THE EFFECT OF CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURES ON AUDIT FEES

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Abstract

This study aims to analyze the effect of corporate governance and ownership structures on audit fees. The population in this study are banking sector companies listed and non listed on the Indonesian Stock Exchange (IDX) in 2017-2020. The sample of this study consists of 128 companies listed and non listed on the Indonesia Stock Exchange (IDX) for the year 2017-2020. The data used this study were secondary and selection data the sample uses a purposive sampling method. The hypothesis testing use SPSS Version 26 for Windows. The result of this study indicates: (1) Board of Commissioner Effectiveness has no significant effect on audit fees; (2) Audit Committee Effectiveness has no significant effect on audit fees; (3) Managerial Ownership has no significant effect on audit fees; (4) Foreign Ownership has a positive significant effect on audit fees; (5) Government Ownership has a positive significant effect on audit fees.

Keywords: *Board of Commissioner Effectiveness, Audit Committee Effectiveness, Managerial Ownership, Foreign Ownership, Government Ownership, Audit Fees.*

Background

Public issuers are required to attach an accountant's report on the audit of financial statements in the company's annual periodic financial reporting regulated by the Decree of the Chairman of Bapepam-LK Number: Kep-346/BL/2011. The financial statements issued by the company's management must be audited by an independent auditor to ensure the quality of the report (Anandya & Prasetyo, 2019). Independent auditors are certified public accountants whose audit commercial and non-commercial companies (Arens et al., 2017, p. 41). Independent auditor have to perform their duties in accordance with applicable laws and regulations, professional code of ethics and Public Accounting Professional Standards/Standar Profesional Akuntan Publik (SPAP). For the services received, the company is obliged to provide compensation to the independent auditor which is clarified through Law Number 5 Year 2011 article 24a which states that one of the rights of public accountants is to receive service fees or what is commonly called audit fees (Sulaiman et al., 2020).

Considering that the fees for audit services that are exorbitant and or too low can cause personal interest threats such as non-compliance with the code of ethics for public accountants hence the Indonesian Institute of Certified Public Accountants/Institut Akuntan Publik Indonesia (IAPI) issued Management Regulation/Peraturan Pengurus (PP) No. 2 of 2016. The regulation explains that audit fees are rewards for services provided by public accountants to provide an independent auditor's opinion on financial statements prepared by an entity. In this regulation, IAPI stipulates the basis for calculating the fee for public accountant services. There is a minimum indicator that can be used as a reference for a Public Accounting Firm (PAF) in determining the hourly service fee which is determined based on the auditor's classification. The audit fees paid are too low, which can lead to doubts about the ability and competence of the auditors in carrying out existing technical and professional standards (IAPI, 2016). On the other hand, audit fees that are too high can indicate a collusion between the client and the auditor (Yusica & Sulistyowati, 2020).

One of the crucial audit fee cases is the case occured in India in 2008, where there was a collusion between PricewaterhouseCoopers (PwC) as the auditor and the client, namely Satyam Computer Service Ltd. The evidence was obtained in the form of manipulation of bank balances included in the client's financial statements is fictitious. Judging from the audit fees paid by Satyam to PwC, it is possible to have a conflict of interest in this collaboration. Seen a significant difference compared to similar companies. Referring to PwC's 2008 revenue, Satyam was paid US$0.9 million more than Infosys US$0.2 million and Wipro US$0.3 million (Tuanakotta, 2013, p. 445).

In 2018 there was a case occured in the financial sector, namely the Sun Prima Nusantara Pembiayaan (SNP) Finance, which is a multi-finance company, a subsidiary of the Columbia group. The Minister of Finance imposed administrative sanctions on Public Accountant (PA) and Public Accounting Firm (PAF) of Satrio Bing Eny and colleagues as holders of Deloitte Indonesia affiliates. Based on the results of the examination conducted by the Financial Professional Development Center (P2PK) it was found indications of violations committed by the two PAs on the audit of SNP Finance's financial statements for the 2012-2016 financial year. Deloitte was proven guilty of negligence in auditing the client in the form of a lack of professional skepticism. On that basis, both PA and Deloitte received sanctions in the form of cancellation of audit results on their clients, namely SNP Finance and restrictions on providing audit services to financial service entities for 12 months (CNBC Indonesia, 2018).

In 2020, there is also an audit fees case involving public accounting firms with contractors that require an audit signature stamp by a public accounting firm. Starting from unscrupulous contractors who require audited financial statement as a requirement for tenders for service procurement in the government and offer to be audited with a fee of 5 million (Akuntansi.or.id, 2020). In addition, referring to a survey conducted by gartner.com, there was an increase in audit fees in the banking and insurance sector by 69%. The increase was due to financial services companies having more complex accounting processes and financial statement exposures, thus requiring higher audit hours (Gartner.com, 2021).

From the phenomenon of the gap above, it is interesting to study, with cases related to audit fees and increases in audit fees in certain industries, the role of PA in conducting audits is also important to observe. Does the PA comply with the code of ethics, maintain professional skepticism, and be free from conflict of interest. This can be seen from the regulations on public accountants and regulations regarding audit fees where IAPI has set a reasonable minimum threshold for audit fees. However, there are still public accounting firms that do not comply with applicable regulations. It is feared that this could affect the public accountant's image and the weak regulatory control.

Based on the IAPI rules, it only regulates matters that need to be considered in determining audit fees, but does not directly become a factor that affects the audit fees received by independent auditors. Therefore, the amount of audit fees paid by clients are varies. Thus, it is possible that there are other factors that affect variations in audit fees paid by clients. Research on audit fees was initiated by Simunic (1980) who examined public companies in the United States in 1977 where the research resulted in factors that affect audit fees, namely size of the auditee, company complexity, receivables and inventories.

Several studies have investigated the factors that could affect the amount of audit fees, one of these factors is Corporate Governance (Ali et al., 2018; Commer et al., 2018; Januarti et al., 2020; Kalsum et al., 2021; Sukaniasih & Tenaya, 2016). According to the National Committee on Governance/Komite Nasional Kebijakan Governance (KNKG) in the Indonesian Codes of Corporate Governance, it states that corporate governance is the structure and process used by companies to direct and supervise their business activities (Komite Nasional Kebijakan Governance, 2019). The emergence of several failure cases in several companies has made the attention to corporate governance increased. In Indonesia, the implementation of corporate governance, especially banking, has been regulated in the Financial Services Authority (FSA) Regulation Number 55/POJK.03/2016 which regulates the governance structure including the board of directors, board of commissioners, committees, and work units at the Bank.

