

## The Effect of Key Audit Matters on The Behavior of Accepting Audit Service Fees in Indonesia

Ni Nyoman Alit Triani<sup>1</sup>, Made Dudy Satyawan<sup>2\*</sup>, Logar Bhilawa<sup>3</sup>, Eko Prasetyo<sup>4</sup>,  
Noviara Abie<sup>5</sup>

<sup>1,2,3,4,5</sup>Universitas Negeri Surabaya

Email: *madesatyawan@unesa.ac.id*

### ABSTRACT

The aim of the research is to examine the effect of implementing the new ISA 701 regulation, namely communicating the most significant risks in the audit process of an entity's financial statements or known as key audit matters, especially for entities listed on the Indonesian capital market, on changes in audit fee acceptance behavior. This study provides evidence that the greater the audit effort undertaken has an impact on audit fee receipts, as well as its effect on the size of the public accounting firm. This study uses a cross section of 720 data sourced from the publication of the audit results of the 2022 financial statements of companies going public. The test method uses multiple regression to analyze the results by disaggregating the number of KAM paragraphs of less than 2 and more than 2 paragraphs, using disaggregation of audit tenure of less than two years and more than 2 years and disaggregation of company age of less than 19 years and more than 19 years. The study results show that key audit matters and audit firm size have a positive effect on all tests.

**Keywords:** Key Audit Matters, Audit Firm Size, Loss, Age, Audit fee.

## **A. INTRODUCTION**

Key audit matters (KAM) require additional audit effort from the engagement team for the determination, preparation, documentation, and review of the KAM portion of the audit report (PCAOB, 2013). This additional effort results in higher audit fees (DeFond & Zhang, 2014), even though the standard does not require additional audit procedures, auditors feel more accountable for the matters to be reported (e.g., collecting more and better evidence for audit items).

Debate regarding the policy consequences of increasing the transparency of audit reports, (Klevak et al., 2020); (Chiang et al., 2021). The audit report aims to convince shareholders, investors, creditors and analytics (Suttipun, 2020). New audit report regulations are a trend in research governing KAM disclosures.

Agency problems, auditors become information multipliers through audits to reduce information asymmetry, auditors communicate information to owners and stakeholders, described as a guarantee to reduce information asymmetry between owners, management and stakeholders. According to (Wallace, 1980), the value of an audit is also an increase in the financial information that a company chooses to convey to its owners and the outside world.

Signaling theory is useful for describing behavior when two parties (individuals or organizations) have access to different information. Typically, one party, the sender of the information, must choose whether and how to communicate (or signal) the information, and how to interpret those signals (Connelly et al., 2011).

The hypothesis proposed in this study is as follows:

H1: KAM has an effect on audit fees

H2: The gender of public accountants has an effect on audit fees

H3: Audit firm size influences audit fees

H4: Audit tenure has an effect on audit fees

## **B. METHOD**

The aim of this study is to see whether key audit matters increase the amount of audit fees received by public accountants for significant information conveyed in audit opinions. The amount of data used is 720, with cross section observation data in 2022. Audit fees in this study are defined as the amount of fees received for assurance services provided by the auditor. Audit fees are proxied by the nominal amount received for the assurance services provided to the auditor. Key Audit Matters are matters that according to the auditor's professional judgment are the most significant in the audit of the current period's financial statements, which form the basis for considering opinions on the financial statements.

Key audit matters are selected from those communicated to those responsible for governance. KAM is proxied by the number of KAM paragraphs in the audit opinion. Gender is the gender of the public accountant signing the report, proxied by a dummy variable of 1 if the auditor is male and 0 if the auditor is female. Audit firm size is the size of a public accounting firm which is indicated by whether the public accounting firm is affiliated with a foreign company, whether with BIG 4, BIG 20, outside BIG 20, or a local KAP. Proxied with order 1 affiliated with Big 4, 2 with Big 20, 3 outside Big 20, 4 Local. Audit tenure is defined by the time period of the audit engagement between the public accountant and the client, proxied by the number of years of audit engagement between the public accountant and the client. The analysis model used in this study is as follows:

$$FA = \alpha_0 + \alpha_1 KAM_t + \alpha_2 Gender_t + \alpha_3 AFZ_t + \alpha_4 AT_t + \varepsilon \quad (1)$$

Where: FA: Audit Fee, KAM: Key Audit Matters, Gender: gender of the public accountant sign report, AFZ: Audit firm size of the public accounting firm, AT: Audit Tenure.

