



The Effect of Company Complexity and Company Size Against Audit Fees

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Abstract

This study explores and analyzes the effects on audit fees of manufacturing companies listed on the Indonesia Stock Exchange of company complexity and company size. The collection of data uses secondary data collected from the 2016-2018 Indonesia Stock Exchange financial statements of manufacturing companies. The research sample used a purposeful sampling method, so in 2016, 2017, and 2018, the total sample size was 12 audited financial reports from manufacturing firms. 36 manufacturing business financial reports, data analysis approaches using various regression techniques, were the entire study. The results showed that the complexity of the business had a positive and negligible effect on the audit fee for the Indonesian Stock Exchange Manufacturing Companies. These findings indicate that since the client business is more complex and results in high audit costs, external auditors may require more time to audit and more experience to audit. The second hypothesis indicates that the size of the business has a positive effect on audit fees for production companies listed on the Indonesian Stock Exchange. These findings show that large corporations would have the money to employ prestigious external auditors. As a consequence, the audit fees charged would result in this.



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1. Introduction

Financial reporting is a tool that connects parties in a company with stakeholders (Muslim et al., 2019; Rahim et al., 2020; Ningsih et al., 2020). Financial reports will provide information about financial statements, company quality, and changes in economic conditions so that they can be used for decision-making (Hajering et al., 2019; Pramukti, 2019; Anwar & Amin, 2020). Auditing work is a systematic method that follows a structured and documented plan in a predefined audit plan using various techniques commonly used to analyze accounting records during the audit process (Muhaimin et al., 2019; Ishak, 2019; Rahim, Sari, Wardaning, &

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Muslim, 2020). An examination of the financial statements is carried out to determine whether the company's financial statements have met the criteria. The time that can be spent in the audit process depends on the company's complexity and size. This results in the auditor having the right to charge fees for the proposed audit service according to the type of audit work to be carried out (Muslim, Rahim, Pelu, & Pratiwi, 2020).

The audit fee is several fees charged by the auditor to perform audit services. Audit fees are determined as a basis for the auditor's professional knowledge and experience (Sutrisni & Wirakusuma, 2017). One of the factors that motivate the auditors to work well is receiving audit fees. Because the audit procedures that must be performed by auditors are complicated, it is natural for public accountants to charge fees for services provided (Stevani & Siagian, 2020). The Indonesian Public Accountants Association (IAPI), on July 2, 2008, issued a Decree of the Chairman of IAPI numbered: KEP.024 / IAPI / VII / 2008. This decision describes the criteria for determining audit fees that are still valid and are still used as the basis for determining the number of audit fees. . In fact, this letter is sufficient as a basis for determining audit fees. However, there is still no provision in the letter regarding how to encourage standard audit fee provisions. Also, there are still no regulations that do not meet standards regarding sanctions against members (Andini, 2020).

The fact that the company provides a service fee that is not commensurate with the level of work done by the auditor is seen in the 2015 financial statements from PT. ELNUSA Tbk. PT. ELNUSA Tbk has total assets of Rp. 4,407,513,000, - then has a subsidiary as much as two subsidiary companies consisting of PT. Patra Nusa Data and PT. Elnusa Trans Samudera. However, it is explained in the Notes to Financial Statements (CaLK), which is presented in the audited financial statements showing that professional fees are only Rp. 21,951,000, -. According to Payscale Human Capital in New York, professional fees in middle-level companies in developing countries, PT. ELNUSA Tbk should pay an audit fee of 3,806 USD or Rp. 54,000,000 - This phenomenon shows that PT. ELNUSA Tbk has a high complexity by having two subsidiary companies and total assets of more than one billion, but PT. ELNUSA Tbk does not provide appropriate service fees (Annual Report, PT. ELNUSA Tbk, 2016).

The company's complexity is part of the auditor's consideration before conducting an examination (Hafiza, Hasan, & Natariasari, 2017). Mulyadi (2011) states that compared to clients whose activities are traditional, clients whose actions result in very complicated transactions are customers who pose a considerable risk to auditors. The complexity of the company is related to the complexity of the transactions that occur within the company. The use of foreign currency transactions causes its complexity, the number of subsidiaries, branches, and business operations abroad. The company's sophistication in this study is measured by the number of subsidiaries and units owned by the client company (Cristansy & Ardita, 2018).

Yulianti, Agustin, & Taqwa (2019) state that company complexity correlates with determining the number of audit fees. A company that experiences significant development and progress in its business operations will impact a more complicated bookkeeping process, and checking accounting records will become increasingly difficult. This is what causes company complexity to affect audit costs. The auditors' audit work will be increasingly complex, which will take longer, resulting in higher prices. The study (Hafiza, Hasan, & Natariasari, 2017; Sulaiman, Sari, & Guritno, 2020) found that company complexity has a positive and significant effect on audit fees. This is because the more subsidiaries owned, the more complex the company's transactions are, increasing the company's audit fees.

