

# The Influence of Company Size and Audit Fee on Audit Quality

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**Abstract**—The need for transparent and accountable financial report makes a number of rules require companies to present audited financial report. Audit quality is measured by Kasznik's discretionary accrual model. This approach was adopted by Siregar who found that in Indonesia the Kasznik model had the highest adjusted R2 and coefficient prediction compared to several other models. The purpose of this study is to provide about the influence on company size and audit fee on audit quality at manufacturing companies sub-sectors various industry and consumer goods industry which listing in Indonesia Stock Exchange within 2012 to 2016. Research method which in this study used verificative. The initial data on this study is 381 data, using the purposive sampling method that makes the data of sample become 122 data. The data used is the annual report of the sample companies are published on [www.idx.co.id](http://www.idx.co.id). This research using multiple regression of SPSS version 24. The results show that company size and audit fee have an influence on audit quality.

**Keywords**—audit fee; audit quality; company size

## I. INTRODUCTION

The profession of a public accountant which is a public trust profession, where the public accounting profession has an objective assessment and does not favor management for the information presented. This great trust from users of financial statements for public accountant services is what ultimately requires public accountants to pay attention to the audit quality that they produce. Many cases were occurred involving public accountants both abroad and within the country, including the Enron and KAP Anderson mega cases in 2002 which led to the Sarbanes Oxley Act (SOx) regulating auditing regulations. SOx itself has a broad impact on management and the public accounting profession. After the Enron and Anderson cases, there were other audit quality cases, namely the WorldCom, Tyco International, and other cases.

Domestically there are cases regarding audit quality, including the freezing of a Public Accountant (AP) license Drs. Petrus Mitra Winata from the Public Accountant Office (KAP) Drs. Mitra Winata and Partners for two years (as of March 15, 2007). The freezing of this permit was granted because AP Petrus violated the Public Accountant Professional Standards (SPAP) relating to general audit restrictions on financial statements as well as conducting fraud to cover the financial

statements of PT. Muzatek Jaya, PT. Luhur Artha Kencana and Nuance Green Apartment. As well as the freezing case of AP Djoko Sutardjo from KAP Djoko, Ikah & Sutrisno for 18 months. AP Djoko was considered to have violated the limitation of assignment to the financial statements of PT. Myoh Technology Tbk consecutively from 2002 to 2005. In addition, there was a freeze on the license of AP Justinus Aditya Sidharta which was considered to have carried out the overstatement practice of the preparation of the financial statements of PT. Great River International Tbk in 2003.

Audit quality according to Deangelo, is defined as the probability of an auditor to be able to reveal and report a violation in the client's accounting information system [1]. Whereas according to Rosnidah, audit quality is defined as the implementation of audits conducted in accordance with standards so as to be able to disclose and report in the event of a violation committed by the client [2]. Audit quality is a benchmark for how an audit performs its duties as an independent third party that mediates between management and shareholders, therefore factors that influence audit quality are often examined, including: Putri, Febriyanti and Darya, obtained results that the size of the company affected audit quality [3-5]. However, these results are contrary to the results of research conducted by Nugrahanti, Paramita and Andrian, which obtained results that the size of the company had no influence on audit quality [6-8].

According to Putri, that examines the quality of audits at the manufacturing companies listed on the Indonesia Stock Exchange (IDX) 2010-2012 period with the result that the size of the company has influence that indicates that when a good big company, as well as small companies, gain the same level of trust from users of financial statements that the financial reports they have been free of wrong-food materials so that companies have a chance of getting a good audit results [3]. In addition, there are further research conducted by Andrian, the quality audit on the company's manufacturing industry sector of consumer goods of the period 2012-2015, with the results of the company's size has no effect on quality auditing, big nothingness that indicates that the company does not necessarily have an experienced management and a good internal control system to produce more qualified audit than small companies [8]. Research conducted by Hartadi, on the manufacturing company incorporated in LQ-45 shows the

results of that audit fee effect on the quality of audits [9]. It is continuous with the results of research conducted by Ardani, that examines the financial sector companies registered in BEI 2010-2014 period stating that the audit fee which ascendant of the quality audit [10]. These results indicate that the audit fee is high-quality audit anyway, so instead. Quality audit is created because of the performance of the auditors needed more professional in financial statements audit clients.

