



The Influence of Audit Fees on Audit Quality

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Abstract:

This study investigates how audit fees impact audit quality. The purpose of this study is to determine the relationship between the effect of audit fees on audit quality in companies listed on the Indonesia Stock Exchange which are categorized as LQ45. This study was conducted using the verification method. Researchers involved 225 LQ45 companies listed on the Indonesia Stock Exchange from 2016 to 2020. The data used comes from secondary data collected through the documentation method. In analyzing the data, this study uses panel data regression statistical testing with a random effect model. The findings of this study are that audit fees are positive to audit quality based on the calculation of panel data regression analysis conducted through the Eviews 9 program.

Keywords: *Audit fee; Audit quality*

Abstrak:

Studi ini menyelidiki bagaimana *fee* audit berdampak pada kualitas audit. Tujuan penelitian ini adalah untuk mengetahui hubungan pengaruh *fee* audit terhadap kualitas audit pada perusahaan yang terdaftar di Bursa Efek Indonesia yang dikategorikan sebagai LQ45. Studi ini dilaksanakan dengan metode verifikatif. Peneliti melibatkan 225 perusahaan LQ45 yang terdaftar di Bursa Efek Indonesia dari tahun 2016 hingga 2020. Data yang digunakan berasal dari data sekunder yang dikumpulkan melalui metode dokumentasi. Dalam menganalisis data penelitian ini menggunakan pengujian statistik regresi data panel dengan *random effect* model. Temuan dari penelitian ini adalah *fee audit* positif terhadap kualitas audit berdasarkan perhitungan analisis regresi data panel yang dilakukan melalui program *Eviews 9*.

Kata-kata kunci: *Fee audit; Kualitas audit*

INTRODUCTION

Financial statements are a tool used by companies to convey financial information to management. The information presented is high-quality information that is appropriate to the business situation and is reliable because it is useful in the decision-making process. To obtain quality financial statements, company management requires independent audit services. This audit service is assigned to check whether there is any misinformation in the financial statements. With this audit service, it is expected to reduce information asymmetry between agents and principals. Independent public accountants must have the ability to

produce high-quality audits, because high-quality audits can provide trust to customers and society.

Since it instills confidence in interested parties that the financial statements of a company have been prepared in adherence to relevant accounting standards, guarantees an accurate representation of the company's true condition, and prevents material inaccuracies resulting from fraud or errors, public accountants are a profession that enjoys public trust. To inspire confidence in their financial services among users of financial statements, public accountants must therefore prioritize the quality of the audits they conduct. Audit quality refers to the likelihood that the auditor will identify and publish breaches of the client's accounting system.¹ A quality audit is defined as an audit conducted by a competent and independent public accountant. Auditors may find misstatements or not depending on their competence, while the reporting of misstatements depends on the auditor's independence.²

Many companies "fall" due to business mistakes related to accounting errors committed by management and public accountants. This causes the public to wonder about the audit quality of public accountants. A new case in Indonesia occurred in early 2020 regarding customer policy defaults that resulted in PT Asuransi Jiwasraya committing corruption. The case involved many parties, including public accountants. As a result of BPK's investigation from 2010 to 2019, it found that PT Asuransi Jiwasraya had manipulated their financial statements in 2006. In addition, the BPK found that PT Asuransi Jiwasraya's 2017 net profit bookkeeping was inconsistent. In addition, PT Asuransi Jiwasraya recorded an unaudited loss of Rp 15.3 trillion in early 2018, and by the end of September 2019, an estimated loss of 13.7 trillion.³ In the case of PT Asuransi Jiwasraya, public accountants are considered unable to explain the true condition of the company because the financial statements manipulated by PT Asuransi Jiwasraya are audited financial statements.

Public accountants conform to the audit standards established by the Indonesian Institute of Certified Public Accountants (IAPI) with the intention of ensuring the integrity of audits. General standards, fieldwork requirements, and reporting standards are included in these standards. Furthermore, it is imperative that public accountants adhere to the IAPI Code of Ethics, a set of foundational principles of professional ethics including impartiality,

¹ Linda Elizabeth DeAngelo, "Auditor Independence, 'Low Balling', and Disclosure Regulation," *Journal of Accounting and Economics* 3, no. 2 (1981): 113–127. [https://doi.org/10.1016/0165-4101\(81\)90009-4](https://doi.org/10.1016/0165-4101(81)90009-4).