This study uses the Board of Commissioners (BOC) and the Audit Committee Effectiveness as variables for corporate governance implementation because their duties are crucial in overseeing the company's financial reporting (Januarti et al., 2020). The existence of a Board of Commissioners (BOC) which consists of the main commissioner, independent commissioner and other independent parties is very necessary in order to implement good governance and avoid conflicts of interest in the conduct of the bank's business as well as protect the interests of stakeholders, namely fund owners and non-controlling shareholders. In the research conducted by Kalsum et al., (2021) found that corporate governance proxied by independent commissioners and audit committees has a significant positive effect on audit fees. On the other hand, research conducted by Sukaniasih & Tenaya (2016) yields different results, where board of commissioner independence has not been proven to affect audit fees because intense supervision by the board of commissioners can reduce the risk of financial reporting so that the reliability and validity of financial statements will increase. This reduces the risk assessment carried out by the auditor so that it does not affect the level of the audit fee received (Sukaniasih & Tenaya, 2016).

The audit committee was formed by the Board of Commissioners (BOC) to assist the supervisory duties of the BOC in implementing good corporate governance. The duties and responsibilities of the audit committee are to monitor and evaluate the internal audit process, compliance with audit standards, conformity of financial reporting to financial accounting standards and provide recommendations to the board of commissioners regarding the selection of public accountants and public accounting firms (Otoritas Jasa Keuangan, 2016). The factors that describe Audit Committee Effectiveness (ACE) will be examined in this study by measuring audit committee size, audit committee independence and frequency of audit committee meetings.

Several previous studies such as research in Dubai (Naser & Hassan, 2016), in Australia (Ali et al., 2018), and in US (Abbott et al., 2003) which shows that the existence of an independent audit committee in a company and the appointment of a prestigious audit firm have a positive and significant influence thus it has an impact on increasing audit fees. Second, factors that decribes ACE is audit committee size which in line with research in Indonesia by Januarti et al., (2020); Yulio (2016) stated that the size of the audit committee had a significant positive effect on audit fees, thus affecting the selection of high-quality audit firms and making the audit fees paid higher. Contrary to research conducted by Commer et al., (2018); Yatim et al., (2006) where company that has a strong internal audit function and shows low risk can affect the amount of audit fees paid to be lower.

Third, previous research by (Goodwin-Stewait & Kent, 2006; Januarti et al., 2020) has concluded that the frequency of meetings conducted by the audit committee has a positive relationship to audit fees. This study explains that companies tend to use a demand approach when determining a qualified public accountant so that it has an impact on the high audit fees paid. Then with the number of meetings conducted by the audit committee, it can improve the quality of financial statement by appointing qualified public accountants (Goodwin-Stewait & Kent, 2006; Januarti et al., 2020). Different research results reported by other studies, that the number of audit committee meetings has no effect on the bank company performance and audit fees (Abbott et al., 2003; Adiati and Adiwibowo, 2017; Yulio, 2016).

The next determinant of audit fees is company ownership structures consisting of managerial ownership, foreign ownership and government ownership. In the agency theory, the separation of ownership and control is recommended so that conflicts of interest for managers can be avoided and the lack of supervision over the decisions made by managers makes shareholders tend to choose to pay monitoring fees (Hanifah & Adiwibowo, 2020). Research by Shan et al., (2019) showed a positive relationship between managerial ownership and audit fees at the entrenchment level, while the level of managerial ownership with convergence of interest has a negative relationship. On the other hand, other research states that managerial ownership is not significant and has a negative relationship to the audit fees paid by the company (Hanifah & Adiwibowo, 2020; Nelson & Mohamed-Rusdi, 2015).

Several studies by (Musah et al., 2021; Prasetyo & Harahap, 2018; Pronobis & Schaeuble, 2020) shows that foreign ownership has a positive and significant relationship where audit fees paid by companies are higher. The resulting positive relationship between foreign ownership and audit fees is driven by the quality of good governance and protection of the largest foreign investors (Pronobis & Schaeuble, 2020). In contrast to other studies which state that foreign ownership does not have a significant effect on audit fees because the level of complexity of foreign companies cannot be determined only by the large percentage of foreign shares in the company (Anandya & Prasetyo, 2019).

Research by Vivandari & Fitriany (2019) shows that government ownership has a significant negative relationship to audit fees. The government can reduce audit costs because the government has incentives to be able to actively participate in the company's internal control supervision in order to maintain reputation and avoid failure. The difference results appeared in a study conducted in Malaysia, where government ownership has a significant and positive relationship so that the audit fees paid are higher because there is an increasing conflict of interest between management and owners so that requests for high-quality supervision are needed to overcome the conflict of interest (Nelson & Mohamed-Rusdi, 2015).

Based on the background described above, there are several gap phenomena that have emerged as well as research gaps from previous research. Hence, this study intends to expand the previous research model and examine whether corporate governance and ownership structures affect the audit fees paid by companies.

Literature Review and Hypothesis Development

Agency Theory

According to Jensen & Meckling (1976) agency theory is a contractual relationship between one or more people in which one party acts as the owner (the principal(s)) assigning tasks to another party, namely the manager (the agent) to perform a service that is also related to decision making on behalf of the owner (the principal(s)). The existence of a relationship that exists between the principal and the agent, the issue of the separation of ownership and control becomes one of the agency problems.

Due to agency problems that arise, the principal and agent need to incur additional costs in order to monitor and convince the principal of the actions taken by the agent. The costs incurred are called agency costs. The existence of external auditor services is a solution for principals and agents to mediate problems that occur. Where the external auditor is an independent party who can perform the task of monitoring the financial statements produced by internal parties. The results of activities carried out by external auditors create agency costs, namely monitoring fees or what are called audit fees. The audit fees paid will vary due to differences in the company's control environment, audit scope, and other factors. Audit fees paid will tend to be higher due to monitoring activities that require more effort (Musah et al., 2021).

