Characteristics of Public Accounting Firms and Audit Fee an Empirical Study in Indonesia

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Abstract. This study examines the effect of the characteristics of a Public Accounting Firm (KAP) on audit fee in Indonesia, using secondary data obtained from annual report data for seven industrial sectors in Indonesia. This study excludes data from the Finance, Property and real estate sectors, with an observation period from 2017 to 2020, with a total of 1,352 data, using multiple regression analysis techniques. This study uses the variables of going concern opinion, audit tenure, CPA firm size, industry specialization, and gender of public accountants, by testing disaggregation of audit tenure and going concern opinion (GCO). This study found that CPA firm size had a positive effect on audit fee, going concern opinion, audit tenure, and gender of public accountants had a negative effect on audit fee. Industry specialization does not affect audit fee.

Keywords: audit fee, audit tenure, gender, CPA firm size, Going concern opinion

1 Introduction

The audit fee is the quantity of fee received by the auditor for the assurance services provided based on the complexity of the services provided, level of expertise, and experience possessed by the auditor [1]. The amount of the audit fee will be influenced by total assets, level of sales, total liabilities, total capital, transaction complexity, risk, KAP size, reputation, audit engagement, and type of opinion[2]; [3].

POJK Regulation No. 13 of 2017 article 20 requires public accountants in Indonesia to submit the number of audit fee. The application of this POJK 13 regulation underlies the determination of the theme in this study. This study tries to provide empirical evidence regarding the factors that affect audit fee in developing countries such as Indonesia. Other basic determinations are based on the fact that there is still a research gap from previous studies for audit fee in various developed countries.

2 Literature Review

[4] stated that agency problems between shareholders and management arise from a combination of information asymmetry and differences in sensitivity to company-specific risks. Signaling theory describes the behavior when two party (individuals or

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organizations) have different access to information. the receiver must choose how to interpret the signal [5]. Signaling theory describes how the information will be captured by the recipient of the information.

The hypotheses proposed to in this study are as follows:
H1: Influence CPA firm size to audit fee
H2: Influence Going concern opinion to audit fee
H3: Influence industry specialization to audit fee
H4: Influence audit tenure to audit fee
H5: Influence gender of public accountants to audit fee

3 Methodology

This study tested the hypothesis, to examine the characteristics of public accounting firms to audit fee. This study excludes the finance and property sectors because of the special characteristics possessed by these sectors. The numbers of data in this study are 1,352 with an observation period of 2017 to 2020. The type of data used is secondary by using an annual report obtained from www.idx.go.id.

The audit fee is the amount of the fee received for the assurance services provided by the public accountant, which is proxied by the amount of the fee received. Audit firm size is the size of the KAP indicated by the affiliation carried out with both KAPA and OAA, which is proxied by a dummy variable of 1 if the KAP is affiliated and 0 otherwise. Going concern opinion is an opinion given by a public accountant which shows that there are doubts about business continuity, which is proxied by dummy variable 1 KAP issues GCO. Industry specialization is the specialization owned by the Public Accounting Firm in one particular industrial sector, indicated by the number of clients it has, proxied by a dummy of 1 if the Public Accounting Firm has industrial specialization in the industry sector and 0 in others. Gender is a masculine or feminine trait possessed by male and female public accountants who sign audit reports, proxied with a dummy variable of 1 if the public accountant is masculine and 0 otherwise. Audit tenure is the length of engagement among a public accountant and his client, proxied by the number of years of engagement by a public accountant.

The analytical model used in this study is as follows:

$$AF = \alpha_0 + \alpha_1 AFZ_1 + \alpha_2 GCO_2 + \alpha_3 SPS_3 + \alpha_4 AT_4 + \alpha_5 GDR_5 + \varepsilon$$

Where:

AF: audit Fee; AFZ: audit firm size; GCO: going concern opinion; SPS: industry specialization; AT: audit tenure; GDR: gender of public accountants

4 Result And Discussion

4.1. The effect of CPA firms' size on audit fee

CPA firm size has a positive effect on audit fee, both testing with disaggregation of audit tenure and going concern opinions. The audit firm size shows the size of the KAP, which is indicated to be affiliated or not, whether affiliates with a Foreign Public Accounting Firm (KAPA) or with a Foreign Audit Organization (OAA). Affiliated KAPA have a better reputation than local public accounting firms, the larger the KAP size, the larger the audit fee that will be received. These findings also strengthen the agency theory and signaling theory, these findings support [6]; [7]; [8]; [9]; [10]; [11]; [12];[13]; [14]; [15].

