

Audit Fee and Multiple Large Shareholder on Audit Quality

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Abstract: Auditor is demanded for always being professional in his/her job, but it is undeniable that business side of audit service has also been an important consideration for auditors in making contract with auditee. This business side of audit service can trigger abnormal audit pricing. The higher of audit fee can cause decreasing or increasing of audit quality. This study aims to observe the influence of audit fee on the audit quality and to observe whether Multiple Large Shareholder is able to moderate the influence of audit fee on the audit quality. Method used was descriptive quantitative method. The study was conducted to all non-financial industrial companies registered in Indonesia stock exchange from 2014 to 2015. Result of the study succeeds in indicating that audit fee has influence on audit quality and that Multiple Large Shareholder does moderate the effect of audit fee on the audit quality.

1 INTRODUCTION

The increasing needs of audit service happens along with the structural change of company's ownership that separate authority and responsibility between the owner (stakeholder) and the management (agent). The owner of company faces the possibility of gaining inaccurate information from the management due to conflict of interest in it, thus the information cannot be used for making economic decision appropriately (Jensen and Meckling, 1976).

In order to reduce the risk of information, it is necessary to have quality audit service (Arens, 2014). To achieve high quality audit service, it is necessary to have good planning, including appropriate audit pricing (De Angelo, 1981a; 1981b). Auditor is demanded for always being professional in his/her job, but it is undeniable that business side of audit service has also been an important consideration for auditors in making contract with auditee (Tuanakotta, 2011; Apandi, 2016). Dominant consideration on business side and ignoring the professionalism can encourage abnormal audit pricing, and eventually will cause the low audit quality.

Fitriany (2016) states that the abnormal fee audit is the difference between the audit fee paid by the client and the normal estimate of the audit fee. Abnormal audit fee may occur under several conditions; first, audit fee received by auditor is

lower than proper payment for the service in order to achieve good audit quality (Blankley, 2012). This occurs due to excessive discount of audit fee and it may cause doubt on auditor's capability in applying accepted professional standard. Second, audit fee received by the auditor is higher than proper payment for the service by giving opinion warrant according to auditee's expectation (Choi, 2010; Fitriany, 2016). Thus, the auditor will gain premium audit fee by sacrificing his/her independency. Economic dependence of auditor on client, so that the audit contract on the next year will not be signed over to other auditor, causes the auditor willing to give opinion warrant more than what is expected by auditee.

Previous researches regarding audit fee and audit quality show different results. Researches conducted by Hoitash (2007); Ettredge (2014) suggest that abnormal audit fee or fee pressure can decrease the audit quality. Kraub (2015); Fitriany (2016) suggest that positive abnormal fee has negative effect on the audit quality. Rahmina and Agoes (2014) by using primary data in Indonesia proves that high audit fee can increase audit quality because high audit fee is, instead, considered to encourage the auditor to provide more efforts in order to increase his/her audit quality.

Upon the companies registered in Indonesia stock exchange, demand the user of information on audit report is getting higher, thus it encourages

auditor to improve his/her audit quality. This increasing demand is an audit risk that must be faced by auditors, and as compensation for the higher audit risk, the audit fee determined will also increase. The increasing of audit fee is considered to be able to increase the audit quality. Audit quality will be higher if there is strict control on operational activities carried out by companies (Apandi, 2016). Conflict of interest happening in the company does not only occur between management and owner of the company, but also there is conflict of interest between majority owner of company and minority owner of company. Company with multiple large shareholder has greater control compared to company without multiple large shareholder (Attig et al., 2008).

Based on explanation above, it is necessary to conduct a study to observe the influence of audit fee on audit quality moderated by multiple large shareholder. This research has contribution in studying the effect of moderating by large shareholders that has never been conducted by previous researchers.

2 LITERATURE REVIEW

2.1 Influence of Audit Fee on Audit Quality

Low audit fee causes auditor apt to shorten the important audit procedure that can make auditor giving wrong and misleading opinion to the reader of financial report (Tuanakotta, 2011), whereas high audit fee encourages auditor to improve his/her audit quality (Rahmina and Agoes, 2014). This occurs because of high audit fee reflects high audit risk and, therefore, in order to decrease the audit risk, allocation of more time and effort of the auditor is needed. Thus, the increasing of audit fee can directly affect better audit quality

The quality of the audit will largely depend on the auditing process performed by the auditor. Audit quality according to DeAngelo (1981b) is defined as the auditor's ability to find any errors in the accounting process undertaken by the audited company. Various studies that correlate audit fees with audit quality using audit quality proxies are based on the level of earnings management performed by companies reflected from discretionary accruals as in the research undertaken by Hoitash (2007); Kraub (2015); Fitriany (2016). A high discretionary accrual will show the auditor's willingness to accept accounting policies chosen by

management that are favorable to management so as to produce unfair financial statements and mislead readers of financial statements. The conclusion, the higher value of discretionary accrual is lower the audit quality

Researches by Rahmina and Agoes (2014) prove that high audit fee can increase audit quality since high audit fee is, instead, considered able to encourage the auditor to provide more efforts in order to improve his/her audit quality.