Audit Fees

Audit fees is a service fee for audit activities and the provision of an opinion on the company's financial statements provided by a public accountant paid by the auditee or client. The importance of the topic of audit fees, the Indonesian government issued Law no. 5 of 2011 article 24a regarding public accountants and emphasizes the rights of public accountants for audit services provided, they are required to receive compensation called audit fees. The association that oversees public accountants in Indonesia, namely IAPI, also makes regulations regarding audit fees which are regulated in Management Regulation No. 2 of 2016. Where the regulation states that public accountants are entitled to service fees based on an agreement between the public accountant and the auditee where it is written on the engagement letter.

Corporate Governance

According to the KNKG in the Indonesian Codes of Corporate Governance, it states that corporate governance is the structure and process used by companies to direct and supervise their business activities. The implementation of GCG practices is one of the main contributors in the effort to achieve the company's goals. The existence of the Board of Commissioners and the Audit Committee in the corporate governance structure of banking is very necessary in order to establish and implement supervision and control in the company's internal control. The corporate governance structure consists of corporate organs, for Banks with headquarters in Indonesia consisting of the GMS, the Board of Directors and the Board of Commissioners. Indonesia adheres to a two-tier board system so that there is a separation of duties between BOD and BOC which have independent functions so that checks and balances occur.

One of the duties and responsibilities of the board of commissioners is to supervise the duties and responsibilities of the board of directors and monitor, direct and evaluate the implementation of the company's strategic policies. Based on POJK No.55/POJK.03/2016 BOC must consist of independent commissioners and non-independent commissioners. The number of independent commissioners must be at least 50% of the total members of the BOC. Meanwhile, the audit committee is part of and formed by the BOC which makes it a unique governance structure. The role of the audit committee in implementing GCG includes encouraging the formation of an internal control structure and improving the quality of transparency of financial reports produced by management.

Ownership Structures

Types of ownership structures include in this study are managerial ownership, foreign ownership, and government ownership. Different ownership structures in each company make different controls carried out by each shareholder in monitoring company activities and company financial reporting (Musah et al., 2021). Managerial ownership is shares owned by company managers. The greater the share ownership by the manager in this company, the manager's responsibility to increase the value of the company is higher where the benefits obtained by the manager are greater.

Foreign ownership is shares owned by foreign individuals or non-individuals. Foreign individuals can be defined as citizens who are not Indonesian citizens, and non-individual foreigners can be interpreted as legal entities or organizations established outside Indonesia.

Lastly, government ownership is shares owned by the Government of Indonesia. Government can be owned by the state, local government or institutions managed by the government.

According to Dennis and McConnel (2003) on Andriyani & Laksito (2017) government ownership is a hybrid of concentrated and dispersed ownership. The lack of strong incentives is caused by the small number of individual holdings so that oversight of management actions is lower. This can weaken the company's internal control and increase agency problems. As a result, auditors tend to perform higher substantive tests on weak corporate controls to avoid audit risk.

Hypothesis Development

The Effect of Board of Commissioner Effectiveness on Audit Fees

Based on agency theory that there is a separation of ownership between shareholders and management will lead to agency problems (Jensen & Meckling, 1976). With the existence of a fiduciary duty relationship, the BOC is obliged to carry out its duties honestly and work in the interests of the company. Thus, the presence of the BOC in the corporate governance structure which plays a role in carrying out supervisory duties on management is believed to help reduce misstatements and information asymmetry that occurs between principal and agent. The assumption in this study is that the more effective the BOC's role in a company, the higher the audit fees paid, this is because the BOC wants high-quality audit results. BOC performance can be influenced by the number of members of the board of commissioners and independent members in a company.

A larger number of BOC members is seen as being able to carry out supervisory duties more effectively because the large number of BOCs allows for various specializations of each member. However, increasing the number of members in an organization can lead to risk free riders and make decisions take longer because many opinion to consider (Hermawan, 2011). According to Vafeas (2000) on Hermawan (2011) a smaller number of board members (in this study 5 people) tend to produce higher quality information so that the resulting financial reports have high quality results. Research by (Sukaniasih & Tenaya, 2016) produce the size of the board of commissioners is proven to positively affect the audit fee.

Independent BOC has the task of supervising the actions and decisions made by top managers to protect the interests of shareholders from the opportunistic nature of the managers. In the previous studies, independent BOC tended to choose audit services with high quality, which resulted in higher audit fees paid (Jizi & Nehme, 2018). Research conducted by Kalsum et al., (2021) and Ariningrum & Diyanty (2017) stated that the independent BOC has a significant positive effect on audit fees. Based on the description above, the hypothesis is formulated as follows:

H_1: Board of Commissioners Effectiveness has a positive effect on Audit Fees.

The Effect of Audit Committee Effectiveness on Audit Fees

The audit committee is a sub-unit created by the BOC to assist the duties and responsibilities of the BOC in implementing good corporate governance. In the regulation POJK No.55/POJK.04/2015 states that the presence of an audit committee is mandatory for public companies. The assumption in this study is that the more effective the role of AC in a company, the less agency costs (audit fees) that arise.

Previous research has shown a negative relationship between audit committee size and audit fees, that a larger number of audit committees in a company is considered to be able to reduce audit fees to be lower because the work of external auditors will be less with an increase in the quality of financial reports produced by the audit committee (Commer et al., 2018; Sukaniasih & Tenaya, 2016). Likewise, the existence of audit committee independence strengthens oversight of internal control (Commer et al., 2018) and more frequent meetings reflect effective supervisory duties so that more items are reported in integrated reports. Based on the explanation above, the proposed hypothesis is:

H_2: Audit Committee Effectiveness has a negative effect on Audit Fees

The Effect of Managerial Ownership on Audit Fees

Based on agency theory, managerial ownership has a relationship related to audit fees. Managerial ownership is considered to be able to reduce agency costs or supervisory costs that arise due to internal ownership or managers where managers have the same interests as other shareholders. The greater the share ownership by the manager in this company, the manager's responsibility to increase the value of the company is higher where the benefits obtained by the manager are greater. The assumption in this study is that the presence of share ownership by managers can reduce audit fees that arise.