4.2. Effect of going concern opinion on audit fee

Going concern opinion shows a negative effect for all audit tenure disaggregation testing models as well as going concern opinion, for testing all data and audit tenure of fewer than two years. Going concern opinion shows the uncertainty of the company's business continuity, the higher the uncertainty of the business, the lower the audit fee paid, this condition shows the company is experiencing financial difficulties giving a signal to the user for investment decisions. These findings strengthen signaling theory and support the results of studies from [16]; [17].

4.3. Effect of industry specialization on audit fee

Industry specialization shows the specialization of a public accounting firm in providing assurance services in a particular industrial sector. Industry specialization in this study shows no effect on audit fee, industry specialization describes expertise and experience. The data shows that many companies use KAP-affiliated KAPA regardless of their industry specialization so that industry specialization does not affect the audit fee. Go public companies will prefer affiliated public accounting firms with the aim of providing more accurate information for users because users pay more attention to the trust side of opinions issued by affiliated KAPA, these findings are in line with studies from [17];[9].

4.4. Effect of audit tenure on audit fees

Audit tenure has a negative effect, this shows that the shorter the audit tenure, the greater the audit fee received. In the first audit engagement, the auditor is required to understand the client's business and industry so that the process of collecting audit evidence the auditor will maintain an independent and professional skepticism in the process of collecting audit evidence as the basis for giving an opinion. This result is in line with the findings [18]; [19]; [20]; [21]; [22].

4.5. Effect of gender on audit fees

Gender with masculine nature has a negative effect on audit fees when tested with going concern opinion disaggregation, this shows that the more masculine the nature of public accountants, the lower the audit fee received when the opinion given is a going concern opinion. When a going concern opinion is issued, this shows the financial difficulties faced by the company. These results strengthen the signaling theory, as well as strengthen the results of research from [23]; [24]; [12].

Table 1. Descriptive statistics

Variable Description	Obs	Mean	Min.	Max.
Year	1.325	0	2017	2020
Size of Accounting Firm		0.9534		
Public/ Foreign Affiliated or Not (AFZ)	1.325	0.210	0	1
Going Concern Opinion (GCO)	1.325	0.1657 0.3719	0	1
Industry Specializations	1.325	0.5311 0.4992	0	1
Tenure Audit	1.325	1,788 0.775	1	4
Public Accountant gender	1.325	0.8313	0	1

5 Conclusion

CPA firm size, going concern opinion, audit tenure, and gender shows an influence on audit fee, while industry specialization shows no effect because when a company goes public, users will prefer to trust affiliated public accounting firms compared to industry specialization owned by the accounting firm. public, this is also supported. Most of the KAP auditing is affiliated KAPA.

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APPENDIX

Table 2. Result

Independent variables	Variable bound audit fee				
		1		2	
	all	AT < 2 year	AT > 2 year	GCO	non GCO
constant	3.20260	1.4680	4.7400	1.2360**	-1.4480
	(7.4290)	(8.8590)	(8.8490)	(6.0480)	(8.9930)
audit firm size	1.3760**	1.3710*	1.4430	7.2660	1.5910**
	(6.3700)	(7.1010)	(1.4740)	(5.2670)	(7.7400)
Going concern opinion	-9.1040***	-82280**	-13050*	omitted	omitted
	(3.5210)	(4.0650)	(6.7670)		
Specialisation industry	-7.4550	-4.9130	-2.4680	-1.8560	-8.2780
	(2.6990)	(3.1280)	(5.1490)	(2.5170)	(3.1950)
Audit tenure	-2.1700	1.2460	-1.5440	-3.0130*	4.0010
	(1.6770)	(3.0610)	(2.8810)	(1.5600)	(1.9830)
Gender public accountant	8.9990	4.5610	2.8380	-7.5930**	2.796e+08
	(3.4820)	(3.9980)	(6.8720)	(3.1120)	(4.1560)
o.gco	omitted			omitted	omitted
Goodness of fit					
observations	1.352	1.087	265	224	1.128
Prob > F	0.0408	0.1356	0.4408	0.0223	0.3349
R-squares	0.0086	0.0077	0.0183	0.0506	0.0041
Root MSE	4.8000	4.9000	4.0000	1.8000	5.2000

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