² Ibid.

³ Mochamad Januar Rizki, "Menelisik Peran Akuntan Publik Dalam Kasus Jiwasraya," *Hukumonline.Com* (Jakarta, 2020), <https://www.hukumonline.com/berita/a/menelisik-peran-akuntan-publik-dalam-kasus-jiwasraya-lt5e1cf1040be7a/>.

integrity, and independence. Auditing standards and the code of ethics for public accountants require public accountants to remain independent. To avoid conflicts of interest, an independent auditor must carry out his duties neutrally and not take sides with any party. A public accountant must remain personally and professionally independent.⁴

Audit quality as the likelihood of a public accountant finding and reporting violations of the client's accounting system.⁵ The financial case that occurred at PT Asuransi Jiwasraya and PT Garuda Indonesia (Persero) Tbk. shows that the public accountant's audit is not qualified. where the public accountant concerned approves the financial statements prepared by the management of each company, which indicates that the information provided is not accurate. As a consequence, investors might have skepticism regarding the audit's quality if the public accountant is unable to identify and disclose accounting system violations for his client.

The auditor's report will be impacted by the quality of the audit; likewise, the reputation of the public accounting firm as an organization that interacts with clients and the general public will be damaged by low-quality audits. High-quality auditors make fewer mistakes than low-quality auditors, so they receive higher audit fees. Thus, the magnitude of customer costs might also impact the quality of the audit. As per Management Regulation Number 2 of 2016 by the Indonesian Institute of Certified Public Accountants (IAPI), audit fees refer to the compensation received by Public Accountants from their clients for the supply of audit services.⁶ A high audit fee will require more resources, and the higher the audit fee the auditor receives, the more they will perform more extensive and in-depth audit procedures, so that the resulting audit will be better. Basically, the amount of compensation the client receives depends on the auditor's rate and his ability and expertise.⁷ Audit quality is impacted by the expenses incurred by clients of external auditor services, which are known as fees. Reliable auditors will set fees commensurate with the level of risk associated with their personnel. The fees that constitute KAP revenue are contingent upon the intricacy and

⁴ Alvin A. Arens, Randal J. Elder, and Mark S. Beasley, *Auditing and Assurance Services: An Integrated Approach* (Pearson, 2012); IAPI (Institut Akuntan Publik Indonesia), *Standar Profesional Akuntan Publik* (Jakarta: Salemba Empat, 2011).

⁵ DeAngelo, "Auditor Independence, 'Low Balling', and Disclosure Regulation." [https://doi.org/10.1016/0165-4101\(81\)90009-4](https://doi.org/10.1016/0165-4101(81)90009-4).

⁶ IAPI (Institut Akuntan Publik Indonesia), *Peraturan Pengurus No. 2 Tahun 2016 Tentang Penentuan Imbalan Jasa Audit Laporan Keuangan*, 2016. <https://drive.google.com/file/d/16vJ2WBvHXkxIVQbC0on0Nq03qAySgMIZ/preview>.

⁷ Adisti Putri Maharani, "Pengaruh Audit Tenure, Audit Fee, Rotasi Audit Dan Spesialisasi Auditor Terhadap Kualitas Audit." (Universitas Muhammadiyah Surakarta, 2014), <https://eprints.ums.ac.id/37426/17/02>. Naskah Publikasi.pdf. <https://eprints.ums.ac.id/37426/17/02.%20Naskah%20Publikasi.pdf>.

extent of the audit scope, as well as the standing of the KAP among stakeholders, including the community, government, and investors.⁸