According to research conducted in Australia, managerial ownership with ownership of 20-55% or being in the entrenchment area has a positive effect on audit fees. However, managerial ownership has a negative effect on audit fees when ownership lies in the convergence of interests that are below 20% or above 50-55% of the identified entrenchment area (Shan et al., 2019). This means that external auditors must recognize the risks that occur at different levels of managerial ownership. The level of managerial ownership entrenchment at a certain level is considered riskier than in the area of convergence of interests because managers can misreport the results of activities in the corporation by creating valueless activities. Therefore, risk-aware PAF clients tend to choose high-quality PAFs resulting in higher audit fees.

Previous research suggests that managerial ownership has a negative impact on audit fees in Ghana (Musah et al., 2021) and consistent with research conducted in Malaysia (Nelson & Mohamed-Rusdi, 2015). Therefore, the proposed hypothesis is:

H_3: Managerial Ownership has a negative effect on audit fees.

The Effect of Foreign Ownership on Audit Fees

According to Jensen & Meckling (1976) agency problems arise when managers and owners have different interests. Foreign owners tend to face problems when investing in companies that are located overseas and are geographically distant. The problem is that they feel unequal in terms of information and oversight in management. Not only that, companies whose subsidiaries and parents are located in different geographic areas face different complexities of financial reporting and accounting. This causes more efforts for auditors to perform audit services.

Because of these problems, foreign investors will rely more on audits to address issues and ensure that financial figures are reliable. The assumption in this study is that with foreign ownership in the company, the agency costs that arise will be higher. This has led to a high demand for audit quality to ensure that management is working on behalf of the owner's interests. Research by Pronobis & Schaeuble (2020) found that the largest foreign owners originating from home countries who have good governance and investor protection qualities have the ability to increase the demand for higher audit quality which leads to higher audit fees.

However, the determinants of audit fees can come from the supply side rather than the demand side or a combination of both. Examples for the supply side can occur from additional auditor work, translation, travel, allowance and can also include the risk of audit premiums leading to litigation risk when agency problems increase due to information and location asymmetry (Pronobis & Schaeuble, 2020). Findings from previous research on the determination of audit fees also found that foreign ownership has a positive effect on audit fees (Hanifah & Adiwibowo, 2020; Musah et al., 2021; Prasetyo & Harahap, 2018; Pronobis & Schaeuble, 2020). Based on the arguments above, the proposed hypothesis is:

H_4: Foreign ownership has a positive effect on audit fees.

The Effect of Government Ownership on Audit Fees

Based on agency theory by Jensen & Meckling (1976) the emergence of issues regarding the separation of ownership and control in companies whose ownership is spread out, makes the control of the company in the hands of management where management is the party that runs the company on a daily basis. Therefore, in companies whose ownership is dispersed, agency problems are increasing. Government ownership is ownership by the state which has a unique structure because the cost of ownership is financed by citizens so that ownership tends to be spread out. The assumption in this study is that with the ownership by the government, the audit fees paid will be greater.

According to Dennis and McConnel (2003) on Andriyani & Laksito (2017) government ownership is a hybrid of concentrated and dispersed ownership. The lack of strong incentives is caused by the small number of individual holdings so that oversight of management actions is lower. This can weaken the company's internal control and increase agency problems. As a result, auditors tend to perform higher substantive tests on weak corporate controls to avoid audit risk. Government-owned companies do not bear any costs including control costs, so even the government can face reputational costs if the company fails (Nelson & Mohamed-Rusdi, 2015).

Thus, shareholders with government ownership will rely on audits to monitor management. Previous research has found that firms with dispersed ownership tend to pay higher audit fees (Andriyani & Laksito, 2017; Nelson & Mohamed-Rusdi, 2015). Therefore, the proposed hypothesis is:

H_5: Government ownership has a positive effect on audit fees

Research Method

Type of Research

This research is type of quantitative research data, which emphasizes testing theories through the measurement of research variables in numerical form and data analysis is carried out using statistical procedures (Indriantoro & Supomo, 2016:12). This study has an associative type of relationship which discusses the effect of corporate governance as proxied by the board of commissioners and audit committee effectiveness, ownership structures proxied by managerial ownership, foreign ownership and government ownership on audit fees. The data structure of this research using time series data for the 2017-2020 period. The data used in this quantitative research is a numerical scale in the form of historical financial data of the company, namely the company's annual report as the unit of analysis.

Reasearch Variables

The dependent variable of this study is measure by the natural logarithm of audit fees. Furthermore, this study has five independent variables includes board of commissioner effectiveness, audit committee effectiveness, managerial ownership, foreign ownership and government ownership. Board of commissioner effectiveness used a measurement of number of independent commissioners divided to total number of commissioners in the company. Audit committee effectiveness using ACE Index which measure three indicators of audit committee includes measurement of the size of audit committee members in the company, score of 1 will be given if the AC at least comprise of three members and 0 otherwise. Second, measure audit committee independence by number of independent commissioners serving on the committee, score of 1 will be rewarded if all members of AC are independent parties and 0 otherwise. Third, frequency meeting of audit comittee is measured using the number of audit committee meetings held in one year, score of 1 will be given if the AC members held meeting at least 4 (four) times per year and 0 otherwise. Therefore, the score of audit committee effectiveness is the sum of all the requirement above which is 3.

Managerial ownership measures using the total percentage of ownership acquired by the company's executives. Foreign ownership measured by the percentage of shares owned by foreign individuals or non-individuals. Government ownership measured by the percentage of shares owned by the government. In addition, this study adding some control variables such as firm size which measured by natural logarithm of total assets of the company. Second, firm performance which measured by the profitability ratio by measuring the company's return on assets. Third, complexity by measuring the total number of subsidiaries owned by the company.

