

## HOW DO REMOTE AUDIT AND CLIENT COMPANY SIZE AFFECT AUDIT FEES?



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### Abstract

This research aims at determining the influence of remote audits and client company size on audit fees at public accounting firms in Pekanbaru. The sample used was Public Accounting Firm (KAP). Based on the results of the research conducted, it can be concluded that there was no relationship between the implementation of the remote audits with the client company size. The implementation of Remote Audits did not have a significant effect on audit fees at the Public Accounting Firm. Then, Client Company Size affected the audit fees at the Public Accounting Firm. While, Remote Audits and Client Company Size simultaneously affected audit fees at the Public Accounting Firm in Pekanbaru.

## INTRODUCTION

One of the most important elements in a company is financial statements. Financial reports are very important because they are the basis for knowing the company's financial condition which would later be useful for internal and external parties of the company in decision-making. According to the Indonesian Institute of Accountants (2009:3), the purpose of financial reports was to provide information concerning the financial position, performance, and changes in the financial position of a company that was useful to a large number of users in making economic decisions. Meanwhile, according to Fahmi (2011: 28), the main purpose of financial reports was to provide information on the financial statement which included changes to the elements of financial statements addressed to other parties who had an interest in assessing the financial performance to the company's management.

According to the International Federation of Accountants (2020), clients under financial pressure cannot pay audit fees or try to lower audit fees. This causes the auditor to have difficulty with the client regarding the audit fee. However, during crisis conditions such as the covid 19 pandemic, the resources needed to carry out audit activities are even greater which would certainly have an impact on audit fees which in the end would be even more burdensome for clients. According to IAPI (2020), associated with audit fees during a pandemic, the cost of infrastructure KAP has increased compared to the client's declining economic/business capabilities. In this case, IAPI performed precise calculation planning and significant risk analysis on the addition of alternative procedures to obtain reasonable assurance.

As reported to kumparan.com, the Public Accounting Firm (KAP) in Indonesia was also affected during the pandemic. When the KAP was in the middle perform their duties such as conducting an audit on a company, hence the task auditor would be distracted when going to take data in the company, making tax payments or when assessing activities at the company that would be disrupted and so all employees are advised to work from home (WFH). Even though the accountant was doing WFH (Work From Home), the work should still be going on and this WFH did not interfere with auditing. This meant, KAP required new methods of conducting audits which of course would require the use of technology.

The use of technology is already familiar in the world of supervision, especially for internal auditor organizations around the world, including Indonesia. In the current COVID In a study by Albitar et al. (2020) social distancing and working from home became the new normal during the COVID-19 pandemic. This seemed to increase auditors' working hours and effort, even though companies (clients) were likely to start requesting a decrease in audit fees. This expected decrease in audit fees to affect audit quality during the COVID-19 outbreak. Xu et al. (2013) studied and reported an increase in audit fees during the financial crisis in Australia. Albitar et al. (2020) argued that this was due to an increase in client business risk, which led to additional audit efforts. Nonetheless, some previous studies suggested that during the global financial crisis, firms negotiated lower prices for audit services.

During the COVID-19 pandemic, the use of technology felt very helpful particularly in remote audit processes (remote audit) due to rampant access restrictions in almost all regions. As reported to The IIA Indonesia (2020), the remote audit process is considered quite challenging and required careful planning starting from the document inspection process, field physical examination, interviews, and closing meetings.

The use of technology in audit activities certainly had its challenges. A study by Khaddash and Syam (2003), also discussed the obstacles that existed in the use of information technology in auditing. This research concluded that the auditor viewed the importance of using technology information in the audit because it had a great influence in improving accuracy, success and reducing costs. The use of Information technology had not achieved the expected results because of several obstacles, such as some clients from companies still using traditional accounting systems, lack of experience and skills of auditors, and there were no laws and regulations governing its use of information technology in accounting and auditing. To overcome these challenges, it is deemed necessary for KAP to invest in updating accounting systems and training programs for auditors to improve their skills in using technology in audit activities.

Company size is also one of the factors used in research. According to Permana Sari (2012), company size can be measured by the total assets, sales or capital of the company. The greater the total assets, sales and market capitalization, the larger the size of the company. In general, a company that had a large size must have a good control system so that it can reduce errors in the preparation of financial statements which made it easier for the auditor to audit financial statements. Therefore, the author wanted to see whether the ease of carrying out financial statement audits in companies already had good control systems owned by large companies that affected audit fees.

