Determinants of audit fees in the consumer goods industry listed on the Indonesia stock exchange

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ABSTRACT

This paper aims to demonstrate the effects of company size, public accounting firm size, independence of the board of commissioners, size of the board of commissioners, and company risk on audit fees. The population used in this study are companies in the consumer goods industry sub-sector listed on the IDX in 2019-2022. Sample withdrawal using a purposive sampling technique with certain criteria then the data was analyzed by multiple linear regression. It is clear from the result of the analysis that the independence of the board of commissioners and the size of the board of commissioners have a positive effect on audit fees. While other variables such as company size, public accounting firm size, and company risk do not affect audit fees.

Introduction

In accounting assumptions, the term "going concern" means that any company is expected to continue to operate and survive over a long period. To survive and compete, one of the obstacles that companies face is funding. Therefore, the company prefers to change its status to an open company offering its shares publicly. In Indonesia, go-public companies can use a capital market called the Indonesia Stock Exchange to list their shares and start offering to the public. Of course, some regulations by the capital markets are imposed on go-public companies, one of which is the obligation to publish financial reports that have been audited by the public accounting office registered with the Financial Services Authority as listed in the IDX Decision No: Kep-00001/BEI/01-2014.

The obligation to publish the audit financial report is intended to protect potential investors. With independent judgment, the information management presents are reliable and can be used for decision-making. So, the company must charge for auditing services such independent entities perform, commonly called auditing fees. Audit fees are costs received by Public Accountants from their client entities concerning the provision of audit services (IAPI, 2016). The Indonesian Institute of Public Accounts (IAPI) has issued PP Decree No. 2 of 2016 on the Determination of Audit Fees of Financial Reporting Services. However, the regulations only regulate the remuneration of auditors per hour of work, while audit hours for each company vary depending on the survey to be conducted.

In addition, many companies registered in the IDX still need to include the amount of audit fees. For example, in 2016, manufacturing companies included audit fees in their annual reports 13 companies and the remaining 144 companies did not include costs for audit services (Cristansy & Ardiati, 2018). Therefore, this study aims to test the factors that are supposed to influence the setting of external audit fees based on previous research conducted by Alifian et al. (2023); Chandra (2015); Coffie & Bedi (2019); Fisabilillah et al. (2020); Izzani & Khafid (2022); Pertwi (2019); Sibuea & Arfiandi (2021); Sitompu (2019); Sukianisih & Tenaya (2016); Yulianti et al. (2019).

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Factors allegedly influencing the cost of auditing are the company's size, public accounting firm size, the independence of the board of commissioners, the size of the board of commissioners, and the company's risk. According to Coffie & Bedi (2019), the company's size has a significant and positive influence on the audit fees of its research in Ghana, including both listed and unlisted companies. It shows that the company's size measured using the total natural logarithm of assets plays an important role in determining the audit fees regardless of the record status of the firm. The results of this research are supported by Pertwi (2019), which stated that the company's size influences the determination of audit fees. While the results of research by Sitompul (2019) indicate that the company size does not affect on audit fees.

Investors expect the information to be used in decision-making to have been evaluated by a qualified party. The Big Four is a public accounting firm that provides quality services because of its international reputation. According to Yulianti et al. (2019), the size of the public accounting firm positively and significantly influences non-financial companies listed in the IDX in 2014-2017. The Big Four sets higher audit rates than the non-Big Four. Contrary to the findings obtained by Alfian et al. (2023), the size of the public accounting firm does not affect the audit fees.

Companies need an independent party in supervision so that management acts by the rules and does not make deviations. The Board of Independent Commissioners will oversee management to improve the process of preparing the financial statements that applicable standards can expect (Beasley, 1996). According to Sitompul (2019), the independence of the board of commissioners has a positive and significant influence on the determination of audit fees because the presence of independent commissioners in the company overseeing management prevails over the interests of investors. They will, therefore, increase the audit fees by using quality services. However, a study conducted by Frenchischa & Syurmita (2021) found that the independence of the board of commissioners did not influence the audit fees.

Management is not only supervised by the independent board of commissioners but also by the board of commissioners. In addition to overseeing, the board of commissioners must ensure good corporate governance is well conducted and can advise the management. The functions of the Board of Commissioners can be effectively performed when it has an ideal number of members. According to Izzani & Khafid (2022), a larger board of commissioners can increase the audit fees because too many board members result in ineffective controls. Hence, the auditor takes longer to do his job. In contrast, a study produced by Paramitha & Setyadi (2022) says that the small size of the board of commissioners does not influence the determination of audit fees.

According to Sibuea & Arfianti (2021), a high-risk company can impact material errors in its financial statements, from which the auditor must identify the existing risks to minimize the occurrence of errors. Sanusi & Agus (2017) stated that the higher the risk on a company, the higher the audit fees. Research from Yulianti et al. (2019) states that low or high risk in a company will not affect the audit fees. Based on the description above, the reviewed study examines the primary factors that affect the audit fees on the Indonesia Stock Exchange. The parameters analyzed encompass firm size, public accounting firm size, board independence, board size, and company risk. The study focuses on providing insights into the relationship between these variables and the audit fees paid by companies in the consumer goods sector.