Firm size is considered as one of the factors of audit quality because when the size of the company continues to increase and the possibility of the number of agency conflicts also increases, it can increase the demand for differences in audit quality [6]. Besides that, there is also an audit fee which is considered as one of the audit quality factors, research on audit fees on audit quality, among others, Rosnidah, Hartadi, Pamungkas, Kurniasih and Ardani, which states that audit fees affect audit quality [2, 9-12]. The above research shows that audit fees affect audit quality because the audit fee is considered as an indicator where the higher the audit fee obtained, the auditor will further improve the audit quality.

The size of the company that is measured using the total assets of the company, describes the larger the company, the more complex the operational activities the company and requires the services of a broader auditor with higher quality. Large companies have operational complexity, so the company has a good control and supervision system and has experienced management so that less or fraudulent financial statements that occur can be suppressed by the company so that more attention is paid by shareholders. On the other hand, small companies usually control and control systems are lower, resulting in more fraud in their financial statements, which are less noticed by shareholders. The results of research conducted by Putri, Febriyanti and Darya, prove that firm size influence audit quality [3-5]. Therefore, that it can be concluded in the hypothesis:

#### H1: Company Size Influence to Audit Quality

In determining the amount of the audit fee, there is a threat of personal interest because if it is too large to pay the audit fee, there is a personal profit or if it is too large to set an audit fee, it will reduce the independence of the public accountant so that the image of the public accountant will be crossed out. However, a large audit fee may also encourage KAP to be more independent this is because a large audit fee can be made available for research and application of a broader and more thorough audit procedure and the possibility of audit fees received from clients is a large part of the total accountant office income or only constitutes a small portion of the total revenue of the accountant's office. The results of research conducted by Rosnidah, Hartadi, Pamungkas, Kurniasih and Ardani, prove that audit fees affect audit quality [2, 9-12]. Therefore, that it can be concluded in the hypothesis:

#### H2: Audit Fee Influence on Audit Quality

### A. Agency Theory

Agency theory developed by Jensen, explains the existence of a conflict of interest between management (agent) and shareholder (principal) [13]. Jensen and Meckling also stated

an agency relationship is a contract in which one or more people (principals) involve other people (agents) to do some services on their behalf and then delegate part of the decision-making authority to the agent. The authority and responsibility of agents and principals are regulated in a cooperation contract with mutual agreement. If the two parties involved in the contract try to maximize their utility, then it is possible that the agent will not always act in the best interest. Principal so that it raises agency problems. Therefore, as an independent third party, in this case, the auditor is considered to be able to bridge or become an independent mediator in reducing agency problems.

### B. Audit Quality

Audit quality (audit quality) according to Deangelo, is defined as the Probability of an auditor to be able to reveal and report a violation in the client's accounting information system [1]. The audit quality definition according to Rosnidah, is the implementation of an audit carried out in accordance with the standards so that the auditor is able to disclose and report in the event of a violation committed by the client. Audit quality is also determined by two things, namely competence and independence in AAA Financial Standard Committee (2000). So that it can be concluded that Audit quality is an attitude possessed by the auditor in finding violations in the client's financial system and then reporting the violation.

### C. Company Size

Company size according to Warnida, is the size or extent of a company and is an indicator that can indicate the condition or characteristics of a company [14]. Firm size is also defined according to Hartono, as the size of assets is used as a proxy for the size of the company [15]. Large companies are considered to have a smaller risk compared to small companies. The reason is that large companies are considered to have more access to capital markets so that they are considered to have a smaller beta. So it can be concluded that the size of the company as measured by total assets, is able to distinguish the quality of audits carried out by the auditor for his clients depending on the size and complexity of the company.

### D. Audit Fee

Arens defines audit fees as compensation in the form of money or goods or other forms given to or received from clients or other parties to obtain engagement from clients or other parties depending on the risk of assignment, the complexity of services provided, and the level necessary to carry out these services, the cost structure of the relevant KAP [16]. Therefore, it can be concluded that even if the audit fee or amount received by the auditor for professional services is given, the auditor's alignment in this matter should be prioritized in the public interest.

