

## **ANALYSIS OF CLIENT COMPLEXITY AND PROFITABILITY ON AUDIT FEE**

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### **Abstract**

*The purpose of this research is to look into the impact of client complexity and profitability on audit fees in basic and chemical manufacturing businesses listed on the Indonesia Stock Exchange (IDX) from 2015 to 2019. All manufacturing enterprises in the industrial sector are included in this study's population. During the period 2015-2019, basic and chemical products were listed on the Indonesia Stock Exchange (IDX). During the research period, samples were collected using a purposive sampling strategy based on certain criteria. The amount of data that can be processed based on the criteria that were identified using panel data is 65. Multiple linear regression is the analytical method employed, while Eviews 9 is used to process it. Client complexity has a positive effect on audit fees, according to the findings of this research. Meanwhile, the occurrence of audit fees is unaffected by profitability.*

**Keywords:** Client Complexity, Profitability, Audit Fees

## **1. INTRODUCTION**

Financial statements are one of the most important pieces of information for stakeholders when assessing company performance and making business decisions. To ensure the reliability of the company's financial statements, the published financial statements must have been audited by a public accountant, as required by Financial Services Authority Regulation No.29/POJK.04/2016 concerning the Annual Report of Issuers or Public Companies.

The number of public accounting firms is not balanced, according to statistics from the Financial Services Authority, which shows that there are 760 of them. The difference in audit fees between public accountants was determined as a result of this competition. The amount that the auditor receives from the company being audited as a result of delivering audit services is known as an audit fee or a service fee (Cristansy and Ardiati, 2016).

The audit fee is determined by an agreement between the auditor and the auditee based on the working time, the number of staff deployed, and the type of audit

performed. Public accounting firms (KAP) may charge auditees overly low audit fees, putting them at danger of not receiving a thorough audit. To avoid this, on January 27, 2016, the Indonesian Institute of Certified Public Accountants (IAPAI) released rules for all public accountants on the provisions for the amount of audit fees, specifically Regulation Number 2 of 2016 about the Determination of Fees for Auditing Financial Statements.

**Table 1**  
**Billing Rate Lower Limit Indicator (*Billing Rate*)**  
**(in rupiah/hour)**

Region Categories	Junior Auditor	Senior Auditor	Supervisor	Manager	Partner
Jabodetabek	100.000	150.000	300.000	700.000	1.500.000
Outside Jabodetabek	70.000	125.000	200.000	500.000	1.200.000

(Institut Akuntan Publik Indonesia, 2016)

After the issue of an investigative audit report by the public accounting firm Ernest and Young in 2019, one of the firms listed on the Indonesia Stock Exchange, namely PT Tiga Pilar Sejahtera Food Tbk (AISA), was accused of having breached financial statements (EY). KAP Amir Abadi Jusuf, Aryanto, Mawar & Rekan, a major audit firm connected with RSM International, was the independent auditor who audited AISA's financial statements at the time (investasi.kontan.co.id, 2019).

Based on the case above, it can be concluded that *a high audit fee* does not guarantee the implementation of an audit in accordance with applicable standards. This statement is based on data *audit fee* for KAP Amir Abadi Jusuf, Aryanto, Mawar & Rekan for the 2017 financial year audit of PT Tiga Pilar Sejahtera Food Tbk (AISA) amounting to Rp 800,000,000 or an increase of Rp 150,000,000 compared to the previous year (Source: Annual Report of PT Tiga Pilar Sejahtera)

The complexity of the client is one of the elements that influences the audit fee amount. The number of subsidiaries or subsidiary firms owned by the entity both domestically and internationally serves as the foundation for determining the client's complexity. The more subsidiaries a client firm owns, the more complicated and large the audit will be, necessitating a larger number of staff to conduct audits.

This is in line with research conducted by Hasan (2017), Yulianti, et al. (2019), Yulio (2016), Nurdjanti and Pramesti (2018), Ananda and Triyanto (2019), Musah (2017) and Kimeli (2016) where the research results say that client complexity has a positive effect on *audit fees*. However, inconsistent results were found in the research of Cristansy and Ardiati (2016), Huri and Syofyan (2019) and Oktavia and Ningsih (2020). Where in the study it is said that the complexity of the client does not affect the *audit fee*.

The company's profitability is the next element that influences the amount of audit fees it pays. Profitability refers to a company's capacity to utilise assets and other resources for operating activities in order to generate higher returns (Hasan, 2017). Companies with high profit levels require more validity testing, revenue and expense recognition, and as a result, their audits will take longer to complete, resulting in higher audit fees.