H1 = Audit Fee Has Positive Effect on Audit Quality

2.2 Influence of Audit Fee on Audit Quality Moderated by Multiple Large Shareholder

Information asymmetry occurs not only between management and owner of company, but the ability for appropriation by majority shareholder upon minority shareholder can cause information asymmetry. Information asymmetry type one causes management to be likely to carry out actions that bring benefit for their own at the loss of owner of company. In contrast, information asymmetry type two causes majority shareholder to be likely to carry out actions that bring benefit for their own at the loss of minority shareholder.

In its practice, company is often owned by more than one majority shareholder (Claessens, 2000). This condition causes second and subsequent majority shareholders having control right upon the company equal to the first majority shareholder. Control upon management actions is even greater because there are two parties having strict control upon the company. This condition will be different if the ownership is only in the hand of one majority shareholder, so that control function upon management will be less strict (Gutierrez and Tribó, 2004; Amdouni and Boubaker, 2015). The existence of second majority shareholder minimizes the possibility of appropriation by the first majority shareholder upon minority shareholder because, indirectly, the second majority shareholder will also have control upon operation of the company (Attig et al., 2008).

The increasing control function can encourage better quality of information in audit report due to the increasing demand of accuracy in the financial report faced by auditor in such condition. High audit fee causes lower audit quality and the existence of second majority shareholder can intensify the effect of high audit fee on high audit quality.

H2 = Multiple Large Shareholder Intensifies Effect of Audit Fee on Audit Quality

3 METHODOLOGIES

This research uses descriptive quantitative method. Population in this research is all non-financial industrial companies registered in Indonesia stock exchange. Sampling technique used is purposive sampling with number of sample was 88 companies. Data collected concerning audit quality derived from financial report of the companies from 2014 to 2015 as available in the website of Indonesia capital market. Whereas, data concerning audit fee and multiple large shareholder is obtained from annual report of the companies of the same period.

Data analysis technique used is Ordinary Least Square (OLS).

$$QUALITY_{it} = \alpha_0 + \beta_1 FEE_{it} + \beta_2 MLS_{it} + \beta_3 FEE * MLS_{it} + \beta_4 ASSET_{it} + \beta_5 LIABILITIES_{it} + \beta_6 LOSS_{it} + \epsilon_{it}$$

Explanation:

- QUALITY = Discretionary accrual jones modified
- FEE = Natural Logarithm of Audit Fee
- MLS = If the company has multiple large shareholder, value given

is 1, otherwise value given is 0

ASSET = Natural logarithm of total asset

LIABILITIES = Natural logarithm of total liabilities

LOSS = If the company has loss, value given is 1, otherwise value given is 0

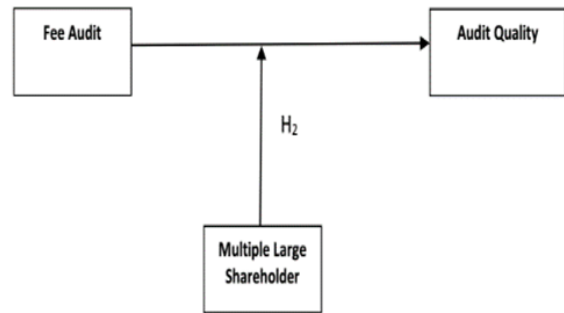


Figure 1: Paradigm of research.

4 RESULTS AND DISCUSSION

This study aims to examine the influence of audit fee on audit quality moderated by multiple large shareholder. Below is result of statistic description of each variable.

Table 1: Variables descriptive analysis.