**Literature Review**

**Agency Theory**

Agency theory was first introduced by Jansen and Meckling. Agency theory is a concept that regulates the existence of contracts that occur between investors and managers (Jensen & Meckling, 1976). In this theory, investors are referred to as principals and managers or management are referred to as agents. In this agency relationship, the principal entrusts the agent to work using his funds in the hope that the agent can manage to develop his funds. Of course, investors and managers have different interests, and this is an agency problem. The interests of investors are to get as much return as possible from the investment that has been invested, while the manager wants to get high income from the services he has provided. Due to the information asymmetry between these relationships, managers can act outside the interests or desires of investors, resulting in agency costs.

The existence of an independent party that appears between the principal and the agent can indirectly control the agent's actions (Sukaniaish & Tenaya, 2016). In this case, the external auditor can be an independent party that oversees management, especially in preparing financial statements. External auditors can assure the principal that the company's financial statements are by established standards. To produce a quality auditor’s opinion costs the appropriate audit services.

**Audit Fees**

Audit fees are costs that must be incurred by a company that will use the services of an external auditor. In chapter two, part one regarding the right to service fees in Management Regulation No. 2 of 2016 states, “When providing audits, KAP is entitled to obtain service fees based on an agreement between the Public Accountant and his client entity as stated in the engagement letter.” Matters governing the determination of the amount of audit fees are contained in Decree No. KEP.024/IAPI/VII/2008. The letter states the client's needs, duties and responsibilities by the law, independence, level of expertise, job responsibilities and the level of difficulty of the work, the period required to perform the work and being aware of the agreed fee are the determinants of the audit fee. Empirical evidence produced by Blankley et al. (2012) states that audit fees in a company signal a high-quality audit.
Company Size

According to Suwito & Herawaty (2005), company size can be categorized into three types: small, medium, and large. Company size is a value or scale that categorizes a company’s size, which is determined based on total assets, log size, stock market value, and others (Widiastari & Yasa, 2018). Large companies generally have extensive operational activities, so the magnitude of operational activities will produce complicated transactions with large amounts, extending the audit process and taking up the auditor’s time.

Public Accounting Firm Size

Law of the Republic of Indonesia Number 5 of 2011 regulates public accountants, and Minister of Finance regulation number 17 / PMK.01 / 2008 concerning services from public accountants. According to Cristansy & Ardiati (2018), the Public Accounting Firm is a business entity that is a forum for public accountants to provide professional services that have obtained a license under statutory regulations. There are four size categories to describe public accounting firms, namely (i) big four, (ii) national offices, (iii) regional offices and local offices, and (iv) small local offices (Arens et al., 2008). Public accounting firms with international affiliations generally have high credibility because they can perform large audit tasks and maintaining their independence (Sibuea & Arifianti, 2021).

Independence of the Board of Commissioners

The existence of an independent board of commissioners aims to foster an objective environment based on good corporate governance. It can balance the interests of majority shareholders and protect minority shareholders. According to Paramitha & Setyadi (2022), the independent board of commissioners represents stakeholders who can detect management opportunistic behavior regarding financial reporting. To mitigate this problem, the independent board of commissioners needs to ensure the reliability of financial statements by using audit services from a high-quality public accounting firm.

Size of the Board of Commissioners

Investors and management have different interests, as described in agency theory. Effective implementation of corporate governance is essential in resolving conflicts of interest. One part of corporate governance is the number of board members. The board of commissioners is part of corporate governance that oversees management, advises the board of directors, and ensures the company carries out corporate governance (KNKG, 2006). This function will run smoothly if the number of board members is ideal, meaning the company has few members (Pardede & Laksito, 2022). Excessive members of the board of commissioners will only disrupt communication, reduce supervisory ability in financial reporting, and ultimately reduce the quality of poor reports, which can ultimately lead to audit risk.

Company Risk

Corporate risk is the existence of certain conditions that will cause the company's performance to be lower than expected (Wardani, 2018). Risks can affect the company’s financial statements, such as calculation errors. It can take up the auditor's time to determine the company's risk and minimize the potential for misstatement. Therefore, the audit rate will be higher because it requires a process that takes a lot of time and energy (Chandra, 2015).

Effect of Company Size on Audit Fees

Several things underlie company size, one of which is total assets. Company size is a value or scale that classifies companies into small, medium, and large. Large companies have a large and complicated number of transactions, so the auditing process is also complicated. Auditing large companies requires more energy and time to prepare, analyze, and test the information (Amelia et al., 2022).