## II. RESEARCH METHODS

This study uses basic research which aims to produce the basic knowledge by trying to understand how certain problems that were occurred in the organization can be solved. In this

study researchers used a type of verfatve research, namely the type of research that aims to test a theory or previous research results, so that results can be obtained that strengthen or abort the theory or results of previous research [17]. The population in this study were all industrial and industrial manufacturing sectors of consumer goods in 2012-2016. And the samples in this study are manufacturing companies in various industries and consumer goods industries in 2012-2016. Sample selection using purposive sampling method with criteria, as follows:

- The company is listed on the Indonesia Stock Exchange in 2012-2016.
- The company publishes annual reports in 2012-2016.
- The company has audit fee data in the annual report in 2012-2016.

Data analysis methods used include descriptive statistical analysis and multiple linear regression analysis which previously carried out classical assumption tests (normality test, multicollinearity test, autocorrelation test, and heteroskedasticity test).

**III. RESULTS AND DISCUSSION**

The classical assumption test used to test whether, in the regression model, confounding variables or residual variables have a normal distribution. In this study the data normality test using Kolmogorov-Smirnov (K-S) non-parametric statistical test by looking at the value of asymp Sig (2-tailed). Based on the results of the Kolmogorov-Smirnov value is 0.095 with asympSig (2-tailed) of 0.177. Because the significant value obtained 0.177 is greater than the expected significant value of 0.05. This means that the residuals for all variables in this study have been normally distributed.

To detect the presence or absence of multicollinearity in the regression model is to look at the tolerance value and the opposite of the Variance Inflation Factor (VIF). These two measures indicate which independent variables are explained by other independent variables. The result shows that the

tolerance value for the company size variable is 0.661 which is greater than 0.1 and the VIF value is 1.512 smaller than 10. For the audit variable, the tolerance value indicates the value is 0.661 which is greater than 0, 1 and the VIF value is 1.512 smaller than 10. Based on the results of tolerance and VIF values it can be concluded that in the regression model there is no multicollinearity between independent variables and can be used to predict Audit Quality during the 2012-2016 period.

This classic assumption test aims to detect whether autocorrelation occurs or not, and can be done using the Durbin Watson test (DW test). To diagnose the existence of autocorrelation in a regression model can be seen from the Durbin-Watson value which is then compared with the d-table value. The result shows that the autocorrelation test using the Durbin-Watson test above can be seen that the Durbin-Watson value is 1.887. With a significant 0.05 and the number of samples amounting to 72 (n) and the number of independent variables 2 (k = 2), then the table DW will get a value of dU of 1.6751 and a value of 4-dU of 2.3249, so it can be concluded that the value of DW lies in  $du < DW < 4-du$ , which is  $1.6751 < 1.887 < 2.3249$  which means there is no positive or negative autocorrelation so it can be concluded that there is no autocorrelation in the regression model.

In this study using the glejser test used to determine the presence or absence of heteroskedasticity. The result shows that the significant value of each independent variable is greater than 0.05. The significant value for the company size variable is 0.270. The significant value for the audit fee variable is 0.395. It can be concluded that the regression model in this study does not contain heteroskedasticity, so the regression model is feasible to predict the size of the company and audit fees on audit quality as measured by discretionary accruals.

Hypothesis testing use the t-test is used to determine the influence of company size variables and audit fees on audit quality. This test is used by comparing the p-value with a significance value at the 5% level. The following are the results of multiple linear regression tests in this study:

TABLE I. RESULTS OF MULTIPLE LINEAR REGRESSION TEST

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B		Std. Error	Beta		
1	(Constant)	-0,550	0,600		-,917	0,362
	Company Size	-0,054	0,023	-0,320	-2,374	0,020
	Audit Fee	0,124	0,033	0,507	3,759	0,000

a. Dependent Variable: Audit Quality

Source: Secondary data processed, 2018

In table 1, the linear regression equation in this study is as follows:

$$\text{Audit Quality} = -0,550 - 0,054 \text{ Company Size} + 0,124 \text{ Audit Fee} + e$$