Population and Sample

The population in this study are banking companies that are listed and non-listed on the Indonesia Stock Exchange in the 2017-2020 period. The sample technique used in this study is a purposive sampling method, namely the sample taken by the researcher based on certain considerations with the aim that the information provided can be maximized. Therefore, this study will take samples that can meet certain criteria, such as:

1. Banking companies that are listed and non-listed on the Indonesia Stock Exchange (IDX) for the 2017-2020 period.
2. Banking companies that are listed and non-listed on the Indonesia Stock Exchange (IDX) that include nominal audit fees for 2017-2020.
3. Banking companies that are listed and non-listed on the Indonesia Stock Exchange (IDX) excluding sharia.
4. Banking companies that are listed and non-listed on the Indonesia Stock Exchange (IDX) that have the data needed in this study during 2017-2020 period.

Data Analysis Method

The data analysis method used in this study include descriptive statistics, and multiple regression analysis. The multiple regression analysis model in this study as follow:

$$Y = \alpha + \beta_1 X_1 - \beta_2 X_2 - \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \varepsilon$$

Information:

Y = Natural logarithm of audit fees (LNAFEE)

$\beta_{1....}\beta_8$ = Regression Coefficient of $X_{1....}X_8$

X_1 = Board of Commissioners Effectiveness (BCE)

X_2 = Audit Committee Effectiveness (ACE)

X_3 = Managerial ownership (MOWN)

X_4 = Foreign ownership (FOWN)

X_5 = Government ownership (GOWN)

X_6 = Natural logarithm of total assets (SIZE)

X_7 = Ratio of net profit on total assets (ROA)

X_8 = Number of Subsidiaries (SUBS)

ε = Error term

Research Results and Discussion

Sample Description

The purpose of this study is to test and analyze the effect of corporate governance in the form of board of commissioner effectiveness and audit committee effectiveness and ownership structures consisting of managerial ownership, foreign ownership and government ownership on audit fees. This study uses a sampling technique in the form of purposive sampling method. The results of sampling using the purposive sampling method obtained a total of 32 listed and non-listed banking companies, thus the total number of research samples in the 2017-2020 period is 128. The table below describes the sample selection process using the following criteria:

Table 1. Research Sample Criteria

No	Research Sample Criteria	Total
1.	Banking companies that are listed and non-listed on the Indonesia Stock Exchange (IDX) for the 2017-2020 period	108
2.	Banking companies that are listed and non-listed on the Indonesia Stock Exchange (IDX) that does not include nominal audit fees for 2017-2020	(60)
3.	Banking companies that suffer losses	(7)
4.	Banking companies listed and non listed excluding Sharia on the IDX for the 2017-2020 period	(7)
5.	Banking companies listed and non listed that has not completed variables data needed	(2)
6.	Total of sample companies	32
7.	Observation period	4
8.	Total of research sample	128

Source: Secondary data processed (2022)

Decriptive Analysis of Variables

Below is the summary information about the characteristics of the main variables in this study, such as the dependent variable in the form of audit fees, as well as the independent variable in the form of corporate governance and ownership structures. The descriptive statistics used in this study are the average (mean), the minimum value (min), the maximum value (max), and the standard deviation as shown below:

Table 2. Descriptive Statistics of Research Variables

Variables	N	Minimum	Maximum	Mean	Std. Deviation
LNAFEE	128	18,814	23,466	21,20517	1,120422
Board of Commissioner Effectiveness	128	0,000%	100%	58,12455%	12,317551
Audit Committee Effectiveness	128	1	3	2,89	0,338
Managerial Ownership	128	0,000%	4,9155%	0,183076%	0,8525197
Foreign Ownership	128	0,000%	98,223%	25,20560%	32,542980
Government Ownership	128	0,000%	100,000%	43,66078%	43,224249
Firm Size	128	28,7699	38,097	31,908789	1,9367637
Firm Performance	128	0,0002	0,0313	0,013019	0,0071426
Complexity	128	0	11	1,40	2,713

Source: Secondary data processed (2022)

Based on table 2 above, the results of descriptive statistics show that throughout 2017 to 2020, LNAFEE (natural logarithm of audit fees) shows a maximum of LNAFEE of 23,466, which means that the highest audit fees paid by Bank Rakyat Indonesia Tbk, namely listed banks in IDX of IDR 15,523,800,000 for audits of financial statements for the 2020 period. Meanwhile, the minimum value of LNAFEE is 18.814 which means that the lowest audit fee is paid by PT Bank Pembangunan Daerah (BPD) North Sulawesi and Gorontalo which are non-listed banks of IDR 148,118,340 in the audit of the financial statements for the 2020 period. Next, the average value for LNAFEE dependent variables is 21.20517 and the standard deviation value is 1.120422 which means that from the total sample of 128, the average value of LNAFEE is greater than the standard deviation which identifies the standard erorr in the variable is small.

Furthermore, the first independent variable is the board of commissioner effectiveness (BCE) with an independent board of commissioner proxies. The statistical results show a maximum BCE value of 100%, which means that the composition of the BOC with fully independent members is owned by PT BPD South Sumatra and Bangka Belitung in 2019 and Bank Maybank Tbk, PT BPD Central Java in 2020. A minimum value of 0% indicates that there is a bank that does not have an independent BOC member, namely PT BPD Papua in 2017. The mean value of BCE is 58.12455% and the standard deviation is 12.317551 which means that the average listed and non-listed banking company in 2017-2020 has an independent number of BOC members of 58% and the mean value of BCE is greater than the standard deviation which identifies the standard erorr on the variable is small or BCE does not vary or is in groups.

The second independent variable, namely the Audit Committee Effectiveness (ACE), has a range from 1 to 3, which means that there are banking companies that produce the lowest score on the ACE index measurement. Where the ACE Index is measured through 3 characteristics of the effectiveness of the committee audit, namely independence, frequency of AC meetings and the composition of the number of committee audits. PT BPD Papua in 2018 did not comply with FSA regulations on the minimum frequency of audit committee meetings 4 times a year and all AC members were independent members. Then, the average ACE of 2.89 is greater than the standard deviation value of 0.338, which means that the standard erorr on the variable is small.