	Quality	Fee Audit	MLS	Asset	Liabilities	Loss
Sample size (n)	88	88	88	88	88	88
Min/number of 0	-201,249	1,437,739	49	155,996,774	14,045,789	68
Max/number of 1	14,485	4,047,622,999,999,990	39	166,173,000,000	72,735,000,000	20
Mean/Modus	384	88,705,916,463,491	0	11,676,228,043	5,829,966,635	0
Std.Dev	27,843	552,981,275,878,232	-	24,577,957,131	11,579,694,735	-

Based on table 1, it is obtained that min and max values of audit fee are 1,437,739 and 4,047,622,999,999,990 respectively, with Mean 1.852.432. Whereas, min and max values of audit quality are -201,249 and 14,485 respectively, with Mean is 384. And, min and max values of multiple large shareholder are 0 and 1 respectively, with

Modus is 0. The results above describe that the audit fee in Indonesia is quite high, indicated by average values of audit fee by which 60% (not tabulated) of audit assignment is dominated by big four public accountant firms. Companies in Indonesia are generally concentrated in only one large shareholder.

Table 2: Results of regression model.

Variable	Regression Model			
	1 Without moderating and control variables	2 With control variables (without moderating variable)	3 With moderating variable (without control variables)	4 With moderating and control variables
Independen				
FEE AUDIT	-1719.346 (0.0085)***	-2569.821 (0.0001)***	-3299.791 (0.0002)***	-4689.158 (0.0000)***
MLS	3750.743 (0.5339)	1075.296 (0.8516)	-81171.79 (0.0121)**	-102386.4 (0.0005)**
FEE AUDIT*MLS			3363.815 (0.0077)***	4079.491 (0.0004)**
Control				
ASSET		15190.63 (0.0060)***		15311.39 (0.0030)**
LIABILITIES		-9985.946 (-0.0348)**		-8946.297 (0.0422)**
LOSS		-22169.28 (0.0015)***		-24259.33 (0.0002)***
R-square	0.098538	0.291549	0.171980	0.394764

α (0.05); *α (0.01)

Based on table 2, from regression 1 (without moderation variable) it is found that audit fee has influence on audit quality. This can be seen from the coefficient and prob value of less than 0.05, namely -1719.346 (0.0085) ***each. This result of regression shows that the higher the audit fee, the lower the discretionary accrual. So, it can be concluded that the higher of audit quality. Whereas, from regression 2 (With control variables & without moderating variable) it is found that audit fees have an effect on audit quality. This can be seen from the coefficient and prob value of less than 0.05, namely -2569.821 (0.0001) ***each. The regression results in model 3 (With moderating variable & without control variables) also show consistent results that audit fees have an effect on audit quality. This can be seen from the coefficient and prob value of less than 0.05, namely 3299.791 (0.0002) ***each.

The effect of moderation variable can be seen in regression 4 (regression with moderation), that multiple large shareholder can intensify the influence of audit fee on audit quality with significance level at *1%. This can be seen from the coefficient and prob value of less than 0.01, namely 4079.491 (0.0004) ** each. Other variable with influence on audit quality is Asset, with coefficient and prob value of 15311.39 (0.0030) **, Liabilities with coefficient and prob value -8946.297 (0.0422) **, and Loss with coefficient and prob value -24259.33 (0.0002) ***.

Result of this research is in line with previous researches that associate audit fee and audit quality, such as researches by Rahmina and Agoes (2014). That proves a high audit fee can increase audit quality. It can be seen from the lower discretionary accrual values. This research also provides other empirical evidence that multiple large shareholder intensifies the influence of audit fee on audit quality. Result of this study verifies that multiple large shareholder can act as control in making quality financial report. This control function by the multiple large shareholder is equal to the control function as described in the research concerning influence of institutional ownership that can moderate the effect of audit fee on audit quality such as research by Kasai (2014).

5 CONCLUSIONS

Higher audit fee has effect on reduce discretionary accrual. It seems that the higher audit fee has effect on better audit quality. Improvement of audit quality requires more commitment of auditing time and resources from the auditors so that the audit fee needed to be spent by the company is higher. This research also verifies that the existence of multiple large shareholder in a company can function as control for management and other majority shareholders. Thus, the multiple large shareholder

can intensify the positive effect of audit fee on audit quality.

Result of this research can act as a reference regarding literature that associate audit fee, multiple large shareholder, and audit quality, which has never been conducted before. This research is also expected able to encourage companies to be more transparent in disclosing the expenditure of audit fee to prevent the occurrence of abnormal audit fee, since there is relatively small number of company in Indonesia willing to disclose it.

Using of secondary data concerning audit quality measured by accrual discretionary model has several weaknesses since the data obtained is the proxy of financial report from companies audited and not from auditor. Therefore, if there is secondary data concerning auditor from the perspective of the auditor itself, subsequent researches in the future can exploit data regarding management of public accountant firm or quality management of public accountant firm.

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