In Decree No. KEP.024 / IAPI / VII / 2008, audit fees are charged based on the hours worked. If the audit process of a large company takes up a lot of auditor time, the rates charged to the auditee will also increase (Pertiwi, 2019). This statement is strengthened by the statement of previous research, which states that company size has a positive effect on audit fees or the larger the size of the company can increase audit fees (Alifian et al., 2023; Anggara et al., 2021; Coffie & Bedi, 2019; Fisabilillah et al., 2020; Frenchischia & Syurmita, 2021; Hasan, 2017; Immanuel & Yuyetta, 2014; Ulfasari & Marsono, 2014; Yulianti et al., 2019). Therefore, this research proposes the hypothesis as below:

H1: Company size has a positive influence on audit fees.

Effect of Public Accounting Firm Size on Audit Fees

According to Arens et al (2008), the size of public accounting firms is divided into four categories, namely the big four, national offices, regional offices / local offices, and small local offices. This study divides the size of public accounting firms into the big four and non-big four. The public accounting firms included in the big four categories are EY, KPMG, Deloitte, and PwC. Almost all large companies in the United States and the world use audit services from the big four. This is because the big four have high credibility to improve the quality of financial reports for their clients (Alifian et al., 2023).
Big Four has better service quality than other public accounting firms because it is known for its experience and professionalism (Sinaga & Rachmawati, 2018). The excellent reputation built by the big four to date has made the rates set higher than other public accounting firms. This idea is in line with previous research, which states that the size of a public accounting firm with an international reputation or the big four positively affects audit fees (Anggara et al., 2021; Chandra, 2015; Cristansy & Ardiati, 2018; Hasan, 2017; Immanuel & Yuyetta, 2014; Mulianie et al., 2022; Pertivi, 2019; Sanusi & Purwant01, 2017; Sitompul, 2019; Ulfasari & Marsono, 2014; Yulianti et al., 2019). Therefore, this research proposes the hypothesis as below:

H2: Public accounting firm size has a positive influence on audit fees.

Effect of Independence of Board of Commissioners on Audit Fees

Agency theory explains information asymmetry in the relationship between company owners and management, where owners cannot access or know all company information. Therefore, companies must have good internal control and corporate governance. Independent commissioners are part of corporate governance. They will represent company owners in ensuring management works properly by supervising, advising directors, and ensuring good corporate governance (Sukaniasih & Tenaya, 2016).

According to Beasley (1996), the independent board of commissioners will ensure that the financial statements presented have met their characteristics by conducting strict supervision. Therefore, they need audit services that can provide quality results to safeguard the interests of company owners. This idea is supported by previous research which states that the more independent commissioners, the higher the audit costs will be (Paramitha & Setyadi, 2022; Sitompul, 2019). Therefore, this research proposes the hypothesis as below:

H3: Independence of BOC has a positive influence on audit fees.

Effect of Size of the Board of Commissioners on Audit Fees

Law number 40 of 2007 concerning Limited Liability Companies explains that the duties of the board of commissioners are to oversee the policies and course of management and to provide advice to the board of directors. According to Izzani & Khafid (2022), the number of commissioners must be ideal, not lacking, or excess members, to be more effective in carrying out their duties, namely supervision.

Supervisory ineffectiveness can affect the quality of the company's financial statements. Therefore, external auditors need to test the operation of corporate governance, internal control and, most importantly, the reliability of financial statements. It results in additional work and requires more time, increasing audit fees. This idea aligns with previous research, which also says that the larger the board of commissioners, the greater the audit fees charged (Izzani & Khafid, 2022; Sitompul, 2019; Sukaniasih & Tenaya, 2016). Therefore, this research proposes the hypothesis as below:

H4: BOC size has a positive effect on audit fees.

Effect of Company Risk on Audit Fees

According to Wardani (2018), company risk is a condition when there are possibilities that cause the company's performance to be lower than expected. Corporate risk that is a concern is the risk associated with debt. One ratio that describes corporate debt is the debt-to-equity ratio, which describes the relationship between corporate debt and equity (Izzani & Khafid, 2022). In agency theory, the term risk aversion means that the agent and principal each tend to avoid risk.

Management covers up financial conditions that are not good, while investors need quality audit services to reduce risks that may arise. Therefore, high-risk companies allow audit failures to occur, so intensive testing is needed (Kikhia, 2014). Auditors need additional procedures for intensive testing, which affects the auditor's time and effort in completing it so that it can increase audit fees. This idea is supported by previous research, which states that the greater the company's risk, the greater the audit fees charged (Pardede & Laksito, 2022; Sanusi & Purwanto, 2017; Wardani, 2018). Therefore, this research proposes the hypothesis as below:

H5: Company risk has a positive effect on audit fees.
Conceptual Framework

![Conceptual Model](image)

**Figure 1:** Conceptual Model; *Source: Authors*

### Research and Methodology

#### Population and Sample

The population in this study are all consumer goods industry companies listed on the Indonesia Stock Exchange in the 2019-2022 period. The consumer goods industry comprises the food and beverage sub-sector, cigarette sub-sector, pharmaceutical sub-sector, cosmetics, and household needs sub-sector, household appliances sub-sector, and others. The sampling technique in this study used purposive sampling, where the sample was drawn based on predetermined criteria. From a total population of 87 issuers, 60 samples match the criteria of this study.