The third independent variable is Managerial Ownership (MOWN) where statistical results show a range of 0% to 4.9155%. Some companies have a MOWN value of 0%, which means there is no ownership by managers in the company. Meanwhile, the maximum value of 4.9155% is owned by Bank Mayapada Internasional Tbk in 2020. The average listed and non-listed banking company that has managerial ownership during 2017-2020 is 0.183076% while the standard deviation value is greater than the mean of 0.8525197%, which means that there is a data deviation in the MOWN variable. This can be interpreted as the lack of manager ownership in listed and non-listed banking companies in Indonesia.

The fourth variable, namely Foreign Ownership (FOWN), has a minimum value of 0% and a maximum of 98.223%, which means that there are banking companies that have 0% foreign ownership. Meanwhile, the highest foreign ownership was owned by Bank Maybank Tbk in 2017. Then, the average value on FOWN shows that foreign ownership of both individuals and non-individuals in banking companies in Indonesia is 25.20560%. Meanwhile, the standard deviation value is greater than the mean, which is 32.54298%, which means that there is a deviation in the data in the FOWN variable.

The fifth variable, namely Government Ownership (GOWN), shows statistical results with a range of 0% to 100%. This shows that banking companies in Indonesia in 2017-2020 were PT Bank DKI, PT BPD Central Java, PT BPD South Kalimantan and PT BPD Bali which are non-listed companies with 100% government ownership. While the mean value in this variable is 43.66078% greater than the standard deviation value of 43.224249%, which means that the standard erorr on the variable is small.

Furthermore, it is the variable control in this study, namely firm size (SIZE) which is proxied with a natural logarithm of total assets. The statistical results are in the form of a minimum value of 28.7699 owned by PT Bank INA Perdana in 2017. Meanwhile, the maximum value of 38.0970 is owned by Bank Mandiri Taspen Tbk in 2020. The standard deviation value in the SIZE variable of 1.9367637 is smaller than the average SIZE value of 31.908789, which means that the default error in this variable is small.

The second variable control is Firm Performance which is proxied with Return on Asset (ROA) by measuring net income divided by the company's total assets. This variable has a minimum statistical value of 0.0002 and a maximum value of 0.0313. The average ROA value is 0.013019 greater than the standard deviation value of 0.0071426 where it identifies that the standard error of the variable is small.

The last variable control is Complexity which is proxied by the number of subsidiaries (SUBS). This variable produces a descriptive statistical analysis value with a range of 0 to 11. This means that the maximum value of banking subsidiaries in Indonesia amounts to 11 companies owned by Bank Mandiri Tbk. The average value of the SUBS variable is 1.40 which is smaller than the standard deviation value of 2,713 which means that there are data deviations in the SUBS variable.

Results of Multiple Regression Analysis

Multiple regression analysis is used to achieved this study’s purposes and conducted after passing the classical assumption test. The purpose of multiple regression analysis is to examine the direct effect of two or more independent variables on the dependent variable. Table 3 below is the result of multiple regression analysis conducted in this study:

Table 3. Multiple Regression Analysis

No	Variables	Unstandardized Coefficients (B)	T	Sig.	Judgement
1	Board of Commissioner Effectiveness	0,001	0,226	0,822	Not Significant
2	Audit Committee Effectiveness	0,046	0,319	0,750	Not Significant
3	Managerial Ownership	-0,033	-0,615	0,539	Not Significant
4	Foreign Ownership	0,019	10,117	0,000	Significant
5	Government Ownership	0,004	3,021	0,003	Significant
6	Firm Size	0,163	5,453	0,000	Significant
7	Firm Performance	-12,660	-1,741	0,084	Not Significant
8	Complexity	0,188	8,602	0,000	Significant
Constant		15,077	15,495	0,000	-
Adjusted R Square		0,807			
F-Test		67,185		0,000	Fit

Source: Secondary data processed (2022)

Based on the table 3 the summary of the result of multiple regression analysis can be explained as follow:

1. The summary of the results of multiple regression analysis in the table 3 presents the results of R^2 is 0,807 or 81%. The adjusted R square from the regression analysis implied that the independent variables in this study could explain 81% of the variations on the dependent variable. Meanwhile, the other 19% (100-81%) might be influenced by other variables outside the regression model.
2. The result of multiple regression analysis in the table 3 presents the results of F-test is 67,185. This test can be carried out using a significance level of 0,50 and calculating the F_{table} through degree of freedom (df) = (k-1) = (8-1) = 7; and (n-k) = (128-8) = 120 thus the F_{table} value is 2,0868. Based on the table 3 presents the result of significant value of F test regression model is 0,000 which is less than 0,50 (0,000 < 0,50). Meanwhile, the F_{count} value is 67,185 > F_{table} value is 2,0868 thus it can be interpreted that independent variables in this study such as board of commissioner effectiveness, audit committee effectiveness, managerial ownership, foreign ownership, government ownership has simultaneously effects on the dependent variables which is audit fees. In other words, the regression model in this study is fit and it can be concluded that this regression model can explain the influence of independent variables on dependent variables.
3. Based on the result of T-test in the table 3, $t_{statistics}$ of board of commissioner effectiveness is 0,226 less than t_{table} value is 1,658 or (0,226 < 1,658). Meanwhile, the result of T-test statistics significant value for variable independent namely board of commissioner effectiveness is 0,822 > 0,05. This result can be interpreted as board of commissioner effectiveness has no significant effect on audit fees. Thus, the first hypothesis which stated that board of commissioner effectiveness has positive effect on audit fees is **rejected**. Based on the data of BCE Variable, Bank BPD Sumatera Utara in 2017 has BCE value of 33,33% and the amount of

audit fee paid is Rp 750.000.000. Meanwhile in 2019 the BCE value is 33,33% and the amount of audit fee is Rp 760.000.000. Furthermore, Bank CIMB Niaga Tbk in 2018 has BCE value of 57,143% and the amount of audit fee paid is Rp 15.037.000.000 while in 2020 BCE Value is 50% and the audit fee being paid is Rp 9.396.000.000. Judging from these data, it can be concluded that there is no significant effect between the effectiveness of the board of commissioners and the audit fees paid by the company.

