

# Are firm size, firm complexity, and managerial ownership able to affect audit fee?: The evidence in Philippines and Indonesia as emerging countries

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## ABSTRACT

There are some factors that are influential in increasing the audit fee. This study aims to determine several factors affecting the increasing audit fees. Several factors that can affect the increasing audit fees for companies are firm size, firm complexity, and managerial ownership, with return on assets and leverage for con-trolling factors. This research is a quantitative method that uses all data collected as a sample. The main data are financial statements of Indonesian companies listed on the Indonesia stock exchange, and financial statements of Philippine companies listed on the Philippines stock exchange in 2017-2019 with the total sample of each country is 82 companies and 36 companies. Analyze were performed the classical assumption test, multiple linear regression analysis using SPSS 23 version. The results of the study show that firm size and firm complexity significantly influence audit fees. in contrast, managerial ownership has no significant effect on audit fees.

## ABSTRAK

Ada beberapa factor yang berpengaruh dalam peningkatan adutit fee. Penelitian ini bertujuan untuk mengetahui beberapa faktor yang dapat mempengaruhi peningkatan biaya audit. Beberapa faktor yang dapat mempengaruhi kenaikan biaya audit bagi perusahaan adalah ukuran perusahaan, kompleksitas perusahaan, dan kepemilikan manajerial, dengan return on asset dan leverage sebagai variabel kontrol. Penelitian ini merupakan jenis penelitian kuantitatif yang menggunakan semua data yang di-kumpulkan sebagai sampel. Data diperoleh dari laporan keuangan perusahaan yang terdaftar di Bursa Efek Indonesia, dan laporan keuangan perusahaan yang terdaftar di Bursa Filipina tahun 2017-2019 dengan jumlah sampel masing-masing negara adalah 82 perusahaan dan 36 perusahaan. Analisis data dilakukan dengan analisis regresi linier berganda dengan menggunakan SPSS versi 23. Hasil penelitian menunjukkan bahwa ukuran perusahaan dan kompleksitas perusahaan berpengaruh signifikan terhadap biaya tambahan. Sebaliknya, kepemilikan manajerial tidak berpengaruh signifi-kan terhadap biaya audit.

## 1. INTRODUCTION

Financial statement is one of the information related to the company and it is important for both the company and the third parties. The information about assets, liabilities, and equity in financial statements can help the top-level management of the company to make decisions. Meanwhile, when viewed from the qualitative characteristics of financial statements, rele-

vance, and reliability, it needs to prepare the financial statements to create a fairness financial report and avoid misstatements. The types of misstatements presented in the financial statements are classified into two: one is called errors and the second is fraud. Murdijaningsih (2013) defines errors refers to accounting errors that are accidentally caused by errors in calculations, measurements,

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estimation, and interpretations that are not following accounting standards. At this point, if the report is made correctly and without misstatements, it will surely make investors conclude the performance of the company has shown excellent results. Secondly, it is fraud that is on financial statements as an action taken to cover or not provide adequate disclosure of financial statements from investors and other external parties. The possibility of error can be reduced by conducting an audit on a company to find out how financial statements are presented. At the same time, it also tests the assertion of each account reported in the company. However, to use the services of an auditor, of course, it will arise an audit fee, which is not significant in number to ensure the fairness of the financial statements.

The big issue related to audit fees is reflected in the Enron financial statement problem in 2000. This problem occurred when a fictitious profit discovered and intentionally changed by an Enron company with the purpose the financial statements to look reasonable. It has no misstatement that will affect the company's reputation. Enron inflated the value of \$ 74 billion in corporate profits. Enron itself was dealt with financial manipulation because of their complexity that needs changing. Another fraud at the Enron company is embezzlement of company funds worth \$ 2.9 trillion.

The Enron company gave an audit fee of \$ 25 million in 2000 in anticipation of the problem in it (Syafina, 2018). The company also provided an audit fee for consultants of \$ 27 million along with other work. In the end, there was occurs decrease of reputation Arthur Andersen is accounting firm after violating ethics. It was not being included in the big four accounting firms that have integrity, high responsibilities are higher than the other accounting firms. In this case, it does not reflect the actual audit fee because the audit fee is to cover its financial statements that are not fair. The way to manipulate a company's profits does not follow accounting principles in presenting financial statements.

Cases of audit fees also occur in Indonesia involving the auditor and Tasikmalaya's Municipal Waterworks. During the audit process very often, the auditor returns to his office for official or family reasons. Every auditor out of town or other needs, there is no direct relationship with audit needs, always providing comfort. Tasikmalaya's Municipal

Waterworks did not realize when audit fees always exceed the budget. Auditors do not ask for accommodation, but they also do not refuse accommodation fees. Every year, the total audit fee is quite large compared to the past audit firms' costs, whereas Tasikmalaya's Municipal Waterworks assets are only around 10 billion rupiahs, with a profit of 500 million rupiahs. This may be due to the complexity of the financial statements that need to be audited and agreements that require a long period (Bienvenu, 2018).