### C. RESULT AND DISCUSSIONS

The test results show that key audit matter's have a positive effect on audit fees for all test models. A KAM with a greater number of paragraphs indicates more effort made by the auditor in audit procedures and collecting audit evidence to support the audit opinion provided. The greater the number of paragraphs, the more complex the audit procedure is and the more time is required so that significant information relating to the condition and risks of the company is presented completely and informatively for the user in making a decision. This will also increase public trust in the company. These findings strengthen signaling theory, which provides useful information for investors in making decisions. These results also strengthen agency theory when the significant information presented will reduce information asymmetry between the principal and the agent. These results support the findings of (Gutierrez et al., 2018); (Reid et al., 2019); (Q. Chen et al., 2019); (J. Z. Chen et al., 2020); (Elmarzouky et al., 2023).

**Table 1. Audit Fee Regression Test Results**

Independent Variable	Dependent Variable Fee Audit				
	1	2	3	4	5
Key Audit matter's	-5.904	1.708	8.831***	8.303	1.873***
	(6.744)	(2.998)	(8.666)	(9.775)	(1.805)
Gender	3.249	3.266	7.447	5.793	7.858
	(5.413)	(5.047)	(6.815)	(7.139)	(1.852)
Audit Firm Size	2.527	5.124***	9.579***	9.775***	6.083
	(2.114)	(1.572)	(2.660)	(2.649)	(7.234)
Audit Tenure	7.868	1.035	4.329	omitted	omitted
	(2.512)	(1.802)	(9.444)		
Leverage	-9.502	9.626	9.444	2.377	-4.035
	(2.172)	(6.068)	(2.695)	(3.686)	(7.713)
Return on Asset	9.310	1.592	9.422	-205.833	9.464
	(1.997)	(4.152)	(6.068)	(2.718)	(7.465)
Loss	-1.246	-1.861	-1.131**	-3.701	-6.311
	(4.367)	(3.122)	(5.672)	(5.683)	(1.795)
Age registered company	1.272	1.249	3.870*	4.071*	9.251*
pasar modal	(1.710)	(1.300)	(2.102)	(2.303)	(5.261)
Constanta	-5.892	-8.470	6.624***	-7.462*	-8.267
	(8.134)	(6.753)	(1.068)	(8.987)	(2.381)
Goodness of Fit Model					
Observations	720	118	450	327	126
Prob > F	0.8941	0.0273	0.0000	0.0002	0.0000
R-squared	0.005	0.143	0.253	0.084	0.520
Root MSE	5.0000	1.4000	4.9000	4.2000	6.8000

Public accountant gender indicates the gender of the public accountant who signs the audit report. The test results show that gender has no effect on audit fees. Gender differences show how auditors behave. Male auditors are braver in taking risks compared to women. Existing data shows that the majority of male public accountants are more numerous than female public accountants in Indonesia. These results support the study from (Garcia-Blandon et al., 2023).

The test results show that audit firm size has a positive effect on the amount of audit fees received by public accountants for all tests. These results strengthen the signaling theory where when a company uses KAP from BIG 4, and KAP BIG 20, it has an impact on better trust from investors. Foreign-affiliated KAPs have a better reputation compared to non-affiliated KAPs, shown by the number of clients they have more and they also have better resources in the field of technology. These findings support studies from (Kikhia, 2015);(André et al., 2016); (Garcia-Blandon, Argilés-Bosch, et al., 2019); (Barua et al., 2019); (Migliani & Ahmed, 2019); (Hou et al., 2020); (Yin & Zhang, 2020); (Wang et al., 2020);(Mitra et al., 2020);(J. Z. Chen et

al., 2020); (Yu, 2020); (Kim, 2021); (Zhou et al., 2022); (Cho et al., 2022); (Mehnaz et al., 2022); (Elmarzouky et al., 2023).

The test results show that audit tenure has no effect on the amount of audit fees, existing data shows that all public accountants providing engagement services comply with OJK regulations No. 13 of 2017, public accountants who provide services to companies that go public are limited to providing services for a maximum of three years of engagement, and may provide services again after a two year hiatus. When a public accountant undertakes an engagement for more than three years, it is feared that the auditor's independence will be reduced, so to maintain this independence it is stipulated that the engagement period must not exceed three years. These findings support research from (Mohamed et al., 2012); (Kikhia, 2015); (Liu, 2017); (Nekhili et al., 2018); (Gu, 2021); (Hsieh et al., 2019).

#### **D. CONCLUSION**

Results of testing the characteristics of companies and public accounting firms regarding audit fees. The presentation of information about the influence of company characteristics and public accounting firms can be concluded as follows: Key Audit Matters all tests show an influence on audit fees, this shows that the greater the number of paragraphs from the KAM shows significant information in the financial statements, the procedures and amount of audit evidence will be required. which is increasing. Gender, all tests show that there is no influence on audit fees, this shows that the majority of auditors who carry out audits are men, compared to female auditors. Audit Firm Size: All tests show that there is an influence on audit fees. This shows that when a public accounting firm is affiliated with BIG 4, BIG 20, and outside BIG 20, it increases the amount of fees it receives because of the reputation it has and the trust of investors. Audit Tenure all tests show that there is no influence on audit fees, this shows that all public accountants who carry out sign reports have complied with the 2017 OJK regulations which regulate that public accountants may not carry out engagements for more than three years.