#### Data

The data in this study were analyzed using descriptive statistical tests, multiple linear regression tests, coefficient of determination tests, t tests and hypothesis tests. Before conducting multiple linear regression analysis tests, the data must be tested using the classical assumption test, namely the multicollinearity test, normality test, autocorrelation test and heteroscedasticity test.

#### Research Variables

**Dependent Variable**

**Audit Fees**

Audit fees are obtained from the company's annual report. Then calculated using the natural logarithm as the following formula:

\[ AF = \ln(\text{Audit Fees}) \]

**Independent Variables**

**Company Size**

Company size can be measured based on total assets, log size, and stock market value. This study uses total assets obtained from the company's financial statements with the following formula:

\[ CS = \ln(\text{Total Assets}) \]
Public Accounts Office Size

The measurement used for the public accounting firm size variable is a dummy. Public accounting firms are divided into big four and non-big four. Companies that use audit services from the Big Four public accounting firms are given code 1 and code 0 for the opposite.

Independence of the Board of Commissioners

The independence of the board of commissioners is measured using the ratio of the independent board of commissioners by dividing the total independent commissioners and the total commissioners in a company. The following is the formula:

\[ iBOC = \frac{\text{Number of Independent Commissioners}}{\text{Number of Commissioners}} \]

Size of the Board of Commissioners

Measurement of the board of commissioner’s size variable using the total board of commissioners, which includes independent commissioners and the board of commissioners.

Company Risk

Corporate risk is measured using the debt-to-equity ratio, commonly called the debt-to-equity ratio. DER is calculated by dividing all debt (current and non-current debt) and all equity. The following is the debt-to-equity ratio formula:

\[ DER = \frac{\text{Total Liabilities}}{\text{Total Equity}} \]

Analysis Method

Descriptive Statistical

The purpose of this analysis is to categorize data by presenting a comprehensive summary of its characteristics, which may be observed through metrics such as the mean, minimum, maximum, and standard deviation (Ghozali, 2013).

Classic Assumption

Normality Test

The objective of this test is to determine the presence of a normal distribution among the research variables. The normality of the data was assessed in this study using the Kolmogorov-Smirnov test analysis. The test determines that a significance value (sig value) below 0.05 indicates a departure from normality, whereas a sig value above 0.05 implies adherence to a normal distribution.

Multicollinearity Test

A multicollinearity test is conducted to evaluate the extent of correlation among the independent variables in the research study. Academic researchers direct their attention toward the VIF (Variance Inflation Factor) value and tolerance value found in the Collinearity Statistics column to evaluate the presence of symptoms related to multicollinearity. The presence of multicollinearity can be determined by examining the tolerance value, which should be greater than 0.1, and the variance inflation factor (VIF), which should be less than 10.

Heterokedasticity Test

Researchers can employ the Spearman Rank test to assess the statistical significance of individual variables inside the heteroscedasticity test. The heteroscedasticity test is employed to assess the presence of unequal residual variances among observations within the regression model. Heteroscedasticity is absent in the regression model when the significance value of the alpha level exceeds 0.05.

Autocorrelation Test

The autocorrelation test is a statistical method used to determine the degree of correlation within a dataset. The present study utilized a non-parametric statistical test, specifically employing the Run Test method, with the Asymp value serving as the criterion for making decisions. The significance level (two-tailed) will be determined using the following criteria for the autocorrelation test.

i. Autocorrelation is deemed to be present when the asymptotic significance (two-tailed) exceeds the threshold of 0.05.

ii. Autocorrelation is shown by an asymptotic significance level (two-tailed) that is lower than 0.05.

In the event of encountering a potential limitation with the Durbin-Watson Test, the utilization of the Run Test may provide a more definitive resolution (Ghozali, 2013).
Multiple Regression Analysis

Multiple regression analysis was used in this study to analyze how much influence two or more independent variables have on one dependent variable (Ghozali, 2013). The following is the multiple linear regression analysis equation in this study:

\[ Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \epsilon \]

Description:

Y = Audit Fees
X1 = Company Size
X2 = Public Accounts Office size
X3 = Independence of BOC
X4 = BOC Size
X5 = Company Risk
\( \alpha \) = Constant
\( \beta \) = Regression coefficient
\( \epsilon \) = Error

Adjusted R Square

The purpose of this experiment is to examine the impact of the independent variable on the dependent variable. The Adjusted R squared value has exhibited a drop or adjustment upon the inclusion of additional independent variables within the scope of the study. The observed decrease can be attributed to the modification or inclusion of independent factors, as not all independent variables exert an influence on the dependent variable.

F Test

The purpose of the F test is to assess the statistical significance of the regression model. If the p-value is less than 0.05, it indicates that the regression model employed in the study is statistically significant and can be considered appropriate for usage.

T Test

The purpose of the t-test is to assess the impact of the independent variable on the dependent variable in isolation. Based on the obtained results, the independent variable exerts a statistically significant impact on the dependent variable when the p-value is less than 0.05. On the other hand, when the p-value is greater than 0.05, it can be concluded that there is no significant impact of the independent variable on the dependent variable.