Philippine offshore gaming operators (POGO) collaborate with auditors from Global ComRCI, where the audit company results from a contract with the Philippines amusement and gaming corporation (PAGCOR). However, in conducting this audit, POGO questioned the audit fees charged to the company with a total to P 552.2 million, and the contract was valid for ten years, which would be subject to government fees of P5.5 billion. The amount of this fee needs to be verification from what services were provided during the audit. This problem are crucial for Congress to seek clarification and explanation from PAGCOR and Global ComRCI as an audit firm regarding the terms and conditions of the contract. This audit was carried out because it partnered with PAGCOR to increase government revenue (Terrazola, 2019).

Firm size, firm complexity, and managerial ownership are characteristics that can affect audit costs. Firm size can be assumed to be increasing, where companies in the modernization era are using new technologies that are costly and time consuming for the company. This point can be related to the increasing intensity of the company's performance than before. The firm size is defined by Cristansy & Ardiati (2018) as an illustration of the size of a company's operations. The firm size becomes one of the considerations for the auditor in providing audit services. The firm size is not only seen from the area of the factory owned but can also be related to the existing organizational structure within the company. Firm complexity is the level of complexity or a measure of how massive the company's reach is to its activities. Managerial ownership is percentage of ownership from total outstanding shares which owned by the company (Nelson & Mohamed-Rusdi, 2015). Managerial ownership can affect increasing audit fees cause every management wants to create a better financial statement so

which gives a higher fee to the auditor for a good result which is desired by many parties.

This study attempts to reexamine the problem above due to the previous studies' gap. On the proxy of firms size, Research Immanuel (2014) stated that firm size has a positive effect on audit fees. The results obtained in the research of Rahayu (2017) show inconsistent results that firm size does not affect audit fee. In complexity testing, Several researcher found can affect audit fees (Rukmana, Konde, & Setiawaty, 2017). While in the study of Cristansy & Ardiati (2018), firm complexity stated not affects audit fees. Research also uses managerial ownership to found or prove inconsistency, which researched by Shan, Troshani, & Tarca (2019) stated that managerial ownership affects audit fees. In contrast, research by Nelson (2015) stated that managerial ownership does not affect audit fees.

Due to the inconsistency of previous studies, especially on the variable complexity of the company, it encourages the present researchers to conduct this study. This current research is important because the testing will be held by comparing the two developing countries that have different financial statement characteristics. This study provides a perspective of how the auditor will consider the costs of service fees have been charged to the company based on the complexity of the company, size of a company, or with managerial ownership.

This research can be useful for companies, especially those that have not been listed on the stock exchange to know better the audit fees set on a company. This research can also be useful for auditors between 2 countries to compare audit fees provided by each of two countries because there are still few studies that use 2 sample countries at once in one study.

## 2. THEORITICAL FRAMEWORK AND HYPOTHESIS

Agency theory, according to Jensen & Meckling (1976), is "agency relationship as a contract whereby one or more people (principals) involve other people (agents) to perform several services on their behalf that involve the delegation of decision-making authority to agents." Shareholders (principals) are more interested in companies that can show good or improved financial results. Agents are assumed to receive satisfaction in the form of financial compensation and accompanying

conditions in the relationship. This theory seeks to illustrate the main factors to be considered in designing an incentive contract. The problem of information asymmetry certainly increases agency costs and arise as the main problem or conflict of interest, causing negotiations on the part of the agency in determining these costs.

Audit costs are depend on the information obtained by the auditor, so the importance of information needs to be disclosed by the company to avoid misunderstandings and risks that will occur during audit is conducted by the auditor. Agency theory is also expected to find solutions under the interests of the principal; one of a point is by paying an audit fee (Hapsari, 2013).

Agency theory also has a relationship with the firm size, firm complexity, and managerial ownership that leads to information in the company information is essential for both parties. In actual conditions, the agents have adequate information than the principals (sufficiency information) and make it easier for auditors to determine the scope of the audit and the amounts of fees charged for services related to auditing within the company.

Firm size is a scale where a company can be classified as a large scale or otherwise. In the modernization era, auditors are also required to understand the characteristics of the latest companies where a company has replaced human sources with technology that creates efficiency and effectiveness for the company. This technology-based source will also add the total assets of the company in large numbers.

Therefore, firm size can reflect to increasing audit costs due to the demands of auditors who have been working on audit reports for a long time to emphasize their higher responsibilities. Then, the hypothesis can be stated as follows:

$H_1$ : Firm size in Indonesia and the Philippines influence audit fees.

Firm complexity can be defined as complexity or difficulty occurring in the company (Rusmanto, 2015). Companies are required to disclose financial reports with the current standards (for example, in Indonesia, the company must disclosure for financial reporting instruments based on Indonesia accounting standard number 71). Many companies do not know the detail information. Do they know how to present or disclose the information? Therefore, it might occur misstatements or other impacts. Auditors will find many audit findings due to the uncertainty

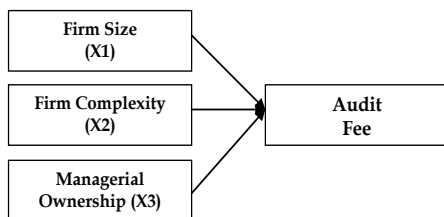
of information disclosed by the company.

