



# THE INFLUENCE OF COMPANY SIZE, KAP SIZE, AND AUDIT COMMITTEE, ON AUDIT FEE (On Banking Companies Listed on the Indonesian Stock Exchange 2016-2019)

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## Abstract

This research examines the impact of Company Size (UP), Public Accounting Firm Size (UK), and the Existence of an Audit Committee (KA) on Audit Fees in banking companies listed on the Indonesia Stock Exchange (BEI) during the 2016-2019 period. By using the Structural Equation Modeling (SEM) method with the Partial Least Square (PLS) approach via WarpPLS 8.0 software, the main findings show that UP, UK, and KA have a significant effect on Audit Fees.

The analysis confirms that company size (UP) is an important factor for auditors in determining the amount of audit fees because it influences the complexity of the audit. In addition, both the size of the Public Accounting Firm (UK) and the existence of an Audit Committee (KA) also influence the size of the auditor's fee, indicating that the selection of a Public Accounting Firm (KAP) and the adoption of an audit committee affect the company's audit fees. The results of this research provide important insights into the financial management of banking companies, especially in managing audit costs and decision making related to internal and external audits. The implications of these findings can help financial managers consider the factors that influence Audit Fees, so that they can manage costs efficiently and make more informed decisions regarding the audit process.

**Keywords:** Company Size, Public Accounting Firm Size, Audit Committee, Audit Fee, Banking Company

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## INTRODUCTION

This research focuses on the important role of the financial sector, especially banking companies, in improving the economy. Banks are often referred to as the lifeblood of a country's economy, because of their function as financial intermediary institutions. In line with this, Fachriyah (2011) revealed that many businesses in every sector are driven by banking, either directly or indirectly. This underlies banking companies listed on the Indonesia Stock Exchange (BEI) to continue to develop and progress. This development has triggered an increase in demand for financial report audits (Fachriyah 2011 in Suryanto et al., 2018).

Banking on the IDX is subject to GCG regulations, stipulated in BI regulation Number 8/14/PBI/2006. GCG principles include transparency, accountability, responsibility, independence and fairness. GCG implementation is expected to create a stable banking environment, increase public trust and reduce risk. Active involvement of management and the board of directors is the key to success in achieving long-term banking goals.

These financial reports must be published in quarterly reports or audited annual reports. Every business sector is obliged to report the company's financial condition to interested parties, both internal and external parties, including banking companies. In carrying out their duties to audit annual financial reports, auditors are required to work professionally and provide audit results in accordance with

applicable audit standards. This audit professional standard does not only apply in Indonesia, but also in other countries which are generally guided by one standard, namely the International Standard on Auditing (ISA) (Pramesti et al, 2018).

One form of auditor professionalism can be seen from determining audit fees for their duties and work in auditing and issuing statements. In Indonesia, audit fees are known as compensation for audit services (Pramesti et al, 2018). The Indonesian Institute of Public Accountants (IAPI) in 2008 issued decision letter no. KEP. 024/IAPI/VII/2008 concerning policies in determining audit fees (Putri and Utama, 2014 in Suryanto et al, 2018). The purpose of this decision letter is as a guide for IAPI members who work in Public Accounting Firms (KAP) or who practice as accountants in determining appropriate service fees for services provided in auditing company financial reports. Based on Management Regulation Number 2 at the Indonesian Institute of Public Accountants 2016, audit service fees are compensation received by public accountants from their client entities for the services provided.

The reputation of an accountant became a big concern due to cases that occurred at Enron in 2001 and WorldCom in 1998, where there was manipulation of financial reports that attracted investors to invest. This incident resulted in a loss of investor, creditor and public confidence in the accounting profession. This raises questions regarding the auditor's performance regarding the level of independence in auditing financial reports. In determining audit fees, often the fees given are not in accordance with the auditor's wishes, thus allowing the auditor not to implement procedures that are in accordance with the principles and standards that they should be (Ayu and Septiani, 2018). It is feared that this could affect audit quality and damage the image of public accountants.