Findings and Discussions

Description of Research Object

This study uses secondary data in the form of annual reports and audited financial reports in the consumer goods industry sector listed on the IDX for the 2019-2022 period. Based on the predetermined criteria, this study includes 15 companies, as presented in the table below:

<table>
<thead>
<tr>
<th>Number</th>
<th>Code</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>ADES</td>
<td>Akasha Wira International TBK</td>
</tr>
<tr>
<td>2.</td>
<td>AISA</td>
<td>Tiga Pilar Sejahtera Food TBK</td>
</tr>
<tr>
<td>3.</td>
<td>DLTA</td>
<td>Delta Djakarta TBK</td>
</tr>
<tr>
<td>4.</td>
<td>GGRM</td>
<td>PT. Gudang Garam TBK</td>
</tr>
<tr>
<td>5.</td>
<td>HMSH</td>
<td>Hanjaya Mandala Sampemora</td>
</tr>
<tr>
<td>6.</td>
<td>IKAN</td>
<td>PT. Era Mandiri Cemerlang TBK</td>
</tr>
<tr>
<td>7.</td>
<td>MBTO</td>
<td>PT. Martina Berto TBK</td>
</tr>
<tr>
<td>8.</td>
<td>MYOR</td>
<td>Mayora Indah TBK</td>
</tr>
<tr>
<td>9.</td>
<td>PCAR</td>
<td>PT. Prima Cakrawala Abadi TBK</td>
</tr>
<tr>
<td>10.</td>
<td>PMMP</td>
<td>PT. Panca Mitra Multiperdana TBK</td>
</tr>
<tr>
<td>11.</td>
<td>PSGO</td>
<td>PT. Palma Seraisih TBK</td>
</tr>
<tr>
<td>12.</td>
<td>PYFA</td>
<td>Pyridam Farma TBK</td>
</tr>
<tr>
<td>13.</td>
<td>RMBA</td>
<td>Bentoel Internasional Investama TBK</td>
</tr>
<tr>
<td>14.</td>
<td>TAYS</td>
<td>PT. Jaya Swarasa Agung TBK</td>
</tr>
<tr>
<td>15.</td>
<td>ULTJ</td>
<td>PT Ultrajaya Milk Industry &amp; Trading Company TBK.</td>
</tr>
</tbody>
</table>

Source: Research Result, 2023
From the population of the consumer goods industry sector, sample withdrawal using the purposive sampling technique refers to the criteria below:

**Table 2: Sampling Criteria**

<table>
<thead>
<tr>
<th>No</th>
<th>Sample Criteria</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.</td>
<td>Having a comprehensive annual financial report spanning the time frame of 2019 to 2022.</td>
<td>59</td>
</tr>
<tr>
<td>3.</td>
<td>Companies that incorporate audit service fees into their annual report.</td>
<td>15</td>
</tr>
</tbody>
</table>

**Source:** Research Result, 2023

**Descriptive Statistic Analysis**

The present study uses descriptive statistics to categorize the data into distinct groups, providing a comprehensive picture of the dataset through the examination of key summary measures such as the minimum, maximum, mean, and standard deviation (Ghozali, 2013).

**Table 3: Descriptive Statistic**

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Std. Deviation</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>AF</td>
<td>60</td>
<td>18.74</td>
<td>23.64</td>
<td>1.28643</td>
<td>20.5952</td>
</tr>
<tr>
<td>CS</td>
<td>60</td>
<td>13.60</td>
<td>30.73</td>
<td>5.08013</td>
<td>20.9013</td>
</tr>
<tr>
<td>PAOs</td>
<td>60</td>
<td>.00</td>
<td>1.00</td>
<td>.37582</td>
<td>.1667</td>
</tr>
<tr>
<td>iBOC</td>
<td>60</td>
<td>.33</td>
<td>1.00</td>
<td>.16767</td>
<td>.4688</td>
</tr>
<tr>
<td>sBOC</td>
<td>60</td>
<td>2.00</td>
<td>6.00</td>
<td>1.28617</td>
<td>3.8000</td>
</tr>
<tr>
<td>CR</td>
<td>60</td>
<td>-.89</td>
<td>1.89</td>
<td>.33952</td>
<td>.4810</td>
</tr>
</tbody>
</table>

**Source:** Research Result, 2023

Based on the conducted data processing, the following companies exhibit both the lowest and maximum values for each variable.