Studies on audit quality have been carried out both at home and abroad. One example is research which looks at how audit fees, audit tenure and auditee rotation affect audit quality.⁹ The study results indicate that audit fees have a substantial and favorable impact on audit quality, but audit tenure and audit rotation do not have any influence on audit quality. As in other studies related to the impact of audit tenure, audit fees, auditor rotation, auditor specialization, and publication age on audit quality, it was studied. The findings revealed that audit tenure has a detrimental effect on audit quality, whereas audit fees have a beneficial effect. On the other hand, auditor rotation, specialization, and age were found to have no significant impact on audit quality.¹⁰ And other research conducted with a research focus on the effect of audit committee, KAP reputation, specialist auditors, audit tenure and company size on audit quality, his research resulted in the audit committee, KAP reputation, specialist auditors, audit tenure and company size having no significant effect on audit quality.¹¹ As for research on the effect of tenure, KAP size and auditor specialization on audit quality with the results of research that audit tenure and auditor specialization have a significant effect on audit quality, while KAP size has no significant effect on audit quality.¹² Research which examines the effect of audit tenure, audit rotation, audit fees, KAP size and specialist auditors. Resulting in audit tenure and specialist auditors have a positive effect on audit quality while audit rotation, audit fees and KAP size do not affect audit quality.¹³ The amount of time spent by a company to be listed on the Indonesia Stock Exchange (IDX) shows the company's ability to compete, survive, and take advantage of business opportunities in the

⁸ DeAngelo, "Auditor Independence, 'Low Balling', and Disclosure Regulation." [https://doi.org/10.1016/0165-4101\(81\)90009-4](https://doi.org/10.1016/0165-4101(81)90009-4).

⁹ Zahra Ismi Fauziyyah and Praptiningsih, "Pengaruh Audit Fee, Audit Tenure, Dan Rotasi Auditor terhadap Kualitas Audit," *Monex: Journal of Accounting Research* 9, no. 1 (2020): 1–17. <https://doi.org/10.30591/monex.v9i1.1232.g1091>.

¹⁰ I Gusti Ngurah Indra Pramaswaradana and Ida Bagus Putra Astika, "Pengaruh Audit Tenure, Audit Fee, Rotasi Auditor, Spesialisasi Auditor, Dan Umur Publikasi Pada Kualitas Audit," *E-Jurnal Akuntansi Universitas Udayana* 19, no. 1 (2017): 168–194, <https://ojs.unud.ac.id/index.php/akuntansi/article/view/25333>.

¹¹ Irsyad Fauzan Prasetya, "Pengaruh Komite Audit, Reputasi KAP, Auditor Spesialis, Tenor Audit Dan Ukuran Perusahaan Terhadap Kualitas Audit (Studi Pada Perusahaan LQ45 Yang Terdaftar Di Bursa Efek Indonesia Tahun 2013-2017)" (Universitas Widyatama, 2019). <https://repository.widyatama.ac.id/server/api/core/bitstreams/61a3e6f8-171e-4aa3-8251-6ff15d5cfe9f/content>.

¹² Clinton Marshal Panjaitan and Anis Chariri, "Pengaruh Tenure, Ukuran KAP Dan Spesialisasi Auditor Terhadap Kualitas Audit," *Diponegoro Journal of Accounting* 3, no. 3 (2014): 1–12, <http://ejournal-s1.undip.ac.id/index.php/accounting>.

¹³ Shinta Permata Sari, Ayu Aris Diyanti, and Rita Wijayanti, "The Effect of Audit Tenure, Audit Rotation, Audit Fee, Accounting Firm Size, and Auditor Specialization to Audit Quality," *Riset Akuntansi dan Keuangan Indonesia* 4, no. 3 (2019): 186–196. <https://journals.ums.ac.id/index.php/reaksi/article/view/9492>.

economy. Companies that have been listed on the IDX for a long time are considered to have high quality, because their management is able to provide information clearly so that auditors can easily get information and make audit reports quickly. Companies in the LQ45 index category have a high frequency of stock trading and have high quality information in their financial statements. This is evidenced by the Annual Report Awards (ARA), given to PT Aneka Tambang Tbk (ANTM), PT Jasa Marga (Persero) Tbk, PT Bank Mandiri (Persero) Tbk, PT Bank Negara Indonesia (Persero) Tbk, and PT Bank Rakyat Indonesia (Persero) Tbk, among others. With this award, this research will concentrate on LQ45 companies which are considered to provide clear information and make it easier for auditors to obtain information sources and make audit reports quickly.