The misstatement might occur because of complexity, and auditors need to learn the business strategies of each company and increase the competence of each auditor. If company has several subsidiaries, it might be the auditors who take samples on a large scale as well. In addition, with the existence of different regulations or policies of each country, it can require auditors to examine financial statements not only in the country. Therefore, this problem will increase the audit fee for the company considering the translation of financial statements is also very important for the company. It needs to be checked for fairness by the auditor (Nugrahani & Sabeni, 2013). then the hypothesis could be formulated as follows:

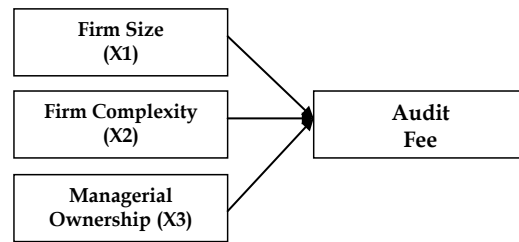
H<sub>2</sub>: Firm complexity in Indonesia and the Philippines influence audit fees.

When a company determines to increase managerial ownership, the decision making expected will reduce the inherent risk in the financial statements of the company. It might occur because managerial has the power to make decisions within the company that can change or add quality information and increases value in the financial statements. The risk of misstatement will also be reduced, and managerial can provide more relevant decisions. Managerial ownership in highly percentage can be assumed that the company will pay the highest audit fee to audit firms to make financial statements become a type that is desired by many parties. Managerial ownership that focuses on ownership does not always reflect the economic value of the underlying company and the value that has must be agreed upon. In other words, increasing client specifications will increase and incurred additional audit fees for companies. Then the hypothesis could be stated as follows:

H<sub>3</sub>: Managerial ownership in Indonesia and the Philippines influence audit fees.



**Figure 1**  
**Research Framework of Indonesia Firm**



**Figure 2**  
**Research Framework of Indonesia Firm**

### 3. RESEARCH METHOD

This study uses a quantitative method in which the indicators of the variables used numbers. Quantitative research has the aim to test or verify the theory and it puts a theory in a study. They use it to solve a problem and therefore this research has the aim of applied research, where this research is directed to answer specific questions in a problem so that it is expected to be able to determine the desired policy or action changes. When the relationship between variables is high, it can be ascertained that a causal relationship arises between variables (Indriantoro, 2014). Research is conducted using secondary data where the researcher takes data indirectly on the financial statements of companies that have been listed or listed on the Indonesia stock exchange.

#### Audit Fee (Y)

The audit fee is a measure of costs which determine or charged to a company for the services of auditors while performing tasks related to the company. However, because the audit fee report on the audited financial statements in Indonesia and the Philippines is not mandatory, the researcher will use the natural logarithm of professional fees. Professional fees in audited financial statements can also show the fees charged to audit services in the company. The usance of the professional fee also refers to previous research by Nurdjanti & Pramesti (2018).

#### Firm Size

Firm size is the illustration of the scale of a company's operations. The firm size becomes one of the considerations for the auditor in providing audit services. Firm size can be measured using several proxies, namely total assets. In this case, the firm size variable measured by the natural logarithm of the company's total assets. This study follows the references in previous studies of Cristansy & Ardiati (2018).



**Firm Complexity**

Firm complexity is a scale or size to measure the complexity or level of difficulty of a company. Firm complexity can be measured by using a proxy for subsidiaries. This study also refers to Nurdjanti & Pramesti (2018), where the subsidiary can be measured using the root of the number of subsidiaries.

**Managerial Ownership**

Shan (2019) explains, "Managerial ownership can be measured by a comparison between shares owned by top-level management and the total number of shares outstanding." The higher the value of managerial ownership in the company, it can be assumed that there will be additional audit fees charged to a client. To measure managerial ownership can be calculated using this formula:

$$MO = \frac{\text{Board of director, board of commissioner, Manager Shares}}{\text{Total Outstanding Shares}}$$

**Control Variables**

The author also considers using a control variable to strengthen the result for this research with return on asset (ROA) and leverage.

**Return on Assets**

Companies that have a high return on asset also indicate that the company is doing business activities in a broad scope. The auditors also need to pay attention in return on asset of the company. The researcher refers to Pratoomsuwan (2017) also has a relationship between assets in the company's operations. So it can be assumed that there is a dominant relationship in the proxy. Return on asset interpretation can be calculated by comparison are as follows:

$$ROA = \frac{\text{Net Income}}{\text{Total Asset}}$$

**Leverage**

Companies that have high leverage can be assumed to have more corporate activity processes than low leverage because the company needs to establish a good relationship with other companies to continue to obtain debt in the continuation of the company's business or activities (Pratoomsuwan, 2017). The variable of leverage can be measure with using debt to asset ratio. To know how to measure leverage in determining audit fees can be described as follows:

$$LEV = \frac{\text{Debt Total}}{\text{Total Asset}}$$

**Data Analysis Technique**

The data analysis technique used in this study is the multiple linear regression analysis. This analysis is used to determine the relationship between the dependent variable and the independent variable (Ghozali, 2016). The statistical equation model used to test the hypothesis is as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + e$$

Description:

- Y = Audit fee
- a = Constant
- b<sub>1,2,3,4</sub> = Partial regression coefficient
- X<sub>1</sub> = Firm size
- X<sub>2</sub> = Firm complexity
- X<sub>3</sub> = Managerial ownership
- Z<sub>1</sub> = Return on assets (control variable)
- Z<sub>2</sub> = Leverage (control variable)

**4. DATA ANALYSIS AND DISCUSSION**

In this research, the researchers use a purposive sampling technique to determine several populations with specific criteria. Sampling criteria are as in Table 1.