**Table 4: Minimum and Maximum Value**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Code</td>
<td>Year</td>
</tr>
<tr>
<td>AF</td>
<td>PCAR</td>
<td>2019</td>
</tr>
<tr>
<td>CS</td>
<td>PYFA</td>
<td>2021</td>
</tr>
<tr>
<td>PAOs</td>
<td>ADES, DLTA, GGRM, HMSP, MBTO, MYOR, PCAR, PMMP, PYFA, RMBA, TAYS, ULTJ</td>
<td>2019-2022</td>
</tr>
<tr>
<td></td>
<td>AISA</td>
<td>2019-2020</td>
</tr>
<tr>
<td>iBOC</td>
<td>ADES, MBTO, PCAR, PSGO</td>
<td>2019-2022</td>
</tr>
<tr>
<td>sBOC</td>
<td>IKAN, TAYS</td>
<td>2019-2022</td>
</tr>
<tr>
<td>CR</td>
<td>AISA</td>
<td>2022</td>
</tr>
</tbody>
</table>

**Source:** Research Result, 2023

**Normality Test**

This test aims to determine whether the data is normally distributed or not normally distributed. The data is not normally distributed in decision-making if the significance level is <0.05. The Kolmogorov-Smirnov test in the table above obtained an Asymp. Sig. (2-tailed) of 0.173 > 0.05, so it can be concluded that this research data is normally distributed.
Table 5: One-Sample Kolmogorov-Smirnov Test

<table>
<thead>
<tr>
<th>Normality Parameters</th>
<th>Unstandardized Residual</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>60</td>
</tr>
<tr>
<td>Mean</td>
<td>-.2400198</td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>.8257711</td>
</tr>
</tbody>
</table>

Most Extreme Differences

<table>
<thead>
<tr>
<th>Test Statistic</th>
<th>Asymp. Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive</td>
<td>.107</td>
</tr>
<tr>
<td>Negative</td>
<td>-.062</td>
</tr>
</tbody>
</table>

Table 6: Multicollinearity Test

<table>
<thead>
<tr>
<th>Model</th>
<th>Collinearity Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tolerance</td>
</tr>
<tr>
<td>CS</td>
<td>.853</td>
</tr>
<tr>
<td>PAOs</td>
<td>.890</td>
</tr>
<tr>
<td>iBOC</td>
<td>.825</td>
</tr>
<tr>
<td>sBOC</td>
<td>.823</td>
</tr>
<tr>
<td>CR</td>
<td>.911</td>
</tr>
</tbody>
</table>

Source: Research Result, 2023

Multicollinearity Test

This test aims to determine the correlation between variables in the regression model. This test is used because the independent variables in this study amount to more than one. Data can be free from multicollinearity in decision-making if tolerance > 0.01 and VIF <10. The test results in the table below show that all independent variables have a tolerance value > 0.01 and VIF <10, so it can be concluded that the data used does not occur in multicollinearity.

Table 7: Rank Spearman Test

<table>
<thead>
<tr>
<th>Spearman’s rho</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CS</td>
<td>.990</td>
</tr>
<tr>
<td>PAOs</td>
<td>.814</td>
</tr>
<tr>
<td>iBOC</td>
<td>.924</td>
</tr>
<tr>
<td>sBOC</td>
<td>.592</td>
</tr>
<tr>
<td>CR</td>
<td>.621</td>
</tr>
</tbody>
</table>

Source: Research Result, 2023

Heteroscedasticity Test

This test is done by regressing the independent variables on the absolute value of their residuals. In decision-making, the data occurs heteroscedasticity if the significance value of the independent variable <0.05. The test results in the table below show that the significance value of all independent variables > 0.05 means that the data used does not occur heteroscedasticity.

Table 8: Durbin-Watson Test

<table>
<thead>
<tr>
<th>Model</th>
<th>du</th>
<th>Durbin-Watson</th>
<th>(4-du)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1.7671</td>
<td>1.788</td>
<td>2.2329</td>
</tr>
</tbody>
</table>

Source: Research Result, 2023

Autocorrelation Test

The test aims to test whether there is a correlation between t and t-1 confounding errors in the regression model. The test uses the Durbin-Watson test, whose decision-making is seen from the Durbin-Watson value, du, and (4-du). The table below shows that the Durbin-Watson value lies between du and (4-du), so it is concluded that the data used is free from autocorrelation.
Regression Analysis

Table 9: Multiple Regression Test

<table>
<thead>
<tr>
<th>Model</th>
<th>Coefficient</th>
<th>Sig.</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>6.796</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>CS</td>
<td>-0.040</td>
<td>0.110</td>
<td>H1 is rejected</td>
</tr>
<tr>
<td>PAOs</td>
<td>0.085</td>
<td>0.780</td>
<td>H2 is rejected</td>
</tr>
<tr>
<td>iBOC</td>
<td>3.656</td>
<td>0.000</td>
<td>H3 failed to be rejected</td>
</tr>
<tr>
<td>sBOC</td>
<td>0.385</td>
<td>0.003</td>
<td>H4 failed to be rejected</td>
</tr>
<tr>
<td>CR</td>
<td>0.217</td>
<td>0.335</td>
<td>H5 is rejected</td>
</tr>
</tbody>
</table>

Source: Research Result, 2023

Based on the test in the table above, the following are the multiple linear regression analysis equations for this study:

\[ AF = 6.796 - 0.040CS + 0.085PAOs + 3.656iBOC + 0.385sBOC + 0.217CR \]

Adjusted R Square Test

The purpose of this examination is to ascertain the extent to which the independent variables within this investigation exert an influence on the dependent variable. The test findings indicate that the coefficient of determination (R square) is 0.448, equivalent to 44.8%. This finding suggests that variables such as company size, public accounts office size, board independence, total board, and company risk have a significant impact on audit fees. Additional variables beyond the scope of this study influence the remaining 55.2% of audit fees.