#### **E. ACKNOWLEDGEMENT**

This area is to express gratitude and appreciation of a certain people that involved in the (Garcia-Blandon, Argiles, et al., 2019) research.

## REFERENCES

- André, P., Broye, G., Pong, C., & Schatt, A. (2016). Are Joint Audits Associated with Higher Audit Fees? *European Accounting Review*, 25(2), 245–274. <https://doi.org/10.1080/09638180.2014.998016>
- Barua, A., Hossain, M. S., & Rama, D. V. (2019). Financial versus Operating Liability Leverage and Audit Fees. *International Journal of Auditing*, 23(2), 231–244. <https://doi.org/10.1111/ijau.12157>
- Chen, J. Z., Nelson, K. K., Wang, Y., & Yu, L. (2020). Key Audit Matters and the Pricing of Audit Services: Evidence from Hong Kong. *SSRN Electronic Journal*, July, 1–65. <https://doi.org/10.2139/ssrn.3638540>
- Chen, Q., Jiang, X., & Zhang, Y. (2019). The effects of audit quality disclosure on audit effort and investment efficiency. *The Accounting Review*, 94(4), 189–214. <https://doi.org/10.2308/accr-52286>
- Chiang, S., Kleinman, G., & Lee, P. (2021). The effect of auditor industry specialization and board independence on the cash flow reporting classification choices under IFRS: evidence from Taiwan. *International Journal of Accounting and Information Management*, 29(1), 147–168. <https://doi.org/10.1108/IJAIM-07-2019-0084>
- Cho, M., Hyeon, J., Jung, T., & Lee, W. J. (2022). Audit Pricing of Hard-to-Read Annual Reports. *Asia-Pacific Journal of Accounting and Economics*, 29(2), 547–572. <https://doi.org/10.1080/16081625.2019.1600418>
- Connelly, B. L., Certo, S. T., Ireland, R. D., & Reutzel, C. R. (2011). Signaling theory: A review and assessment. *Journal of Management*, 37(1), 39–67. <https://doi.org/10.1177/0149206310388419>
- DeFond, M., & Zhang, J. (2014). A review of archival auditing research. *Journal of Accounting and Economics*, 58(2–3), 275–326. <https://doi.org/10.1016/j.jacceco.2014.09.002>
- Elmarzouky, M., Hussainey, K., & Abdelfattah, T. (2023). The key Audit Matters and the Audit Cost: does Governance Matter? *International Journal of Accounting and Information Management*, 31(1), 195–217. <https://doi.org/10.1108/IJAIM-08-2022-0178>
- Garcia-Blandon, J., Argilés-Bosch, J. M., & Ravenda, D. (2019). Is there a Gender Effect on the Quality of Audit Services? *Journal of Business Research*, 96(April), 238–249. <https://doi.org/10.1016/j.jbusres.2018.11.024>
- Garcia-Blandon, J., Argilés-Bosch, J. M., Ravenda, D., & Castillo-Merino, D. (2023). Women Leading the Audit Process and Audit Fees: A European Study. *European Research on Management and Business Economics*, 29(1), 1–13. <https://doi.org/10.1016/j.iedeen.2022.100206>
- Garcia-Blandon, J., Argiles, J. M., & Ravenda, D. (2019). On the Relationship between Audit Tenure and Fees Paid to the Audit Firm and Audit Quality. *Accounting in Europe*, 17(1), 78–103. <https://doi.org/10.1080/17449480.2019.1669808>
- Gu, J. (2021). FDI Characteristics, Industry Homogeneity, and Audit Fees in Japanese