**Table 1**  
**Sample Selection Data Research Company Indonesia Year 2017-2019**

No.	Criteria Sample	Amount	Accumulation
1	Service sector companies listed on the Indonesia stock exchange.		123
2	Companies that do not report professional fees in the annual report for the period 2016-2018.	-23	
3	Companies that have not the data for measurement in a complete research variable (data available disclosed publication during the 2016-2018 period	-18	-41
	The number of samples per year		82
	Multiplied By Periods Research		3
	Total Samples		246

Source: Processed data

**Table 2**  
**Descriptive Statistics**

	N (IDN)	N (FPN)	Min (IDN)	Min (FPN)	Max (IDN)	Max (FPN)	Mean (IDN)	Mean (FPN)	Std. Dev (IDN)	Std. Dev (FPN)
Audit Fee	246	107	18.25	11.23	24.47	17.69	21.7087	14.178	1.38615	1.43653
Firm Size	246	107	22.3	16.77	32.23	26.9	28.5353	21.8471	1.79076	2.06161
Firm Complexity	246	107	0	1	11.22	6	3.0602	1.9772	2.1892	0.91501
Managerial Ownership	246	107	0	0	0.82	0.99	0.0818	0.1941	0.1804099	0.27032
ROA	246	107	-0.81	-0.99	0.93	1.22	0.050474	0.076	0.1787177	0.20095
Leverage	246	107	-1.77	0	4.8	0.98	0.6345	0.3937	0.79905	0.27944
Valid N (listwise)	246	107								

Source: Processed Data

**Data Analysis**

**Classic Assumption Test**

**Distribution of Normality Test**

Distribution of normality test aims to determine whether or not a normal distribution of data.

**Table 3**

**Normality Test on Indonesia Firms**

One-Sample Kolmogorov-Smirnov Test	
	Residual unstandardized
N	246
Test Statistic	0.051
Asymp. Sig. (2-tailed)	.200

Source: Processed Data

From Table 3, it shows that the level of 0.200 significance, so  $\geq 0.05$  significance level ( $0.200 \geq 0.05$ ), indicating the data in this study is typically distributed.

**Table 4**

**Normality Test on Philippines Firms**

One-Sample Kolmogorov-Smirnov Test	
	Residual unstandardized
N	107
Test Statistic	0.081
Asymp. Sig. (2-tailed)	0.077

Source: Processed Data

Table 4 shows that the level of 0.077 significance so  $\geq 0.05$  significance level ( $0.077 \geq 0.05$ ), indicating the data in this study is typically distributed.

**Multicollinearity Test**

The multicollinearity test aims to test the correlation between variables independent. A good regression model should not show any multicollinearity, it must be determine from VIF  $< 10$  and tolerance  $> 0.10$ .

**Table 5**

**Multicollinearity Test on Indonesia Firms**

Model	Tolerance	VIF
1 (Constant)		
Firm size	0,940	1,063
Firm complexity	0,940	1,064
Managerial ownership	0,981	1,020

Source: Processed Data

Based on Table 5, tolerance values were obtained for all variables less than 0.10 and VIF more than 1.0. Therefore, it indicates that there is no multicollinearity between the independent variables in the regression model.

**Table 6**

**Multicollinearity Test on Philippines Firms**

Model	Tolerance	VIF
1 (Constant)		
Firm size	0.973	1.028
Firm complexity	0.915	1.092
Managerial ownership	0.813	1.230

Source: Processed Data

Table 6 shows the tolerance values obtained for all variables less than 0.10 and VIF more than 1.0, so it can conclude that there is no multicollinearity between the independent variables in the regression model.

**Autocorrelation Test**

The autocorrelation test aims to test whether there is a correlation between variables in a given period with a variable in the previous period.

**Table 7**  
**Durbin Watson Test on Indonesia Firms**

Model	Durbin Watson
1	1,898

Source: Processed Data

Table 7 shows the value of Durbin Watson of 1,898, the value shows the range  $du$  and  $4-du$ , or  $1,817 < 1,898 < 2,183$  It can conclude that there is no autocorrelation.

**Table 8**  
**Durbin Watson Test on Philippines Firms**

Model	Durbin Watson
1	1,851

Source: Processed Data

In Table 8, it shows the value of Durbin Watson of 1,851, the value shows the range  $du$  and  $4-du$ , or  $1,742 < 1,851 < 2,258$ , it can conclude that there is no autocorrelation.

**Heteroscedasticity Test**

The heteroscedasticity test aims to test the Similarity variance of residuals of the observations to other observations. A good model is that not occur heteroscedasticity.

Based on the table 9, variable firm complexity has a significance value of more than 0.05, which means not heteroscedasticity in regression models. Yet, the firm size variable, managerial ownership has a significance value  $< 0.05$ , which means heteroscedasticity in regression models.

