which means that the total subsidiaries owned are 270 subsidiaries. The minimum value of 1 illustrates that the company has no subsidiaries, shown in the sample of companies' PT Akasha Wira International Tbk, PT Darya-Varia Laboratoria Tbk, PT Indonesian Tobacco Tbk, PT

Mulia Boga Raya Tbk, PT Pelat Timah Nusantara Tbk, PT Unilever Indonesia Tbk, PT Waskita Beton Precast Tbk, and PT Era Mandiri Cemerlang Tbk. The distribution of data on company complexity variables is heterogeneous because the average value is smaller when compared to the standard deviation.

The normality test shows a value of 0.224 greater than 0.05 said to have a normal distribution. The tolerance value of all variables is 0.812, 0.638 and 0.766, and the VIF value is <10. These results mean that there is no correlation between the independent variables in the regression model. All independent variables are worth more than 0.05. It can be concluded that the difference in residual variance does not occur from one observation period to another because the significance value > 0.05, so there is no heteroscedasticity. The regression model is concluded not to experience autocorrelation because the value of 0.805 is still in the range between -2 to 2.

Hypothesis Testing

The results of hypothesis testing can be seen in table 3.

Table 3. Hypothesis Testing

Variable	Coeff.	p-value
LNACMEET	0.015	0.900
LNIAP	0.572	0.000
LNCC	0.538	0.000
R ²	43.4	
Anova F	0.000	

Discussion

The Effect of Audit Committee Activity on Audit Fees

Based on the test results in table 3, the audit committee activity has a significance value of 0.90 greater than 0.05. Testing the first hypothesis shows that the audit committee has no positive effect on audit fees. Based on table 2, it can be seen that the average audit committee meeting is close to 10 times, where the meetings held have exceeded the recommended by OJK Number 55 / POJK.04 / 2014, which is 4 times a year. The number of meetings held does not make audit fees low, because based on table 3 shows a positive coefficient (0.015), this illustrates that the audit committee tends to choose a reputable KAP, so that the audit fees are higher.

The results of this study support the research of Sukianasih & Tenaya (2016), but contradict the results of Afenya et al., (2022) which states that audit fees are negatively affected by audit committee activity.

The Effect of Internal Audit Personnel on Audit fees

The test results in table 3 show that the significance value of 0.00 is smaller than 0.05 and the direction of the coefficient of 0.572 is positive, so it can be concluded that internal audit personnel have a positive effect on audit fees. These results are in accordance with agency theory which states that assessment by internal audit personnel is risky, but the company still wants to increase value by choosing a reputable KAP. The results of this study are supported by Bshayreh et al. (Bshayreh et al., 2021). Companies tend to agree to incur more audit fees when internal audit is well implemented with the aim that company supervision can be strengthened (Dzikrullah et al., 2020). The results of this study contradict research by Harymawan & Putri (Harymawan & Putri, 2023) which states that the process and performance of external auditors will be helped by internal audits carried out by internal audit personnel, so that the audit fees paid will decrease.

The Effect of Company Complexity on Audit fees

Company complexity has a significance value of 0.00 according to the test in table 3. Testing the third hypothesis shows that company complexity has a positive effect on audit fees. This result is in line with agency theory which explains that increasing the number of subsidiaries will increase the risk of agency problems, so that the audit fees paid will be higher.

The results of this study are in line with those conducted by Junita & Devica Pratiwi (Junita & Pratiwi, 2023), Syafii & Dewi (2022), Tat & Murdiawati (2020), and Yulio, 2016). Auditors need to collect more evidence as the number of subsidiaries owned by the parent company increases. The scope of the audit process will be wider and cause an increase in audit fees. The results of this study contradict those of Indriasih et al. (2021) which states that there is a possibility that subsidiaries use different external auditor services from the parent company, so there is no influence between company complexity on audit fees.

CONCLUSION

The results of this study indicate that audit committee activity has no positive effect on audit fees, while internal audit personnel and company complexity have a positive effect on audit fees. The approach chosen by the company is the demand method, where the company chooses a KAP that has the ability to increase company value.

This study has several limitations. First, there are still few companies that report audit fees

separately from other commercial costs. Second, data on the number of personnel in the company's internal audit unit is rarely included in the company's annual report.

Based on the above limitations to increase the number of samples by extending the observation year. The R2 test result is 43.4%, so there is still a great opportunity to add independent variables such as disclosure of key audit matters (KAM), profitability, and others.

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