Research by Suryanto, Siskawati, and Sofyani (2018) found that only company size had a significant influence on audit fees, while other factors such as the board of commissioners, audit committee and shareholders did not have a significant influence. Large company size tends to lengthen the duration of the audit process, which has an impact on the size of the audit fee. Pertiwi's (2019) research also confirms that company size and auditor reputation significantly influence audit fees, while audit delay does not have a significant influence. This can be caused by the Public Accounting Firm's (KAP) compliance and adherence to audit regulations. Both studies highlight the complexity of factors influencing audit fees. Company size and auditor reputation play a significant role, while KAP compliance with audit regulations can moderate the influence of other factors such as audit delay.

Sitompul's research (2019) found that the independence of the board of commissioners, size of the board of commissioners, company size, size of the Public Accounting Firm (KAP), and profitability significantly influence audit fees with a positive impact. However, the size of the audit committee has a negative and significant effect on audit fees, indicating that increasing the number of audit committees can increase the effectiveness of audit controls and tasks without the need for an increase in audit fees.

Other research, such as Yulianti et al. (2019) and Ayu and Septiani (2018), also examined the factors that influence audit fees. Yulianti et al. (2019) focused on company size, audit complexity, company risk, and KAP size, while Ayu and Septiani (2018) considered the board of commissioners, audit committee, and KAP size as independent variables. However, Sitompul's research adds uniqueness by modifying the independent variables into company size, KAP size, and audit committee, while the audit fee remains the dependent variable.

It is important to carry out this research to identify the factors that influence audit fees in banking companies listed on the IDX. By understanding these factors, it is hoped that companies can manage audit costs more effectively, and auditors can work more professionally and in accordance with applicable standards. This research also contributes to existing literature by combining and modifying variables from previous research, so as to provide more comprehensive insight into the determinants of audit fees in the Indonesian banking sector.

In addition, this research aims to test the hypothesis that company size, KAP size, and audit committee have a significant effect on audit fees. Thus, it is hoped that this research can provide practical recommendations for banking company management in establishing policies regarding audit fees and strengthening GCG practices in their companies. Implementing good GCG principles will support company transparency and accountability, which in turn will increase investor and creditor confidence in audited financial reports.

Based on the problems described above, this research aims to identify the factors that influence audit fees in banking companies listed on the Indonesia Stock Exchange (BEI). The increasing need to audit financial reports, as well as the strict application of Good Corporate Governance (GCG) principles, drives the importance of understanding the determinants of audit fees. In line with this objective, the problem formulation in this research is formulated as follows: 1) Does company size influence audit fees?, 2) Does the size of the Public Accounting Firm (KAP) influence audit fees?, 3) Does the audit committee influence audit fees?

## **LITERATURE REVIEW**

### **Agency Theory**

The theory according to Jensen and Smith (1984) explains the contractual relationship between principals and agents, where principals give tasks and trust to agents to carry out activities on their behalf as decision makers (Suryanto et al, 2018). Jensen and Meckling (1976), quoted from Suryanto et al (2018), stated that principals are shareholders, while agents are management who manage company activities. This theory is based on three basic human nature assumptions: first, humans are generally selfish; second, humans have a limited mindset regarding future perception; and third, humans tend to avoid risks (Eisenhardt, 1989 in Septianingrum, 2014).

The increase in demand for public accounting services in auditing financial reports is based on agency problems (Cristansy and Ardiati, 2018). Cristansy and Ardiati explained that agency problems can arise because of asymmetric information between the principal and the agent. Information asymmetry occurs when one party has information that the other party does not (Chandra, 2015).

### **Audit Fees**

According to Agoes (2012), audit fees are compensation in the form of money or goods given by clients for the results of financial report audits. Sinaga and Rachmawati (2018) added that the audit fee is the amount paid by the client to the auditor from the Public Accounting Firm (KAP) for the service of examining the company's annual financial report. Audit fees can also be interpreted as a function of the auditor's performance and the price per hour of the auditor's work in auditing financial reports (Al-Shammari et al., 2008 in research by Suryanto et al., 2018).

### **Audit Committee**

According to BAPEPAM regulation Number IX.1.5, the Audit Committee supports the Board of Commissioners with internal supervision, ensuring auditor effectiveness, and strengthening independence. Research by Cristansy and Ardiati (2018) confirms the important role of the Audit Committee in ensuring audit quality. They provide additional oversight of internal and external audits, as well as strengthen auditor independence to increase corporate transparency and accountability. The Audit Committee is the main support in implementing Good Corporate Governance (GCG) practices, creating a more transparent, responsible and accountable business environment, which can increase stakeholder trust and the company's reputation.