**Table 9**  
**Heteroscedasticity Test on Indonesia Firms**

Model	Sig
1 (Constant)	0.348
Firm size	0.019
Firm complexity	0.473
Managerial ownership	0.038

Source: Processed Data

**Table 10**  
**Heteroscedasticity Test on Philippines Firms**

Model	Sig
1 (Constant)	0,829
Firm size	0.26
Firm complexity	0.17
Managerial ownership	0.13

Source: Researchers' Processed Data

Based on Table 10, firm size variable, firm complexity, and managerial ownership have a value of more than 0.05, which means does not occur heteroscedasticity in regression models.

**Multiple Regression Analysis Test**

This analysis used to examine the relationship between the dependent variable and independent variables associated. The results are in Table 11.

Based on Table 11, it shows that Indonesia's firm size and firm complexity affect the audit fee for the significance value less than 0.05, while the managerial ownership not affects because the significance value is more than 0.05, then obtained multiple regression equation as follows:

$$Audit\ Fee = 8.439 + 0.443 (Firm\ size) + 0.172 (Firm\ complexity) - 0.338 (Managerial\ ownership) - 0,085 (ROA) + 0.204 (Leverage) + e$$

**Table 11**  
**Multiple Linear Regression Analysis Indonesia & Philippines Firms**

Model	$\beta$ (IDN)	$\beta$ (FPN)	t (IDN)	t (FPN)	Sig. (IDN)	Sig. (FPN)
(Constant)	8439	0.526	8154	0.999	0.000	0.320
Firm Size	0.443	0.577	12075	24.872	0.000	0.000
Firm complexity	0.172	0.563	5.739	10.446	0.000	0.000
Managerial ownership	(0.338)	(0.056)	(0.949)	(0.291)	0.343	0.772
ROA	(0.085)	(0.150)	(0.236)	(0.620)	0.814	0.537
Leverage	0.204	(0.115)	2551	(0.652)	0.011	0.516

Source: Processed Data

Based on Table 11, it shows that the Philippines's firm size and firm complexity affect the audit fee for the significance value less than 0.05. On the contrary, the variable managerial ownership does not affect because the significance value is more than 0.05, then obtained multiple regression equation as follows:

$$\text{Audit Fee} = 0.526 + 0.577(\text{Firm size}) + 0.563(\text{Firm complexity}) - 0.056(\text{Managerial ownership}) - 0.150(\text{ROA}) - 0.115(\text{leverage}) + e$$

### Chi-Square Test

The researchers used chi-square to conclude the result between both countries (Indonesia and the Philippines). In the chi-square test, the researcher will test the independence to determine the relationship between 2 or more variables in the study. The result can conclude in Table 12.

### Audit Fee

The results of the chi-square test show that the audit fee in Indonesia variables have no connection with the audit fee in the Philippines. This reflected from the frequency of data total audit costs between the two countries shows a different amount. Indonesia firms recorded the most significant audit fees are 42.519.485.000 rupiahs at PT Agung Podomoro Land Tbk. While In the Philippines, PLDT Inc. has recorded the highest audit fee is 48.000.000 pesos or approximately 13.680.000.000 rupiahs. This amount reflects because the auditors in Indonesia define the scope of the audit is limited to the number or shape. This led to the determination of audit costs between Indonesia and the Philippines are different.

### Firm Size

The results of the chi-square test show that the variable firm size in Indonesia does not have a relationship with firm size in the Philippines,

so that  $H_0$  accepted and  $H_1$  refused. This reflected from the frequency data is the total assets of both countries that show a different amount. Indonesia's country recorded big audit fees on the national gas company with the amount of 99.437.189.000.000 rupiahs. In the Philippines, PLDT Inc. recorded the highest audit fee is 482.750.000.000 pesos or around Rp. 13.758.375.000.000. It can also be caused by the recognition and measurement of assets in both countries differs.

### Firm Complexity

The results of the chi-square test show that variable firm complexity in Indonesia has a relationship with firm complexity in the Philippines. It can concluded that  $H_1$  accepted. This result reflection from the total frequency data firm complexity both countries showed total different subsidiaries. In Indonesia, the company Indika Energy Tbk has 126 subsidiaries, and the Philippines on the company's Grand Plaza Hotel corporation own 36 subsidiaries. Both countries also improve the performance of the company by adding subsidiaries is expected that the company is not only focused on one aspect of any business.

### Managerial Ownership

The results of the chi-square test show that the variable of managerial ownership in Indonesia has a relationship with managerial ownership in the Philippines. The result that  $H_1$  is accepted. This result reflection from the total frequency data managerial ownership occurred in countries, showing different total ownership. In Indonesia's country, the company Pikko Land development Tbk has 0,82 managerial ownership, while the Philippines on the company GMA Holdings, Inc. owns 0,99 of the managerial ownership. Both countries also expect when buying shares owned by the company will increase the motivation for

Table 12  
Chi-Square Test

		Value	Asymptotic Significance(2-sided)
Pearson	LN_AF_ID * LN_AF_FP	8586.75	0,140
Chi-Square	LN_FS_ID * LN_FS_FP	10379	0,249
	SR_FC_ID * SR_FC_FP	531.648	0,039
	MO_ID * MO_FP	2884.84	0,000
	ROA_ID * ROA_FP	5328.9	0,795
	Leverage_ID * Leverage_FP	3739.99	0,175

Source: Processed Data



managers and other officials to produce a performance of companies is increasing.