- Multinationals. *Journal of Multinational Financial Management*, 61(xxxx), 100678. <https://doi.org/10.1016/j.mulfin.2021.100678>
- Gutierrez, E., Minutti-Meza, M., Tatum, K. W., & Vulcheva, M. (2018). Consequences of Adopting an Expanded Auditor's Report in the United Kingdom. *Review of Accounting Studies*, 23(4), 1543–1587. <https://doi.org/10.1007/s11142-018-9464-0>
- Hou, F., Liu, J., Pang, T., & Xiong, H. (2020). Signing Auditors' Foreign Experience and Audit Pricing. In *Economic Modelling* (Vol. 91). Elsevier B.V. <https://doi.org/10.1016/j.econmod.2020.06.014>
- Hsieh, T. S., Kim, J. B., Wang, R. R., & Wang, Z. (2019). Seeing is Believing? Executives' Facial Trustworthiness, Auditor Tenure, and Audit Fees. *Journal of Accounting and Economics*, 69(1), 101260. <https://doi.org/10.1016/j.jacceco.2019.101260>
- Kikhia, H. Y. (2015). Determinants of Audit Fees: Evidence from Jordan. *Accounting and Finance Research*, 4(1), 42–53. <https://doi.org/10.5430/afr.v4n1p42>
- Kim, O. (2021). The Impact of Economic Sanctions on Audit Pricing. *Journal of Contemporary Accounting and Economics*, 17(2), 100257. <https://doi.org/10.1016/j.jcae.2021.100257>
- Klevak, J., Livnat, J., Pei, D., & Suslava, K. (2020). Are Critical Audit Matters Informative? *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.3685369>
- Liu, S. (2017). An Empirical Study: Auditors' Characteristics and Audit Fee. *Open Journal of Accounting*, 06, 52–70. <https://doi.org/10.4236/ojacct.2017.62005>
- Mehnaz, L., Rahman, A., & Kabir, H. (2022). Relevance of Supplementary Fair Value Disclosures under Market Uncertainty: Effects on Audit Fees and Investors' Pricing. *Managerial Auditing Journal*, 37(7), 819–849. <https://doi.org/10.1108/MAJ-07-2021-3263>
- Miglani, S., & Ahmed, K. (2019). Gender Diversity on Audit Committees and its Impact on Audit Fees: Evidence from India. *Accounting Research Journal*, 32(4), 568–586. <https://doi.org/10.1108/ARJ-01-2018-0001>
- Mitra, S., Song, H., Lee, S. M., & Kwon, S. H. (2020). CEO Tenure and Audit Pricing. In *Review of Quantitative Finance and Accounting* (Vol. 55, Issue 2). Springer US. <https://doi.org/10.1007/s11156-019-00848-x>
- Mohamed, Z., Mat Zain, M., Subramaniam, N., & Wan Yusoff, W. F. (2012). Internal Audit Attributes and External Audit's Reliance on Internal Audit: Implications for Audit Fees. *International Journal of Auditing*, 16(3), 268–285. <https://doi.org/10.1111/j.1099-1123.2012.00450.x>
- Nekhili, M., Javed, F., & Chtioui, T. (2018). Gender-Diverse Audit Partners and Audit Fee Premium: The Case of Mandatory Joint Audit. *International Journal of Auditing*, 22(3), 486–502. <https://doi.org/10.1111/ijau.12133>
- PCAOB. (2013). *The Auditor's Report of an Audit of Financial Statements when the Auditor Expresses an Unqualified Opinion; The Auditor's Responsibilities Regarding other Information in Certain Documents Containing Audited Financial Statements and the*

*Related Auditor's R* (Issues 2013–005, pp. 1–294).

- Reid, L. C., Carcello, J. V., Li, C., & Neal, T. L. (2019). Impact of Auditor Report Changes on Financial Reporting Quality and Audit Costs: Evidence from the United Kingdom. *Contemporary Accounting Research*, 36(3), 1501–1539. <https://doi.org/10.1111/1911-3846.12486>
- Suttipun, M. (2020). Kam Reporting and Common Share Price of Listed Companies in the Market of Alternative Investment from Thailand. *Academy of Accounting and Financial Studies Journal*, 24(3), 1–10.
- Wallace, W. A. (1980). The Economic Role of the Audit in Free and Regulated Markets. In *Open Educations Resources 2*.
- Wang, F., Xu, L., Guo, F., & Zhang, J. (2020). Loan Guarantees, Corporate Social Responsibility Disclosure and Audit Fees: Evidence from China. *Journal of Business Ethics*, 166(2), 293–309. <https://doi.org/10.1007/s10551-019-04135-6>
- Yin, H., & Zhang, R. N. (2020). The Effect of Maturity Mismatch between Investing and Financing on Audit Pricing. *Journal of Asian Finance, Economics and Business*, 7(9), 51–61. <https://doi.org/10.13106/JAFEB.2020.VOL7.NO9.051>
- Yu, C. (2020). Earnings Management, Audit Costs and Firm Size. *Proceedings - 2020 International Conference on E-Commerce and Internet Technology, ECIT 2020*, 90–96. <https://doi.org/10.1109/ECIT50008.2020.00029>
- Zhou, X., Lou, P., Wu, Y., & Zhang, L. (2022). Earnings Persistence and Abnormal Audit Fees. *Discrete Dynamics in Nature and Society*, 2022. <https://doi.org/10.1155/2022/2659939>