This is in line with research conducted by Hasan (2017), Huri and Syofyan (2019), Sitompul (2019) and Musah (2017) which state that profitability has a positive effect on *audit fees*. However, in Kimeli's research (2016), it was found that profitability had a negative effect on *audit fees* and in the research of Sanusi and Purwanto (2017) it was said that profitability had no effect on *audit fees*.

The basic and chemical industry sectors are used as the study's object because the number of enterprises in these sectors is greater than the other two sectors in the manufacturing industry categorization.

## 2. LITERATURE REVIEW

### **Agency Theory**

Agency theory is a condition that occurs in a company where the agent and principal make an agreement in the "*nexus of contract*" that the agent must work optimally to provide maximum satisfaction to the principal, thus allowing *opportunistic behavior* for the agent. (Fahmi (2017:65).

The difference in interests makes the need for an independent external party, namely an external auditor to ensure that the agent does not take opportunistic actions that will harm *stakeholders* so that they are considered able to improve the reliability of the company's financial statements and assess their fairness. Every auditor is required to submit his audit opinion according to professional standards, so that the *auditee* is obliged to provide reasonable compensation for the audit services that have been performed by the auditor.

### **Fee Audit**

*Audit related fees are for audit services that can only be provided by CPA firm.* if translated, *audit fees* are available is the *fee* paid by the *auditee* to the Public Accounting Firm to pay for the audit services that have been performed (Arens, *et al.* (2014:116).

Management Regulation Number 2 of 2016 concerning Determination of Fees for Auditing Financial Statements states that fees for audit services that are too low or much lower than those previously charged by auditors or accountants or proposed by other auditors or accountants, will raise doubts about the ability and level of competence auditors in applying applicable technical and professional standards.

### Client Complexity

Complexity is the level of difficulty and variety of work, especially in the form of mental and psychological pressure on the person doing the work (Ruky (2011: 60).

The complexity of the client is generally caused by the complexity that exists in the company, because in conducting an audit, the auditor conducts an examination of the company that is being audited. Thus, the more complex the company being audited, the more complex the audit task to be performed by the auditor.

### Profitability

Profitability is the ability of a company to earn profit within a certain period. Profitability ratio measures the effectiveness of management based on the results obtained from sales and investment (Hery, 2017:7).

### Hypotheses

H<sub>1</sub> : Client complexity has a positive effect on *Audit Fee*

H<sub>2</sub> : Profitability has a positive effect on *Audit Fee*

## 3. RESEARCH METHODS

### Population, Sample, dan Sampling

In this study, the population will be manufacturing companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange (IDX) for the period 2015 – 2019. The sample in this study was taken using a purposive *sampling technique*.

**Table 2**  
**Sampling Criteria**

No.	Kriteria	Jumlah
1.	Manufacturing companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange for the period 2015 – 2019	76
2.	Companies that are <i>delisted</i> and or do not issue complete financial statements during the study period	(20)
3.	Companies that do not report <i>audit fees</i> and other variables needed in the study	(43)
Total Sample		13
Amount of data processed (13 x 5 years of research)		65

(Source: processed data, 2021)

### Types and Sources of Data

Based on its nature, this study uses quantitative data or data in the form of numbers with panel data types. Panel data is a combination of data *time series* and *cross-section*.

The source of data in this study is secondary data which is a source of research data obtained by researchers indirectly through intermediary media (obtained and recorded by other parties) in the form of annual financial reports of manufacturing companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange for the 2015-2019 period and published via the internet on *the website* IDX's official ([www.idx.ac.id](http://www.idx.ac.id)) or the *websites* of each company.

### Variable Measurement

#### **Fee Audit (Y)**

*Audit* is the *fee* paid by the *auditee* to the Public Accounting Firm to pay for the audit services that have been performed (Arens, *et al.*, 2014:116).

Data *Audit fee* can be found in the external audit fee account in the company's Annual Report section of the Capital Market Supporting Institutions/Professions or in the Corporate Governance section. Furthermore, variable Y will be measured using the natural logarithm of the *audit fee*. Natural logarithm (Ln) is used to minimize or minimize the difference in numbers that are too far from the data that has been obtained as a research sample.

The formula for calculating *audit fees* is :

$$\text{Fee Audit} = \text{Ln (Fee Audit)}$$

#### **Client Complexity (X1)**

The number of subsidiaries owned by a corporation is used to determine the client's complexity. The CALK section shows the number of subsidiaries. The client's complexity rises as the number of subsidiaries grows. This refers to the research of Musah (2017) and Kimeli (2016).

$$\text{Client Complexity} = \text{Number of Subsidiaries}$$

#### **Profitabilitas (X2)**

Profitability ratio is a ratio used to assess the effectiveness of a business to earn a profit at the level of assets, sales, and share equity. In this study, profitability is calculated at the level of stock equity using the ratio *Earnings Per Share* (EPS).