Table 10: Adj. R2 Test

<table>
<thead>
<tr>
<th>Model</th>
<th>R Square</th>
<th>Adjusted R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.448</td>
<td>.391</td>
</tr>
</tbody>
</table>

Source: Research Result, 2023

F Test

The purpose of this test is to evaluate the quality of the research regression model by assessing its significance level. The study yielded a statistically significant result of 0.000, which is smaller than the predetermined significance level of 0.05 or 0.000 < 0.05. The findings of this study indicate that the regression model employed possesses the necessary qualities to be considered viable for prediction and forecasting purposes.

Discussion

Effect of Company Size on Audit Fees

Company size in this study is measured using the natural logarithm of the company's total assets. The first hypothesis predicts that company size positively affects audit fees; the larger the company's size, the greater the fees that must be paid.

Based on the results of the tests that have been carried out, the significance value of the first hypothesis shows a value of 0.110, which is greater than the probability of 0.05 and has a negative direction coefficient with a value of -0.040. It shows that company size, as measured by the natural logarithm of total assets, does not affect audit costs, so H1 of this study is not supported. In other words, the company size is independent of the fee of its audit services.

Agency theory states that individuals in an agency relationship tend to pursue their interests. The larger company size illustrates the large assets owned and complex records, while the company owner is limited to operational information only. Management can utilize this for their interests because they know all the information so that company size is prone to agency problems. However, the results of this study reveal that company size has no effect on audit fees, so the results of this study cannot support or strengthen agency theory.

This research is in line with previous research conducted by Sanusi & Purwanto (2017), which states that company size does not affect the amount of external audit fees because company size is not the only indicator used in determining audit fees on the object of research, namely companies in the Kompas100 index.

Effect of Public Accounting Firm Size on Audit Fees

Public accounting firm size in this study is measured using a dummy variable where companies that use Big Four are coded one and companies that use non-Big Four are coded zero. The second hypothesis predicts that public accounting firm size positively affects audit fees, or the larger the public accounting firm size, the greater the audit fees.
Based on the tests that have been carried out, the significance value of the second hypothesis shows a value of 0.780, which is greater than the probability of 0.05 and has a positive direction coefficient with a value of 0.085. It shows that public accounting firm size, as measured by dummy variables, has no effect on audit fees, so the H2 of this study is not supported. In other words, the size of public accounting firm is independent of the fee of its audit services.

Agency theory states that in agency contracts, there will be information asymmetry. It requires agency costs that help to reduce these problems. Providing quality assessment results requires an internationally reputable public accounts office with many clients and high-flying hours to provide better effectiveness and efficiency than ordinary public accounts office. Therefore, the rates of large public accounts office charges to auditees will also be higher (Sitompul, 2019).

According to Frenchisch & Syurmita (2021), public accounting firm is responsible to its clients or auditees and the wider community. So public accounting firm must be objective and professional in assessing financial reports so stakeholders can use them. This study supports research conducted by Chandra (2015), which states that foreign public accounts office does not always set high audit fees, which is also in line with research by Alifian et al. (2023), which states that the size of public accounting firm does not affect audit fees.

**Effect of Independence of the BOC on Audit Fees**

The independence of the board of commissioners in this study is measured using a ratio that compares the total number of independent commissioners and the total number of commissioners. The third hypothesis predicts that the independence of BOC has a positive effect on audit fees, or the higher the level of independence of commissioners in the company, the greater the external audit fees.

Based on the test results that have been carried out, the significance of the third hypothesis shows a value of 0.000, which is smaller than the probability of 0.05 and has a coefficient with a positive direction with a value of 3.656. It shows that the independence of the board of commissioners has a significant positive effect on audit fees, so the H3 of this study is supported. In other words, the higher the level of independent commissioners in a company, the greater the audit fees will be paid.

Agency theory assumes that principals and agents act in their interests. A high level of independence of the board of commissioners indicates good corporate governance so that it can oversee management actions. Therefore, the independence of BOC can reduce conflicts of interest that arise from this theory.

The study reveals a significant positive effect of board independence on audit fees. This implies that companies with a higher level of independence among the board of commissioners tend to pay greater external audit fees. The finding suggests that an independent board contributes to a more objective and transparent audit process, potentially reducing the risk of errors or fraud in financial statements. This research aligns with previous research by Sitompul (2019) and Paramitha & Setyadi (2022), which states that the independence of BOC has a positive influence on audit fees.

**Effect of Size of the BOC on Audit Fees**

The board of commissioners in this study is measured using the total board of commissioners of a company, which includes the board of commissioners and the independent board of commissioners. The fourth hypothesis predicts that the size of BOC positively influences audit fees or that the larger the size of the board of commissioners in a company will increase the fee of audit services.