### **Conceptual framework**

#### **1. The Influence of Company Size on Audit Fees**

Company size is an important consideration for auditors in determining the amount of audit fees, because it reflects the many aspects that must be examined. Pertiwi's research (2019) found that company size has a significant effect on audit fees. In contrast, research by Pramesti et al (2018) states that company size does not influence audit fees in Indonesia, but only influences it in Malaysia.  
H<sub>1</sub>: Company size has a positive effect on audit fees

#### **2. The influence of KAP size on Audit Fees**

The size of the KAP reflects the integrity of the public accountant in his work, acting as an intermediary between the auditor and the client. Large-scale KAPs with national standards tend to provide quality service and performance. Ayu and Septiani's (2018) research states that KAP size has a positive effect on audit fees. The size of the KAP greatly influences the integrity of the public

accountant, so it becomes a determinant in selecting a KAP to audit financial statements, especially for companies that have gone public.

H<sub>2</sub>: KAP size has a positive effect on Audit Fees.

### 3. Influence of the Audit Committee on Audit Fees

The audit committee has a central role in strengthening auditor independence and influencing audit results by ensuring compliance with established standards. Sitompul's research (2019) confirms that the addition of audit committee members has a negative and significant impact on audit fees, indicating an increase in the effectiveness of audit controls and tasks, which results in higher quality financial reports. The role of the audit committee in ensuring auditor independence and consistency of audit results is crucial to maintaining the integrity and credibility of the company's financial reports. With strict supervision and a good audit process, the audit committee contributes to the implementation of Good Corporate Governance (GCG) practices, increasing stakeholder trust and company reputation. Recognition of the strategic role of the audit committee is important in improving the quality of financial reports and maintaining the integrity of the company as a whole.

H<sub>3</sub>: The Audit Committee has a negative effect on Audit Fees.

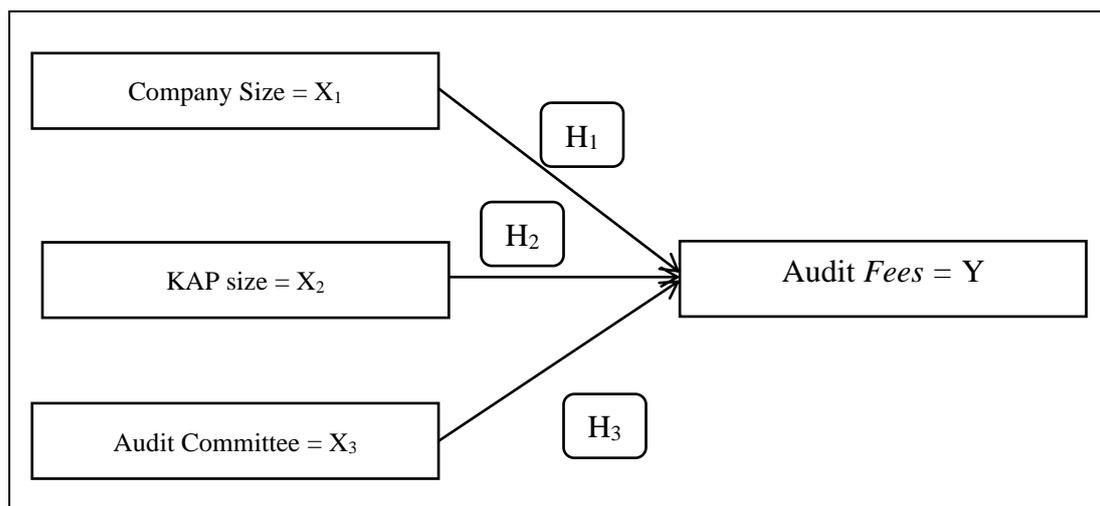


Figure 1 Framework of Thought

## METHOD

### Form of Research

This research is a casual comparative research that uses quantitative methods. This method examines the cause-and-effect relationship between variables. Sugiyono (2017) explains that quantitative research is systematic, planned and structured. This research relies on the philosophy of positivism to collect data and analyze it quantitatively, as well as testing predetermined hypotheses. This method allows researchers to investigate a population or sample thoroughly, forming a solid foundation for research.