**Significance Tests Regression Model (F-Test)**

This test aims to determine whether the model of research fit or not fit and determine whether all independent variables influence the dependent.

**Table 13**  
**Sample F Test Results Indonesia**

Model	F	Sig.
1 Regression	46.615	0,000b
Residual		
Total		

Source: Processed Data

As seen in Table 13, it shows that the calculated F value of 46.615 is higher than F table ( $46.615 > 2.641$ ) with a significance level of  $0.000 < 0.05$ , it can conclude that the regression model fit and can be used to determine the effect of variable firm sizes, firms complexity, and managerial ownership together affect the audit fee variable.

**Table 14**  
**Sample F Test Results Philippines**

Model	F	Sig.
1 Regression	46.615	0,000b
Residual		
Total		

Source: Processed Data

As based on Table 14, it shows that the calculated F value of 65.520 is higher than F table ( $65.520 > 2.692$ ) with a significance level of  $0.000 < 0.05$ , it can conclude that the regression model fit can used to determine the effect of firm size, firms complexity, and managerial ownership simultaneously affect the audit fee variable.

**The coefficient of determination Test (R<sup>2</sup>)**

This test aims to determine how big the model's ability to explain variation in the dependent variable. The coefficient of determination

which is close to the value of 1.00 can conclude that the independent variable can explain the dependent variable perfectly.

**Table 15**  
**Results R<sup>2</sup> Indonesia Firms**

Model	Adjusted R Square
1	0,482

Source: Processed Data

According to the table, it shows that the adjusted R-square equals to 0.482. It shows that independent variables consisting of firms size, firms complexity, and managerial ownership variables can explain the audit fee by 48.2 percent, the residual value 52.8 percent is explained by other variables outside independent variables studied. The adjusted R-square of 0.482 percent shows that the ability of independent variables explaining the dependent variable low because of less than 50 percent.

**Table 16**  
**Results R<sup>2</sup> Philippines Firms**

Model	Adjusted R Square
1	0,886

Source: Processed Data

As seen in Table 16, it show that the adjusted R-square equals to 0.886. It shows that independent variables consisting of firm's size, firms complexity, and managerial ownership can explain the audit fee variable by 88.6 percent, the remaining 11.4 percent is explained by other variables outside independent variables studied. In addition, adjusted R-square of 88.6 percent shows that the ability of independent variables in explaining the dependent variable high as more than 50 percent.

**Hypothesis test (t-test)**

This test aims to demonstrate how far the influence of the independent variables individually in explaining the variation of the dependent variable.

**Table 17**  
**The Result of Hypothesis test Philippines Firms**

Hypothesis	Information	Test result
H <sub>1</sub>	Firm sizes effect on audit fee	H <sub>1</sub> Accepted
H <sub>2</sub>	Firm complexity effect on audit fee	H <sub>2</sub> Accepted
H <sub>3</sub>	Managerial ownership effect on audit fee	H <sub>3</sub> Not Accepted

Source: Processed Data

**First Hypothesis Testing**

The first hypothesis conducted to examine the effect of firm size on the audit fee. According to the table, the t-value equals 12,075, with a significance value of 0.000. This significance value is less than 0.05, which means firm size companies affect the audit fee so that H<sub>1</sub> accepted and H<sub>0</sub> refused.

**Second Hypothesis Testing**

The second hypothesis conducted to know the effect of the firm complexity of the audit fee. According to the table, the t-value of 5.739 with a significance value of 0.000. This significance value is less than 0.05, which means firm complexity affects the audit fee so that H<sub>2</sub> accepted and H<sub>0</sub> refused.

**Third Hypothesis Testing**

A third hypothesis was intended to see the effect of managerial ownership of the audit fee. According to the table, the t-value equals -0.949 with a significant value of 0.343. This significance value is more than 0.05, which means that managerial ownership does not affect the audit fee so that H<sub>3</sub> is rejected but H<sub>0</sub> is accepted.

This test aims to demonstrate the degree of the influence of the independent variables individually in explaining the variation of the dependent variable, especially on Philippines firms' sample, which can be described as follows:

- a. First Hypothesis Testing  
The first hypothesis conducted to examine the effect of firm size on the audit fee. According to the table, the t-table value equals 24.872, with a significance value of 0.000. This significance value is less than 0.05, and it means that firm size companies affect the audit fee so that H<sub>1</sub> accepted and H<sub>0</sub> refused.
- b. Second Hypothesis Testing  
The second hypothesis conducted to test the effect of the firm complexity of the audit fee. According to the t-table, the value is of 10.446 with a significance value of 0.000. This significance value is less than 0.05,

and it means that firm complexity affects the audit fee and therefore H<sub>2</sub> accepted and H<sub>0</sub> are rejected.

c. Third Hypothesis Testing

A third hypothesis is to test the effect of managerial ownership of the audit fee. Based on the t-table, the value is of -0,291 with a significance value of 0.772. This significant value is more than 0.05, and it means that managerial ownership does not affect the audit fee so that H<sub>3</sub> is rejected and H<sub>0</sub> accepted.