Based on the background and existing phenomena, the authors want to conduct a re-research on audit quality because the findings of several previous studies are inconsistent on this issue. This study only concentrates on the audit fee factor, which according to the author is the factor that can most affect audit quality when it comes to the competence and independence of an auditor. In addition, the authors consider several factors that can affect audit quality, such as the auditor's salary factor. Thus, some of the problems that form the basis of this research are as follows: "Does audit fee affect audit quality in LQ45 companies listed on the IDX for the 2016-2020 period?"

METHODS

Audit quality and audit fees are the subject of this study. The focus of this research is LQ45 companies listed on the Indonesia Stock Exchange (IDX). Financial and annual reports for the 2016-2020 fiscal year period were collected from IDN Finance, IDX, and the company website. This research uses quantitative methods because the data is in the form of numbers and the analysis uses statistical data. Audit fees are the independent variable of this study, and the dependent variable is audit quality proxied by the auditor's opinion.¹⁴ The number 1 is for an unqualified opinion (WTP) and the number 0 is for an opinion that is not WTP. To assist the data processing process, the researchers used the Eviews application program. The analysis stage in this study was also carried out using panel data regression analysis.

¹⁴ I Gusti Ngurah Indra Pramaswaradana and Ida Bagus Putra Astika, "Pengaruh Audit Tenure, Audit Fee, Rotasi Auditor, Spesialisasi Auditor, Dan Umur Publikasi Pada Kualitas Audit," *E-Jurnal Akuntansi Universitas Udayana* 19, no. 1 (2017): 168–194, <https://ojs.unud.ac.id/index.php/akuntansi/article/view/25333>.

RESULTS AND DISCUSSION

Descriptive statistical analysis provides an explanation of the average count (mean), standard deviation, maximum value and minimum value of each independent and dependent variable. The variables in this study are audit fees and audit quality as the dependent variable. Descriptive statistical analysis of the two variables is presented in table 1 as follows:

Table 1. Descriptive Statistics of Research Variables

	Audit Quality	Fee Audit
Mean	0.768889	6.69E+09
B Median	1.000000	3.41E+09
Maximum	1.000000	6.54E+10
Minimum	0.000000	1.40E+08
Std. Dev.	0.422483	1.03E+10
Skewness	-1.275736	3.325902
Kurtosis	2.627501	14.94897
Jarque-Bera	62.33212	1753.354
Probability	0.000000	0.000000
Sum	173.0000	1.50E+12
Sum Sq. Dev.	39.98222	2.40E+22
Observations	225	225

Source: Data processed using Eviews 9

From table 1, it is known that the number of samples in this study is 225 data which shows an average audit fee of 6.69 ~ 7 with a standard deviation of 1.03. A standard deviation value smaller than the average of 6.67 indicates a small data distribution, meaning that the deviation of the data from the mean is small so that the mean value is a good representation of the overall data. The maximum value of the audit fee is 6.54, which is at PT Bank Rakyat Indonesia Tbk, in 2020 amounting to IDR 15,523,800,000. The minimum value of 1.40, which was at PT Surya Citra Media Tbk, in 2016 amounting to IDR 300,000,000.

The research assesses audit quality by using the proxy opinion provided by the auditor, since it gives priority to the impartiality of a public accountant.¹⁵ According to the Public Accountant Professional Standards (2015), audits conducted by auditors are considered to be of high quality when they fulfill the criteria and standards set for auditing.¹⁶

¹⁵ IAPI (Institut Akuntan Publik Indonesia), *Standar Profesional Akuntan Publik*.

¹⁶ IAPI (Institut Akuntan Publik Indonesia), *Standar Profesional Akuntan Publik (SPAP)* (Jakarta: Salemba Empat, 2016).

The audit standards include criteria for professional excellence, impartial auditors, evaluation methods used in performing audits, and the process of creating audit reports.