### **Data Types and Sources**

This research uses secondary data, which was obtained through information provider media. This data includes financial reports of banking companies on the IDX for 2016-2019, including total assets, type of KAP, number of audit committees, profitability, and time for submission of audit results. Data was obtained from the official website of the Indonesian Stock Exchange via direct access to [www.idx.co.id](http://www.idx.co.id). This shows a research approach that relies on existing data, strengthening the analysis of the factors that influence audit fees in the context of banking companies in Indonesia.

### **Method of collecting data**

This research uses a documentation method, namely recording documents from banking companies on the IDX from 2016-2019. This method utilizes existing document records as a source of information for analysis. With this method, researchers can access historical and factual data to examine the variables studied. According to Shah and Corley (2006), documentation methods provide a strong basis for detailed and detailed research, allowing for in-depth analysis of a particular phenomenon within a broader time context. This allows researchers to understand developments and trends in well-documented data.

### **Population and Sample**

The population in this study refers to banking companies listed on the IDX for four years, from 2016 to 2019, as the generalization area determined by the researcher. The sample was selected using a purposive sampling technique, which takes into account certain criteria of the research object (Solihin, & Ratmono, 2013). These criteria include banking companies that are registered on the IDX, do not experience consecutive losses, and publish financial reports during that period. Of the 32 companies listed, 12 met the research criteria, while the other 20 did not meet these criteria. This shows the use of careful methods in selecting samples appropriate to the research objectives. The samples used in this research were 12 banks, namely: BRI Agroniaga, BCA, Bukopin, BNI, BRI, Danamon, Mandiri, Bumi Arta, CIMB Niaga, Maybank Indonesia, BRISyariah, Pan Indonesia

### **Data analysis technique**

Data analysis is the process of breaking down a whole into smaller components to find dominant components, compare, and test hypotheses. In this research, the data analysis technique uses WarpPLS 8.0 software. The technique used is structural equation modeling (SEM), which combines factor analysis, structural models, and path analysis. Sugiyono (2017) explains that SEM allows checking the

validity and reliability of research instruments, testing relationship models between variables, and forming prediction models. The approach used is Partial Least Squares (PLS), which does not require the assumption of data normality and does not have a minimum sample requirement. PLS can also handle latent variables and complex models efficiently, both with small and large samples (Sholihin & Ratmono, 2013). Therefore, this approach was chosen for this study due to its efficiency in dealing with various types of data and sample sizes.

## **RESULTS AND DISCUSSION**

### **Research result**

The results of this research reveal several significant findings in descriptive statistical analysis as well as validity and reliability tests on the proposed model. Descriptive statistical analysis shows significant data variations in Audit Fee (AF), Company Size (UP), Cap Size (UK), and Audit Committee (KA) during the 2016-2019 period. The mean value and standard deviation of each variable are also disclosed.

The convergent validity test shows that all indicators have significant factor loadings, reaching or exceeding the threshold value. These results confirm that all latent variables are able to strengthen the construct measured by the indicators. Discriminant validity was tested by looking at the loading and cross loading values, and the results showed that all indicators met the discriminant validity criteria. Furthermore, the reliability test produced composite reliability and Cronbach's alpha values that exceeded the specified threshold, indicating that all research variables could be considered reliable.

Inner model analysis is important in this research, revealing latent variable coefficients and the quality of model fit. The R-squared and Adjusted R-squared values reflect how well the model explains the variability of the response variable, indicating the degree of model fit. Hypothesis results show that UP, UK, and KA have a positive and significant effect on AF, according to the hypothesis. The model is able to explain variable relationships and fulfill the fit and quality index criteria. Hypothesis testing also supports the research hypothesis, confirming the validity of the model. This provides a deeper understanding of the factors that influence Audit Fees in a research context.

### **Discussion**

#### **1. The Influence of Company Size on Audit Fees**

The test results for the Company Size (UP) variable show that this variable has a positive and significant influence on the Audit Fee (AF), with a path coefficient value of 0.516 and a p-value <0.001. This indicates that companies with larger sizes tend to pay higher audit fees. Agency theory reveals that large companies have higher agency costs, encouraging them to disclose more information to reduce these costs (Jensen and Meckling, 1976). Additionally, large companies often face greater political pressure due to more intense public scrutiny.