Contrast with the result in this study, where board of commissioner effectiveness have positive direction which is align with first hypothesis but not significant. This can be mean that independent commissioner in a company does not affect the supervisory duties on management performance in generating more accurate and validity of financial statements. The quality of financial reporting generated by proportion of independent commissioner in a company has no effect on decreasing audit fees charged. In other words, the existence of board of commisioner is adequate enough to conducting the supervisory duties (Iftikha & Nazar, 2021). This finding is aligned with previous research from Iftikha & Nazar (2021) and Sukaniasih & Tenaya (2016). Variable board of commissioner effectiveness which proxied by independent commissioner has no significant effect on audit fees.

4. Based on the result of T-test in the table 3, $t_{statistics}$ of audit committee effectiveness is 0,319 less than t_{table} value is 1,658 or (0,319 < 1,658). Meanwhile, the result of T-test statistics significant value for variable independent namely audit committee effectiveness is 0,750 > 0,05. This result can be interpreted as audit committee effectiveness has no significant effect on audit fees. Thus, the second hypothesis which stated that audit committee effectiveness has negative effect on audit fees is **rejected**. Based on data from ACE variable, Bank Mestika Dharma in 2019 has ACE value of 3 and audit fee is Rp 380.000.000. In 2020, ACE value is 3 and audit fee is Rp 400.000.000. Meanwhile, PT BPD Sulawesi Utara & Gorontalo in 2019 has ACE value of 3 and audit fee is Rp 592.900.000 and in 2020 has ACE value of 3 where audit fee is Rp148.118.340. Judging from these data, it can be concluded that there is no significant effect between audit committee effectiveness and the audit fees paid by the company.

According to agency theory, an effective audit committee is more motivated to enhance the quality of financial statements in order to minimize information asymmetry (McMullen, 1996 on Jizi & Nehme, 2018). The results of this study state that there is no effect between audit committee effectiveness and audit fees. This can be interpreted that the audit committee effectiveness which is proxied by the proportion of the number of independent audit committees, the frequency of audit committee meetings and the number of committee audits in the company do not have a significant effect on the audit fee. Otherwise, the effectiveness of the audit committee on a banking company cannot reduce the audit fees paid by the company. Moreover, the result of this study is inconsistent with research from (Abbott et al., 2003; Ariningrum & Diyanty, 2017; Ika & Mohd Ghazali, 2012) which stated that audit committee effectiveness has positive effect on audit fees. However, this study support research from Boo & Sharma (2008) stated that corporate governance which is included audit committee in the study has no significant effect on audit fees.

5. Based on the result of T-test in the table 3, $t_{statistics}$ of managerial ownership is -0,615 less than t_{table} value is 1,658 or (-0,615 < 1,658). Meanwhile, the result of T-test statistics significant value for variable independent namely managerial ownership is 0,539 > 0,05. This result can be interpreted as managerial ownership has no significant effect on audit fees. Thus, the third hypothesis which stated that managerial ownership has negative effect on audit fees is **rejected**. According to the data in MOWN variable, Bank Danamon Tbk in 2017 has MOWN value of 0,0413% and audit fee is Rp 4.346.000.000. Meanwhile in 2020 has MOWN value of 0,0151% and audit fee is Rp 5.335.000.000. Bank OCBC NISP Tbk in 2019 has MOWN value of 0,0271% and audit fee is Rp 4.200.000.000 meanwhile in 2018 the MOWN value is 0.0184% and audit fee is Rp4.100.000.000. Judging from these data, it can be

concluded that there is no significant effect between managerial ownership and the audit fees paid by the company.

Jensen & Meckling (1976) stated that separation between owner as principals and manager as agent lower agency costs taken by managers. The manager who owns the company's shares will likely enhance internal control to increase more value of the company and lower agency costs incurred. On the other hand, referring to the sample data taken, managerial ownership of banking companies in Indonesia was relatively low, which is below 5%. Therefore, little evidence supports that managers who own a lower proportion of the company's shares will have a significant effect and mitigate the agency conflict. Contrast with the result in this study, where managerial ownership has negative direction which align with third hypothesis but not significant. Differences in managerial interests and an increase in the percentage of managerial ownership, which is currently low and not dominant in comparison to other ownership, are the root causes of this insignificance (Kholidah et al., 2018). However, the results of third hypothesis showed that managerial ownership did not have negative significant effect on audit fees is consistent with research by (Andriyani & Laksito, 2017; Hanifah & Adiwibowo, 2020; Nelson & Mohamed-Rusdi, 2015).

6. Based on the result of T-test in the table 3, $t_{statistics}$ of foreign ownership is 10,117 greater than t_{table} value is 1,658 or (10,117 > 1,658). Meanwhile, the result of T-test statistics significant value for variable independent namely foreign ownership is 0,000 < 0,05. This result can be interpreted as foreign ownership has significant effect on audit fees. Thus, the fourth hypothesis which stated that foreign ownership has positive effect on audit fees is **accepted.** Based on data from FOWN variable, Bank Central Asia Tbk in 2017 has FOWN value of 34,2% and audit fee is Rp 6.200.000.000. In 2018, FOWN value was 34,5% and the audit fee was Rp 6.400.000.000. In 2019, FOWN value is 34,84% and the audit fee is Rp 6.900.000.000 and In 2020 FOWN value is 35,55% and the audit fee is Rp 7.580.000.000. We can see from the data that foreign ownership has a significant effect on audit fees paid by the banking companies in Indonesia. In other words, if there is an increase in foreign ownership, the audit fee paid by the company also increases.

   The results in this study align with agency theory where the problem arises when managers and owners have different interests. Foreign investors tend to face problems when investing in companies that are located overseas and geographically distant. Moreover, the companies whose subsidiaries and parents are located in different geographic areas face complexity in their financial reporting due to different currencies and etc. Furthermore, to encourage the companies they invest in to adhere to the same corporate governance standards as themselves in their home countries, overseas investors must protect the investors in their home countries (Pronobis & Schaeuble, 2020). Therefore, they will rely more on audits to address issues and ensure that financial reports were reliable which causes more efforts for external auditors to perform audit services. Thus, higher audit effort makes higher audit fees. The result in this study is consistent with (Hanifah & Adiwibowo, 2020; Musah et al., 2021; Nelson & Mohamed-Rusdi, 2015; Prasetyo & Harahap, 2018; Pronobis & Schaeuble, 2020) stated that foreign ownership had a positive significant effect on audit fees. However, this result is inconsistent with Anandya & Prasetyo (2019) stated that foreign ownership had no significant effect on audit fees.