**Description**

**Firm Size Effect on Audit Fee**

Agency theory explains a potential conflict of interest between the agent and the principal. Conflicts of interest between the agent and the principal arise to cause the company owns a massive asset. Therefore, the principal as a whole cannot supervise it. This conflict occurs to cause the incompatible agents' acts expected by the principal. In addition, the principal cannot know in detail the purpose of the agents in increasing the total assets owned by the company in the long term. The role of auditors is necessary to provide an overview of financial statements made by the company as reliable as possible. The company shows firm Size about the scale of operations. The firm size to be one consideration for the auditor to provide audit services (Cristansy & Ardiati, 2018). The large-scale companies audited will increase the risks faced by auditors, so that it will affect the audit fee. The firm size measured using the natural logarithm of total assets.

The test results in t-test table 11 show that the Firm Size variable affects the audit fee. It is the reflection from a frequency of data total assets of the company. The company had assets of companies annually increases will impact the cost of the audit or the audit fee that the company is also getting bigger like on PT Perusahaan Gas Negara Tbk, which provides audit fees above the average of other companies are 13.871.809.000 rupiahs and PLDT Inc. of 48,000,000 pesos.

**Table 18**  
**The Result of Hypothesis test Philippines Firms**

Hypothesis	Information	Test result
H <sub>1</sub>	Firm sizes effect on audit fee	H <sub>1</sub> Accepted
H <sub>2</sub>	Firm complexity effect on audit fee	H <sub>2</sub> Accepted
H <sub>3</sub>	Managerial ownership effect on audit fee	H <sub>3</sub> Not Accepted

Source: Processed Data

Besides that, during the study period 2017 to 2019, there were 24 Indonesian companies, and 5 Philippines companies have total assets in companies that exceed the average across the other company. The higher audit fee occurs due auditor takes longer to complete the task of the audit and ensure that the company has been inspected by an adequate sample. The company gives the magnitude of the audit fee to the auditor. It is regulated in decree number KEP.024 / IAPI / VII / 2008 based on the determination of the audit fee which states that in determining the audit fee, public accountants must take into account the client's needs, duties and responsibilities according to law, independence, level of expertise, the time, as well as the basis for determining the audit fee. From the description, it can assume that the company has some assets (wealth) that are high, making audits process conducted by auditors increasingly rather than small assets. This process would be affect on increasing audit fees which charged to the company. These results supported with research has conducted by Cristansy & Ardiati (2018), which states that the firm size influences the audit fee. The research is contrary to result's research with conducted by Rahayu (2017), who states that the firm size does not affect the audit fee.

#### **Firm Complexity Effect on Audit Fee**

Agency theory describes a potential conflict of interest between the agent and the principal. Conflict potential of interest because the principal cannot monitor agent activity every day continuously. Monitor action is useful to ensure that the agent is conducted service following the principal expectation. A principal cannot monitor agent activity on an ongoing basis because of the large number of subsidiaries and branches of companies that make the company complex. The principal will refer to the financial statements that have been audited by auditors expecting that the firm complexity, which occurs in the agent company that has been adequately checked by the auditor.

Thus, more complex the client of the company, the risk and the level of difficulty will be faced by auditors will be increased and requires more audit partner to conduct audit services. These several points can affect the audit fee that will be accepted by the auditor. If the auditors doing their services more long times, the higher audit fee will be received by

the auditor. Firm complexity is related to the complexity of transactions in the company. The complexity can derived from foreign currency transactions, the subsidiaries, and the branch of the company, and also their business operations abroad (Rukmana et al., 2017). Firm complexity is measured using the number of subsidiaries or branches. The more a wholly-owned subsidiary of a parent company, the audit process conducted by an external audit related to firm complexity requires considerable time and require to increase an audit team also which can conduct audit services itself. This point can affect the audit fee that will be accepted by the auditor.

The test results in t-test table 11 indicate that the variable of firm complexity's effect on the audit fee. It is the reflection from the descriptive data indicating the company that has the highest number of subsidiaries, namely Indika Energy Tbk corporations with some subsidiaries are 126 subsidiaries have audit fee above the average of other companies of 15.298.000.000 rupiahs and Grand Plaza Hotel corporation with 36 subsidiaries total of 10.034.705 pesos while companies that do not have subsidiaries such as PP Precision Tbk have the audit fee under other companies equal to 250.000.000 rupiahs and GMA Holdings Philippines, Inc., which has one subsidiary paid the audit equals to 75,000 pesos.

Besides that, During the study period 2017 to 2019, there are 39 Indonesian companies and 15 Philippines companies that have subsidiaries in companies that exceed the average across the other company. It is refer to the explanation of Sukrisno (2012) where audit fee represents income amount varies, depending on several factors in audits such as the size of the client company, the complexity of the audit services faced by auditors, audit risk faced by the auditor of the client, as well as the name of the Firm who perform audit services. The audit fee will increase if the auditor conducts audit services on companies that disclose company information with the initiative as expected by the principal with the assumption that the information provided will encourage the quality of decisions made by the principal.

The results of this research are in line with research conducted by Nurdjanti & Pramesti (2018), which states that firm complexity influence the audit fee. This research is contrary

to research conducted by Cristansy & Ardiati (2018), and Rusmanto & Waworuntu (2015), which states that firm complexity does not affect the audit fee.