Based on the results of the research that has been conducted, the significance of the fourth hypothesis shows a value of 0.003 which is smaller than the probability value of 0.05 and has a positive direction coefficient with a value of 0.385. It shows that the size of BOC has a significant positive effect on audit fees, so the H3 of this study is supported. In other words, the larger the size of the board of commissioners in a company, the greater the audit fees that will be paid.

Agency theory states that everyone only cares about their interests. The larger the size of the board of commissioners in a company can affect the occurrence of fraud in the financial statements (Carcello & Neal, 2000). It can lead to opportunities to commit fraudulent acts, such as providing advice to directors or internal supervision. Therefore, an independent party must assess and evaluate management actions requiring audit fees.

The research also indicates a positive correlation between the size of the BOC and audit fees. Larger boards are associated with higher external audit fees. The study suggests that a smaller board might more effectively fulfill its duties, potentially reducing risk interpretation and audit fees. According to Beasley (1996), supervision carried out by a small board of commissioners will be more effective than a large board of commissioners. The larger the size of the board of commissioners, the more difficult it will be to carry out its functions, such as communication, coordination, and decision-making, which results in the ineffectiveness of the supervision carried out. Ineffectiveness in monitoring the financial reporting process results in external auditors being able to assess the company's internal controls as weak and charge higher audit rates because it takes longer to process. Research conducted by Izzani & Khafid (2022) and Sukaniaisih & Tenaya (2016) also support this research, which state that the larger the board of commissioners will increase audit fees.
Effect of Company Risk on Audit Fees

Corporate risk in this study is measured using the debt-to-equity ratio by comparing the company's total debt with its total capital. The last hypothesis predicts that company risk, as measured by the debt-to-equity ratio, has a positive influence on audit fees or the higher the DER value, the higher the fee of audit services used.

Based on the results of the research that has been conducted, the significance of the fourth hypothesis shows a value of 0.335, which is greater than the probability value of 0.05 and has a positive directional coefficient with a value of 0.217. It shows that company risk, as measured using the DER ratio, does not affect audit fee, so H5 of this study is not supported. In other words, company risk does not affect the fee of its audit services.

Agency theory states that principals and agents act according to their interests. An external auditor must assess the company's financial statements to minimize information asymmetry. If the company has a large risk, it will require a high level of ability and take much time. Based on this, the company can be charged a large audit fee. However, the results of this study reveal that company risk has no effect on audit fees, so the results of this study cannot support or strengthen agency theory.

According to Yulianti et al. (2019), if company risk is found in an audit process, be it low or high risk, it will not affect the auditor's effort or time in completing his duties, so it does not affect audit fees. In addition, capital is needed to carry out the company's operational activities, and generally, companies use debt for this. The advantages of using debt are that interest expense can reduce taxes, creditors do not have control rights, and generate greater earnings per share (Fisabilillah et al., 2020). The results of this study are also in line with research conducted by Chandra (2015) and Sibuea & Arfianti (2021), which state that company risk does not affect external audit fees.

Conclusions

This study investigates the effect of company size, public accounting firm size, board independence, board size, and company risk on determining audit fees in the consumer goods industry listed on the Indonesia Stock Exchange. It is clear from the research analysis that the independence of BOC and the size of BOC have a significant positive effect on audit fees, which supports the proposed hypothesis. Thus, the higher the level of independence of the board of commissioners, the greater the external audit fee will be paid. In addition, the larger the size of the board of commissioners, the greater the external audit fees that will be paid.

The study provides practical implications for companies listed on the Indonesia Stock Exchange, particularly in the consumer goods industry. It recommends an increase in independent commissioners and a reduction in the size of the board of commissioners. The rationale is to enhance objectivity and transparency in the audit process, thereby reducing the risk of errors or fraud. The study suggests that such measures can lead to higher audit fees but with a focus on achieving quality audit outcomes.

The study aligns with agency theory, emphasizing the role of corporate governance structures in determining audit fees. The findings highlight the importance of factors such as board independence and size in influencing the costs of audit services. However, it acknowledges that other factors beyond the scope of the study may also play a significant role in determining audit fees.

The study acknowledges certain limitations, such as excluding factors like company size, public accounts office size, and company risk as indicators in determining audit fees. The R square test indicates that many factors influencing audit fees are beyond the study's scope. The researchers suggest future investigations into these additional factors to provide a more comprehensive understanding of audit fee determinants.

In conclusion, the study significantly contributes to the literature by exploring and establishing connections between board characteristics and audit fees in the consumer goods industry. The practical recommendations for companies to enhance independence and optimize board size underscore the importance of corporate governance in shaping audit outcomes. The study provides valuable insights for companies, regulators, and researchers interested in understanding the dynamics of audit fees.

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Data Availability Statement: The data presented in this study are available on request from the corresponding author. The data are not publicly available due to restrictions.

Conflicts of Interest: The authors declare no conflict of interest.

References


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