EPS or earnings per share is a financial ratio that measures the amount of net profit earned per share outstanding. EPS describes the amount of money that will be received by *stakeholders* for each share they have when distributing dividends at the end of the year. EPS only measures income for common stockholders, and dividends for preferred stockholders are set aside so that they will not be distributed to common stockholders. (Kasmir, 2019:209)

$$EPS = \frac{\text{Net Income of the company}}{\text{Average Outstanding Shares}}$$

#### Data Analysis Methods

The data was processed using the multiple regression analysis approach to examine the relationship between the dependent and independent variables. This analysis was carried out with the help of the Eviews 9.0 program. This study uses panel data that combines data *cross section* consisting of 13 companies and *time series* data consisting of 2015 to 2019 data. Panel data regression is a regression technique that combines data *time series* with *cross sections*.

This research employs descriptive statistics, hypothesis testing, and classical assumption tests (normality, multicollinearity, heteroscedasticity, and autocorrelation).

#### 4. RESULTS AND DISCUSSION

##### 1. Results of Multiple Linear Regression

The purpose of this study's panel data regression analysis is to determine the relationship between the independent and dependent variables by examining the impact of client complexity and profitability on audit fees. The model used in this study is a *random effect model*.

**Table 3.**  
**Multiple Linear Regression Analysis**

Dependent Variable: Y Method: Panel EGLS (Cross-section random effects) Date: 10/30/20 Time: 15:40 Sample: 2015 2019 Periods included: 5 Cross-sections included: 13 Total panel (balanced) observations: 65 Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	19.62706	0.239971	81.78938	0.0000
X1	0.090186	0.016245	5.551532	0.0000
X2	0.000333	0.000236	1.412462	0.1628

(Source: *Output Eviews 9*, 2020)

Based on the panel data regression analysis above, the coefficients of each client complexity variable (X1) and profitability (X2) are obtained from the multiple linear regression model equation as follows:

$$Y = 19,62706 + 0,090186 X_1 + 0,000333 X_2 + \varepsilon$$

## 2. Discussion

### Client Complexity Analysis on Audit Fees

Value of the *Probability Of* client complexity variable ( $X_1$ ) < the critical probability value ( $\alpha = 5\%$ ) is  $0.0000 < 0.05$ , so the client complexity variable ( $X_1$ ) has an effect on *audit fees*. The value of regression coefficient of 0.090186 and 5.551532 t greater than t-table indicates that the variable complexity of 1.99834 clients ( $X_1$ ) has a positive effect on *audit fees*. The conclusion in this study is that  $H_{1is}$  is accepted.

Thus, this study proves that the complexity of the client as proxied by the number of subsidiaries or branches of the company owned has a positive effect on the *audit fees* paid to external auditors for auditing the company's financial statements, so that the more subsidiaries owned, the *audit fees* on the company's financial statements. will also get bigger.

### Analysis of the Audit Fee

The Value of the *probability of* the profitability variable ( $X_2$ ) > the critical probability value ( $\alpha = 5\%$ ) is  $0.1628 > 0.05$ , so the profitability variable ( $X_2$ ) has no effect on *audit fees*. The regression coefficient value is 0.000333 and the t-count is 1.412462 which is smaller than the t-table 1.99834 indicating that the value of the profitability variable ( $X_2$ ) has no effect on *audit fees*. Conclusions on this research show that  $H_2$  was rejected.

According to *agency theory*, *agency* relationship is a grant of authority from the investor (*principal*) to the manager (*agent*), so that the manager has the task of managing the company on behalf of the investor. The form of accountability for company management carried out by managers to investors is financial statements.

The profitability ratio is the ratio used by the company to assess the company's ability to seek profit (Kasmir, 2019:198). However, in the agreement to determine the *audit fee* between the auditor and the auditee, it is usually determined at the beginning, so that the profitability used to measure the profit in determining the amount of the *audit fee* is seen by the auditor based on the profit from the income statement obtained from unaudited financial statements. While in this study using the profitability of the results of the financial statements that have been audited, the profitability has no effect on the *audit fee*.

## CONCLUSION

1. The client's variable complexity has a positive effect on the audit fee, therefore the more the client's complexity, the higher the audit cost.
2. The audit fees are unaffected by the profitability variable. This means that companies with high profits do not have to pay higher audit fees.

### **Suggestions**

1. Companies should pay more attention to factors that affect audit fees and be more transparent with the public about the amount of audit fees they pay to external auditors.
2. Independent auditors can first estimate the amount of *audit fees* received based on the complexity of the client so that the audit can take place according to the stages in the audit process.
3. For further researchers, it is recommended to expand the population and increase the observation period, using other variables that are thought to affect the *audit fee*.

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