H1 : Company complexity has a positive and significant effect on audit fees

Another factor that influences audit fees is company size. Company size is an illustration of company size represented by total assets, total sales, average total sales, and average total assets (Immanuel & Yuyetta, 2014). Meanwhile, for the Public Accounting Firm (KAP) scale, KAP, which is included in the four KAP, is believed to be able to produce higher quality financial reports. This is because Big Four KAPs are considered to have a higher level of effectiveness and efficiency, and are used to providing services to many customers, and are more careful when finding errors (Immanuel & Yuyetta, 2014). Company size can show how much information it contains and reflect management's awareness of communication's importance, both for external and internal participants. Compared to auditing small companies, auditors who carry out audits in large companies require more extended time and more audit work because large companies' transactions are becoming increasingly

complex. Therefore, the bigger the company, the higher the audit fee charged to the company (Hasan, 2017). The research (Kusumajaya, 2017; Pertiwi, 2019) found that company size has a positive and significant effect on audit fees. Nastiti, (2018) also found that company size is an essential variable in determining audit fees. Larger companies can quickly obtain funding from multiple sources, so it will be easier to get loans from creditors because larger companies are more likely to survive in the industry competition.

H2: Company size has a positive and significant effect on audit fees

This study chose a manufacturing company listed on the Indonesia Stock Exchange as a research location because manufacturing companies show progress or national economic and business development. Besides, manufacturing companies are sectors with high business complexity.

2 Research Method

The approach used in this research is a quantitative approach that emphasizes numerical data (numbers) so that the influence between variables in the object under study will be known. In this study, we collected data through literature and documentation. A literature study is carried out by collecting data related to theories related to company complexity, company size, and audit fees obtained from literature and previous research journals. We do documentation by collecting, recording, and reviewing data in audited financial reports on the Indonesia Stock Exchange's manufacturing companies. This study's population were all manufacturing companies listed on the Indonesia Stock Exchange (IDX), where 64 manufacturing companies audited their financial reports for 2016-2018. The use of financial statement data for 3 (three) years for 2016, 2017, and 2018. The sampling technique is the purposive sampling technique, which is selected based on the following criteria:

Table 1. Sampling Criteria

No	Criteria	Total
1.	Manufacturing companies that have been listed on the IDX during the study period from 2016-2019	64
2.	Manufacturing companies that do not display professional fees in financial reports	(19)
3.	Manufacturing companies that do not include annual reports for 2015-2017 consecutively along with financial reports that have been audited by an independent auditor	(18)
4.	Manufacturing companies that experienced delisting during the observation period	(11)
5.	Manufacturing companies that do not present financial statements in Rupiah	(4)
Total Sampling		12

Based on the predetermined criteria, as shown in table 1, a total sample size of 12 audited manufacturing company financial reports was obtained during 2016, 2017, and 2018. So that the full sample of this study is 36 financial statements of manufacturing companies. Multiple regression analysis is used considering more than one independent variable. This test is useful for determining the independent variable's effect (company complexity and company size) on the dependent variable (audit fee). The regression model is formulated with the following equation:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$

Keterangan :

Y = Audit Fee

α = Constant

B = Regression coefficient

- X1 = Company Complexity
- X2 = Company Size
- e = Error coefficient

3 Result and Discussion

3.1. Statistycal Result

In this study, to test for normality, the Normal PP Plot of Regression Standardized Residual chart is used to see the regression model for the audit fee variable and its complexity and company size contribution or not. Figure 1 shows the data normality test results with a standard probability plot graph test, indicating that the study's data is suitable for use and is said to be expected, as seen from the data that spreads around the line.

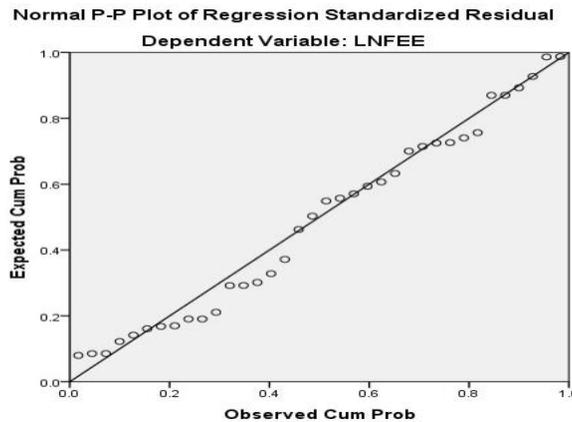


Figure 1. Normal Probability Plot

Techniques for detecting multicollinearity in the regression model can be seen from the tolerance value and Variance inflation factor (VIF). If the tolerance value is above 0.1, multicollinearity does not occur. While the tolerance value is smaller or equal to 0.1, multicollinearity occurs. Meanwhile, if the VIF value is below 10, it indicates no multicollinearity between the independent variables and vice versa. If the VIF value is greater than or equal to 10, then multicollinearity works. From the output results in table 2, it can be concluded that in this study, there is no multicollinearity problem because the tolerance value for all variables is more than 0.1, and the Variance Inflating Factors (VIF) value is less than 10.