The objective of this research is to examine the impact of audit fees on the quality of audits. The random effect model was chosen for this investigation based on the results of the Hausman Test conducted on the panel data regression model. Below are the outcomes of a panel data regression using a random effect model:

Table 2. Random Effect Model Testing Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.327735	0.645763	-3.604626	0.0004
FA	0.136098	0.030216	4.504140	0.0000
Effects Specification				
		S.D.	Rho	
Cross-section random		0.260450	0.5054	
Idiosyncratic random		0.257658	0.4946	
Weighted Statistics				
R-squared	0.151356	Mean dependent var	0.342713	
Adjusted R-squared	0.143710	S.D. dependent var	0.282734	
S.E. of regression	0.263837	Sum squared resid	15.45340	
F-statistic	19.79684	Durbin-Watson stat	1.572194	
Prob (F-statistic)	0.000000			

Source: Random Effect Model Output Results with Eviews 9

The regression model from the test results above shows the following:

$$AQ = -5,165876 + 0,261013 AF + E$$

Description:

AQ: Audit Quality

AF: Audit Fee

In this study, the average audit fee given by companies to auditors is quite high. Based on the results of hypothesis testing, it shows that the audit fee variable has a positive effect on audit quality. This indicates that in providing an unqualified opinion on the audited company's financial statements, auditors need to carry out a wider audit process to detect and find misstatements of information provided by management. This broader audit process will take longer as well, thus requiring a higher audit fee. These results answer the first hypothesis, namely that the audit fee variable has a positive effect on audit quality.

High audit fees reflect better efforts because auditors will expand audit procedures and considerations in performing audit services.¹⁷ In expanding audit procedures, auditors require additional fees because of the need for additional human resources and audit time so that they can report fraud committed by company management, whether fraud is committed intentionally or not.

In theory, audit fees are useful to help minimize information asymmetry between agents and principals. In this theory, it is said that each individual tends to be selfish. This creates a conflict of interest between the principal and the agent so that a third party is needed to minimize the information asymmetry. Independence is a factor that must be maintained by the auditor. Independent here means that the auditor is more concerned with the public interest than the interests of management or the auditor's own interests in making audited reports. Therefore, the results in this study are in accordance with this theory which states that auditors are able to overcome information asymmetry between agents and principals, in the case of this study, namely auditor independence to report actions that indicate fraudulent acts in client companies.

The findings of this study corroborate the research undertaken other research, which assert that audit fees have an impact on audit quality.¹⁸ The findings of the present research suggest that organizations that provide more audit fees demonstrate superior efforts, as auditors would enhance audit methods and considerations while providing audit services. Providing a large fee is proven to make auditors more diligent and improve their performance on duty, so that later they can complete work in accordance with procedures and produce good audit quality.

CONCLUSION

Based on the results of research and analysis related to the effect of audit fees on audit quality as seen from the opinions given by auditors in LQ45 companies listed on the Indonesia Stock Exchange (BEI) in 2016-2020, it can be concluded that audit fees have a positive effect on audit quality, which means that the amount of fees issued by the company

¹⁷ Margi Kurniasih and Abdul Rohman, "Pengaruh Fee Audit, Audit Tenure, Dan Rotasi Audit Terhadap Kualitas Audit," *Diponegoro Journal of Accounting* 3, no. 3 (2014): 1–10, <http://ejournal-s1.undip.ac.id/index.php/accounting>.

¹⁸ Ibid.; I Gusti Ngurah Indra Pramaswaradana and Ida Bagus Putra Astika, "Pengaruh Audit Tenure, Audit Fee, Rotasi Auditor, Spesialisasi Auditor, Dan Umur Publikasi Pada Kualitas Audit," *E-Jurnal Akuntansi Universitas Udayana* 19, no. 1 (2017): 168–194, <https://ojs.unud.ac.id/index.php/akuntansi/article/view/25333>; Farhana Fitri Maharani, "Pengaruh Audit Fee Dan Risiko Audit Terhadap Kualitas Audit (Studi Pada Kantor Akuntan Publik Di Kota Bandung)" (Universitas Pasundan, 2019). <http://repository.unpas.ac.id/42798/>.

depends on how extensive the audit procedures provided by the auditor can affect audit quality. This indicates that in providing an unqualified opinion on the audited company's financial statements, auditors need to carry out a broader audit process to detect and find misstatements of information provided by management. When the auditor conducts further examinations so that additional fees are required, the auditor's opinion will be in accordance with the procedures performed and improve audit quality.

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