#### **Managerial Ownership Effect on Audit Fee**

Agency theory explains that the agency conflict occurs because the agent does not meet the needs and desires of the principal. The agent, as a control decision, should have to give optimum performance to the principal. Agents must have strength in the opinion (vote) on a highest level and have enough control in a company. Shareholders (principals) expect it is the alignment of interests and expectation good enough for the actions of agents.

High managerial ownership expected that management would focus on the quality of financial statements. They are more reliable and they provide the highest fee to the auditor to produce good-quality financial reports. Managerial ownership will have an impact on management performance. Managerial ownership is measured by comparing the shares (Board of Directors, Board of Commissioners, managers) with another outstanding share.

The test results in t-test in Table 11, shows that managerial ownership variable does not affect the audit fee. It reflects the frequency of data total managerial ownership, managerial ownership which the company annually has no impact on the cost of the audit or the audit fee. The company is also relatively fluctuating for the example Pikko Land Development Tbk which provides audit fee is below the average of other companies of 2,265,191,753 rupiahs with the highest managerial ownership in 0, 82 and GMA Holdings, Inc. which has a 99 percent ownership managerial audit fee paid under the average of 75,000 pesos. Besides that, during the study period 2017 to 2019, there are 21 Indonesian companies and 6 Philippines companies that have managerial ownership in companies that exceed the average across the other company.

This result are refers to the explanation of Shan (2019), which explains that the management will try to improve the company's reputation and are more motivated to make financial statements more reliable and ensure that internal controls are carried out by the management are already conducted as good as possible. From the description, it can be seen that companies that have a high number of managerial ownership will not make the audit fee increases. That is because managerial

ownership that focuses on inherent risks that occur in the company will decrease so that the determination of the audit fee would be smaller than companies that do not have managerial ownership. The results of this study are not following research conducted by Shan (2019), which states that managerial ownership affects the audit fee. These findings are consistent with research conducted by Nelson & Mohamed-Rusdi (2015), stating that managerial ownership does not affect the audit fee.

#### **5. CONCLUSION, IMPLICATION, SUGGESTION AND LIMITATION**

This study aimed to examine whether firm size, firm complexity, and managerial ownership affect the audit fees on all company services sector listed in Indonesia stock exchange (BEI) in the period 2017 to 2019 with the number of samples is 246 samples and Philippines's companies which listed in the stock exchange by the number of samples are 107 samples. The classic assumption test results, descriptive statistic test, multiple linear regression analysis tests, and hypothesis testing showed that research results could be summarized as follows:

- a. Firm size (X1) has a significant positive effect on audit fee on services sector companies listed in Indonesia stock exchange (IDX) to an Indonesian company and services sector Philippines company listed in the Philippines stock exchange (PSE) in 2017 until 2019. The highest audit fee occurs due to the auditor taking longer to complete the task of the audit and ensure that the company has inspected with an adequate sample. Companies that have total assets (wealth) is high making process audits conducted by auditors increasingly complicated. It would affect to rapidly increasing in audit fees with charged to the company.
- b. Firm complexity (X2) has a significant positive effect on audit fee services in sector companies listed in Indonesia stock exchange (IDX) to an Indonesian company and services sector Philippines company listed in the Philippines stock exchange (PSE) in 2017 until 2019. Companies that have subsidiaries will have an impact on the audit process is further complicated because the company must create a consolidated report so that the firm complexity will force auditors doing to



do some service required a longer time, so then the fee to be received by the auditors is also getting big.

- c. Managerial ownership (X3) has did not significantly influence the audit fee on all services sector companies listed in Indonesia stock exchange (IDX) to an Indonesian company and services sector Philippines company listed in the Philippines stock exchange (PSE) in 2017 until 2019. Companies that have a high number of managerial ownership will not make the audit fee increases. It is happening because the manager will focus on reducing inherent risks that occur in the company to reduced so that the determination of the audit fee would be smaller than companies that do not have managerial ownership.

Limitations of this study that may affect the results of the study are the independent variables, firm size, complexity firm, managerial ownership simply give effect by 0,482 against the audit fee of the services sector, listed in Indonesia stock exchange (IDX) to an Indonesian company. Yet, the 0,528 explained by other factors beyond the study. Another limitation is that many firms Indonesia and the Philippines that does not disclose the audit fees and managerial ownership, thus reducing many of the samples used in this study. Due to limited data on the audit fee, in this study, Indonesian and Philippines usage professional fees to assign values to variables audit fees. In addition, the researcher found that heteroscedasticity resulting data is diverse and has many characteristics. Therefore the data are not identical (homogenous). Several variables such as the managerial ownership and total assets for which data could not obtained accurately.

Based on the results of research, analysis and discussion, conclusions and the limitations of the study, this study suggests for future research, that the researchers can add more variables because the variables used in this study were not enough to explain the determination of the audit fee amount. The addition of the variables that influence the audit fee such as earnings management, internal audit, audit firm size, internal audit, and political connections should also use in the future research. For the future, the research expected not only to use the services sector companies but also all types of companies,

which listed on the Indonesia stock exchanges or Philippines stock exchange.

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