Table 2. Multicollinearity Test Results

Model	Collinearity Statistics	
	Tolerance	VIF
Company complexity (X1)	.555	1.801
Company Size (X2)	.555	1.801

Table 3 shows the value of Adjusted R Square, which offers the number 0.679, meaning that the independent variables in this study, namely Company Complexity (X1) and Company Size (X2), affect the dependent variable, namely Fee Audit (Y) of 67.9%. In comparison, 32.1% is explained by other factors, which were not examined in this study.

Table 3. Determination Coefficient Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.824 ^a	0.679	0.659	79.49825
a. Predictors: (Constant), X1, X2				
b. Dependent Variable: Y				

Table 4. Partial Test Results (t test)

Model		B	T	Sig.
1	(Constant)	629.446	-1.103	.277
	Company complexity	1.958	2.924	.005
	Company Size	1.784	1.904	.003
a. Dependent Variable: <i>Audit fees</i>				

Based on the results of multiple regression analysis, the following model or equation is obtained:

$$Y = 629.446 + 1.958X_1 + 1.784X_2 + e$$

1. The constant value (β_0) is 629,446; this shows that if the independent variable Company Complexity (X1) and Company Size (X2) are equal to zero, the Audit Fee (Y) will increase by 629,446.
2. The regression coefficient value for the Firm Complexity variable (X1) is 1.958. It means that if the variable of company complexity (X1) increases by one unit, the value of Fee Audit (Y) will increase by 1.958.
3. The regression coefficient value for the firm size variable (X2) is 1.784. This means that if the variable company size (X2) increases by one unit, the value of the Audit Fee (Y) will increase by 1,784.

3.1. Discussion

Company complexity has a positive and significant effect on audit fees

The results of this study indicate that company complexity has a positive and significant effect on audit fees. The higher the value of company complexity, the value of the Audit Fee will also increase. The complexity of the company is part of the auditor's consideration before conducting an examination. This makes sense because external auditors will need more time to audit and more expertise to audit when the client firm is more complex and results in higher audit fees. When companies experience significant developments and improvements in their business operations, the accounting process becomes more complex, and the examination of accounting records becomes increasingly tricky.

Yusica & Sulistyowati (2020) suggest that the company's complexity can affect the number of audit fees because auditors' audit work will be more and more complicated. It takes longer to cause the client to be charged a higher fee per hour. This study's results support the results of research (Hafiza, Hasan, & Natariasari, 2017; Sulaiman, Sari, & Guritno, 2020), which states that company complexity has a positive effect on audit fees. In this case, the subsidiary represents the variable of the company's complexity, which is a measure of whether or not the transactions that are owned by the client of the public accounting firm will be audited. Therefore, if the company has a subsidiary, the client's transactions will be more complicated because it is necessary to make a measurement report and create a transaction report, making a consolidated report (Nurdjanti & Pramesti, 2018).

Company size has a positive and significant effect on audit fees

This study indicates that company size has a positive and significant effect on the Audit Fee. The bigger the company's size has an impact on the higher the value of the Audit Fee. Large firms will tend to initiate

transactions that are more in number and value than smaller firms. Also, large companies will have the resources to recruit prestigious external auditors. As a result, it will result in paid audit fees. This study explains that companies with total assets of more than one hundred billion tend to have broader activities and have more transactions. This will automatically affect the length of the audit, which will lead to the effect of giving audit fees. This study's results are also reinforced by (Putri & Rasmini, 2016) that large companies have a lot of space, which is sufficient to test the persistence and thoroughness of an auditor rather than small companies, which will increase the fees for services to auditors.

This study's results are in line with research (Kusumajaya, 2017; Pertiwi, 2019), which found that the greater the size of the company, the longer it will take the auditor to examine audit evidence. The longer the auditor's time and effort to complete his duties, the more the audit fee must be submitted by the company. Auditors who perform audit work at large companies require more extended time and a larger number of audit teams than auditing small companies. This is because large companies have more and more complex transactions (Chandra, 2015).

4 Conclusion

Based on data analysis and hypothesis testing, the study concluded that company complexity and company size positively and significantly affect the Audit Fee. The bigger the company and the more complex the company will affect the company's condition and activities; the complexity of the company and size of the company will be one of the factors that can affect the amount of the audit fee.

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