7. Based on the result of T-test in the table 3, $t_{statistics}$ of government ownership is 3,021 greater than t_{table} value is 1,658 or (3,021 > 1,658). Meanwhile, the result of T-test statistics significant value for variable independent namely government ownership is 0,003 < 0,05. This result can be interpreted as government ownership has significant effect on audit fees. Thus, the fifth hypothesis which stated that government ownership has positive effect on audit fees is **accepted**. According to data from GOWN variable, PT BPD Sumatera Selatan dan Bangka Belitung in 2017 has GOWN value of 96,13% and the audit fee was Rp 508.000.000.

In 2018, GOWN value is 96,24% and the audit fee was Rp 525.000.000. In 2019 has GOWN value of 99,9% and the audit fee was Rp 548.000.000. Based on data above, we can see that government ownership has significant effect on audit fees paid by the banking companies in Indonesia. In other words, if there is an increase in government ownership, the audit fee paid by the company also increases.

The emergence of issues regarding the separation of ownership and control in companies whose ownership tends to be dispersed makes agency conflict increase. Government ownership is ownership by the state which has a unique structure because the cost of ownership is financed by the citizen thus ownership tends to be spread out. The oversight of management actions is lower in this type of ownership because the individual portion of shares is small. This can weaken the company's internal control and increase agency problems. Therefore, auditor tends to perform higher substantive tests on weak corporate controls to avoid audit risk thus leads to higher audit effort and higher audit fees.

This finding supported the research results of (Anandya & Prasetyo, 2019; Andriyani & Laksito, 2017; Nelson & Mohamed-Rusdi, 2015; Prasetyo & Harahap, 2018) stated that government ownership has a positive and significant effect on audit fees. Meanwhile, this finding is contrary to the research result of (Hanifah & Adiwibowo, 2020; Musah et al., 2021) stated that there is insignificant effect between government ownership and audit fees.

8. In addition, this study added three control variable namely firm size, firm performance and complexity. Firm size which proxied by the natural logarithm of total asset company has significant value of 0,000 < 0,05 and the result of regression coefficient is 0,163 as we can see in table 4.5 which have positive direction. Based on data from Bank Rakyat Indonesia Tbk in 2017 has SIZE value of 34,6587 and the audit fee was Rp 7.300.000.000, In 2018 has SIZE value of 34,7988 and the audit fee is Rp 8.200.000.000. This result means that firm size has positive significant effect on audit fees which in line with several studies findings around the world. Prior studies have revealed that firm size affected company's audit cost (Musah et al., 2021; Simunic, 1980; Sulaiman et al., 2020; Yatim et al., 2006). Company with larger size has more activities e.g transactions than the smaller one thus the auditor will have more effort to do the auditing and the fee charged will be higher.
9. Second control variable namely firm performance which proxy by return on assets has results of negative and no significant effect on audit fees. Based on table 4.5 the significant value of firm performance is 0,084 greater than 0,05 (0,084 > 0,05) and the result of regression coefficient is -12,66 which has negative direction. Bades on data from ROA variable Bank Sahabat Sampoerna Tbk in 2019 has ROA value of 0,0016 and the audit fees was Rp 580.000.000 meanwhile in 2020 has ROA value of 0,0038 and the audit fee was Rp 450.000.000. It can be interpreted that firm performance has negative and insignificant effect on audit fees. This finding has supported the research result from Hanifah & Adiwibowo (2020) and Yatim et al., (2006) stated that ROA or firm performance has no significant effect on audit fees.
10. The last control variable namely complexity which proxy by the number of subsidiaries owns by the company. The result of significant value is 0,000 less than 0,05 (0,000 < 0,05) and as we can see in table 4.5 the result of regression coefficient is 0,188 showed a positive direction. Based on data from Bank Mandiri Tbk in 2017 and 2018 has SUBS value of 11 and the audit fees was Rp 10.000.000.000 and Rp 11.990.000.000. This result can be concluded that complexity has a positive and significant effect on audit fees. In other words, the result showed that company who owns more subsidiaries have higher audit fees charged. This finding is consistent with previous research by Simunic (1980); Sulaiman et al., (2020) and Yatim et al., (2006) stated that complexity has a positive and significant effect on audit fees.

Conclusion

The aims of the study are to test and analyze the effect of the board of commissioner effectiveness, audit committee effectiveness, managerial ownership, foreign ownership, and government ownership on audit fees of banking companies listed and non-listed in the Indonesia Stock Exchange 2017-2020 period using 128 samples. Based on the description of the results in the previous chapter it can be concluded that board of commissioner effectiveness, audit committee effectiveness, and managerial ownership has no significant effect on audit fees. Meanwhile, foreign ownership and government ownership indicates positive and significant effect on audit fees.

Implications

The implication of this study covers two aspects such as theoretical and practical. Theoretically, this study supports that foreign ownership and government ownership positively affect audit fees. Meanwhile, in practice, heightened agency problems caused by ownership structures like foreign ownership and government ownership would result in higher audit fees paid to external auditors, which management and auditors should consider while working on future projects.

Limitations of Research

This study has several limitations such as first, this study is limited by banking companies listed and non-listed areas only. Second, lack of banking companies who disclose their audit fees. Therefore, there are still many companies undisclosed their audit fee in the annual report. Third, some of them also write their fees as professional fees which include other fees such as legal fees, audit fees, custodian fees, etc. Fourth, some of the companies also did not have clear organization and ownership structures. For example, companies that are representative of foreign banking companies in Indonesia did not have a clear composition of the organization and ownership structures like local banking companies. Therefore, tracing and retrieval of data become difficult.

Suggestions

Based on the limitations and results of this study, the researcher provided several suggestions, namely:

a. Further research can conduct analysis on the whole financial companies such as insurance, financing companies, etc, and also add a longer research period.

b. Further research can add other variables and measurements in the ownership structures such as family ownership, and block ownership that is still largely unexplored in the literature.

c. Further research can add other audit fees measurement such as non-audit services fees in order to explore the research literature in auditing.

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