**A. Influence of Company Size on Audit Quality**

Based on the results of hypothesis testing which states that there is an influence of company size on audit quality with a significance level of  $0.020 < 0.05$ . The results of this study are in line with the research conducted by Putri, Febriyanti and

Darya, which state that firm size influence audit quality [3-5]. However, it is different from the results of previous studies conducted by Nugrahanti, Paramita and Andrian, which stated that firm size did not affect audit quality [6-8]. The size of the company with the majority of changes is increasing with the value of discretionary accrual which is increasingly positive indicating that there is a change of audit quality provided by the auditor when the total assets of the company increase. Therefore, the size of the company has an influence on audit quality in manufacturing companies in various industries and consumer goods industries in 2012-2016.

The auditor in carrying out the company's financial statement audit services will always maintain the quality of the audit because for the auditor they must always be independent and maintain their quality in performing audit services. That is, the auditor will audit in its entirety and find out whether there are violations that were occurred both in large companies and violations in small companies. The greater the size of the company will make the company improve the better in terms of control, so as to produce a good financial report output that makes it easier for auditors and requires auditors to be more complex and detailed in conducting audit services to companies that cause auditors to improve audit quality. Conversely, small companies will produce financial report outputs that are not as good as the output of large companies that impact on the work of auditors, which are increasingly increasing because the required data are not well available which results in a decrease in the quality of auditors.

#### *B. Influence of Audit Fee on Audit Quality*

Based on the results of hypothesis testing which states that there is an influence of audit fees on audit quality with a significance level of  $0.000 < 0.05$ . The results of this study are in line with the research conducted by Rosnidah, Hartadi, Pamungkas, and Ardani, which states that audit fees affect audit quality [2, 9-11]. By obtaining higher audit fees, the auditor will further improve the audit quality. By paying a higher audit fee, the company expects auditors to audit the company's financial statements thoroughly and in detail by always paying attention to the appropriate standards and procedures and not missing any procedures.

When a company expects good audit quality from the auditor, this is also continuous with the desire of investors who want audit results or opinions that do not mislead them in terms of decision making. In this case, many companies prepare large funds to pay auditors from large public accounting firms, because the company's management expects the greater audit fees they incur to be worth the audit quality provided by the auditor in conducting audit services. Therefore, the audit fee has an influence on audit quality in manufacturing companies in various industries and consumer goods industries in 2012-2016.

### IV. CONCLUSION AND SUGGESTIONS

#### *A. Conclusion*

Based on the results of research on the variables that have been studied, it can be concluded that company size and audit fees influence audit quality. This is because with the majority of company sizes experiencing an increase in discretionary accrual values that are increasingly positive, indicating that when the size of the company increases, there will be changes in audit quality given by the audit. When the majority of companies issue a high audit fee, the auditor will further improve the quality of the audit in conducting audit services for the company's financial statements.

#### *B. Implication*

Based on the results of the research prove that company size influences the quality of audit fee audit of the financial statements. In accordance with agency theory expressed by Jensen, that the agency relationship there is the authority granted by the principal to the agent to manage the company's resources to good use [13]. The financial statements being one form of accountability provided by the company as a Manager against the principal. If the financial statements are presented in quality audited have stated, then it can increase the trust principal over the management performed by the agent. Therefore, the management of the company is expected to manage the company's assets or resources, as well as consider the election a public accountant with emphasis on audit fee that will be given, so that the impact on the audit process a quality.

#### *C. Recommendation*

This research is expected to contribute to further research that examines the quality of the audit taking into consideration the size of companies or of the audit fee audit report in corporate finance. This research is also expected to contribute to the body of overshadowing the public accountant in order to consider the standard audit fee, so the accountant will be increasingly professional in its performance and produce a quality audit. This study has limitations, namely the company studied only as a part of manufacturing companies with a period of only 5 years and the variables studied are only limited by two independent variables, namely company size, and the audit fee. Based on the limitations that have been explained previously related to this research, the researcher gives suggestions to the next, including the researchers expected the next researcher to use the object of research in a wider sector, by extending the observation period, and adding research variables such as size, accountant specialization, competence, experience, tenure, audit the audit committee, the auditor rotation, and audit capacity was stressed.

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