Previous research by Huri and Sofyan (2019) produced conflicting results, showing that company size partially has no effect on audit fees. Thus, these findings provide an important contribution to the understanding of the factors that influence the size of audit fees, especially in the context of company size.

## 2. The influence of the size of the Public Accounting Firm (KAP) on Audit Fees

The test results confirm that the variable Public Accounting Firm Size (UK) has a significant influence on Audit Fee (AF), with path coefficients of 0.226 and p-value of 0.047, below the significance threshold of 0.05. This means that the size of the KAP significantly influences the amount of audit fees paid by the company. Agency theory highlights that management tends to choose KAPs that are affiliated with the Big 4 to maintain their reputation in the eyes of shareholders. This is because shareholders will have more confidence in accounting data produced by KAPs that have a good reputation (Lestari, 2012). Therefore, the significant influence of KAP size on Audit Fees can be understood in the context of management's efforts to maintain shareholder trust and maintain the company's reputation.

This finding is in line with previous research by Yulianti, Agustin, and Taqwa (2019) which confirmed that the size of the Public Accounting Firm (KAP) has a positive and significant influence on audit fees. However, the results of Attya's (2013) research show differences, stating that the size of KAP has no effect on audit fees. This variation highlights the complexity of the factors that influence the size of the audit fee in the context of the size of the KAP and its reputation. The selection of public accounting is a crucial factor in determining the integrity of auditors, especially for companies that have gone public. The decision takes into account the reputation of KAP, which reflects shareholders' confidence in the quality of the company's audits and financial statements. Therefore, this study highlights the importance of an in-depth understanding of the factors that influence audit fees, especially in the context of the size of KAP, in making the right decisions in the audit process.

## 3. Influence of the Audit Committee on Audit Fees

The test results reveal that the variable the existence of an Audit Committee (KA) has a significant effect on the Audit Fee (AF), indicated by a path coefficient value of 0.356 and a p-value of 0.003, which is smaller than the significance threshold of 0.05. These findings confirm that the existence of an audit committee in a company has a significant impact on the amount of audit fees paid. The existence of an audit committee is an important indicator in determining the complexity of the audit and the level of internal supervision implemented by the company, which in turn influences audit costs. This suggests that companies that have active and effective audit committees may experience higher audit fees due to the higher quality and complexity of the audits implemented. Therefore, the existence of an audit committee can be considered as one of the factors that companies need to seriously consider in managing their audit fees.

Audit committees, according to agency theory, are adopted by companies to deal with agency problems. They ensure compliance, evaluate internal controls, and improve the quality of financial reports (Wulandari, 2011). This is important because management interests are not always in line with shareholders. An independent audit committee helps reduce the risk of manipulation and increases shareholder confidence. They maintain a balance of interests and improve corporate governance

This finding is supported by a number of previous studies, including research by Ayu and Septiani (2018), Prawira (2017), and Sitompul (2019), which confirms that the audit committee has a significant influence on audit fees. The presence of an active audit committee is expected to increase supervision of financial reporting, reduce the risk of errors that may occur, and ultimately improve the quality of the company's financial reports. However, research by Suryanto, Siskawati, and Sofyani (2018) found different results, stating that the audit committee has no influence on audit fees. This variation in findings shows the complexity of the factors that influence the size of audit fees and the role played by audit committees in the corporate context. This shows the importance of looking at the variability and dynamics in the audit committee's influence on audit fees, as well as considering the unique context and characteristics of each company.

## CONCLUSION

Analysis of the research results revealed significant findings. First, company size (UP) is proven to have a significant effect on audit fees. This shows that auditors consider the level of audit complexity which is influenced by company size in determining the amount of audit fees. Thus, the larger the company, the more complicated the audit, which has an impact on the size of the fee paid to the auditor.

These findings also reveal that the size of the Public Accounting Firm (UK) has a significant influence on audit fees. Whether you use the services of a large (Big 4) or small Public Accounting Firm, the company's profit or loss apparently influences the amount of auditor fees paid. This highlights the importance for companies to consider this factor in selecting KAP and planning company finances.

The existence of an Audit Committee (KA) is also proven to have a significant impact on audit fees. These findings emphasize the importance of company compliance with applicable audit committee regulations, both for public companies and state-owned companies. Compliance with these requirements not only contributes to the company's transparency and accountability, but can also influence the amount of fees paid for audit purposes.

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