## METHODS

In conducting this study, the authors described the research approach by applying descriptive and verification methods with empirical studies. The purpose of this research approach is to determine the relationship and influence of a variable on other variables. According to (Sugiyono, 2017:86), the descriptive method is a study conducted to determine the value of independent variables, either one or more variables (independent) without making comparisons or connecting with other variables. The descriptive method is used in this study to discuss the process of remote audits, client company size, and audit fees on public accounting firms in Pekanbaru. The verification method used was a research method that tested the theory by hypothesis testing. Hypothesis testing is carried out using statistical calculations used to test the effect of variables  $X_1$  and  $X_2$ , on  $Y$ . Verification meant testing the theory by testing a hypothesis whether it is accepted or rejected. The verification method used in this study was to determine the relationship between remote audits and client company size and the causal influence between the independent variable and the dependent variable, namely regarding the effect of remote audit and client company size both partially and simultaneously on audit fees.

The data obtained is then processed, analyzed and further progressed with the theoretical foundations that had been studied to conclude. While the analysis is carried out through a quantitative approach that used relevant statistical methods to test hypotheses. For this reason, steps are taken starting from the operationalization of variables, the design of hypothetical measurements, and data collection methods. According to Sugiyono (2017:13), quantitative research methods can be interpreted as research methods based on the philosophy of positivism, used to research on certain populations or samples, data collection using research instruments, and quantitative or statistical data analysis, to test established hypotheses.

According to Sugiyono (2017:137), The research sample is part of the number and characteristics possessed by the population. Sample measurement is a step to determine the size of the sample taken in carrying out the research. Determining the size of the sample can be done with statistics or based on research estimates. This sampling must be carried out in such a way that a sample is obtained by describing the representative population.

In this research, the selected sample was a Public Accounting Firm (KAP) in Pekanbaru which had at least 1 manager and 2 senior auditors. Based on the population and sampling technique that has been calculated, the research sample is 27 respondents.

Table 1. Research Sample

Number	Public Accounting Firm (KAP)	Sample
1	KAP Griselda, Wisnu & Arum	3
2	KAP Hadibroto & Rekan	3
3	KAP Drs. Hardi & Rekan	3
4	KAP Hariswanto	3
5	KAP Drs. Katio & Rekan	3
6	KAP Khairul	3
7	KAP Rama Wendra	3
8	KAP Drs. Selamat Sinuraya & Rekan	3
9	KAP Yaniswar & Rekan	3
	TOTAL	27

The operationalization of the independent variables in this research was remote audits and client company size. While the operationalization of the dependent variable in this research was the audit fees. Hypothesis testing is intended to determine whether there was a significant influence between the independent variables and the dependent variable. In testing this hypothesis, the author determined it with a significant test, by establishing the null hypothesis (H0) and the alternative hypothesis (Ha). To determine the form of the functional relationship between remote audit, the size of the client company and audit fees, the author used multiple linear regression analysis.

## RESULTS

Table 2. Multiple Linear Regression Analysis Results

Model		Coefficients <sup>a</sup>					Collinearity Statistics		
		Unstandardized Coefficients		Standardized Coefficients		t	Sig.	Tolerance	VIF
		B	Std. Error	Beta					
1	(Constant)	-1.874	.133			-14.096	.000		
	Remote Audit	.0375	.015	.014		2.324	.022	.989	1.011
	Client Company Size	.772	.005	.999		165.026	.000	.989	1.011

a. Dependent Variable: Audit Fee

Based on the results of multiple linear regression analysis between the independent variables and the dependent variable, the regression equation can be arranged as follows:

$$Y = -1.874 + 0.035 X_1 + 0.772 X_2 + e \dots\dots\dots(1)$$

The constant value of -1,874 indicated the pure value of the Audit fee variable (Y) without being influenced by the Remote Audit variable ( $X_1$ ) and the size of the client company ( $X_2$ ). This meant that without any interference from independent variables, the value of the variable Audit fee (Y) amounted to -1,874..

The value of the regression coefficient ( $\beta_1$ ) Remote Audits ( $X_1$ ) is 0.035. The value indicated the contribution or influence of the Remote Audits variable ( $X_1$ ), meaning that if the Remote Audit variable ( $X_1$ ) is increased by one unit, it would be followed by the strengthening of the Audit fee variable (Y) by the value of the regression coefficient.

Table 3. Correlation between Remote Audit and Client Company Size on Audit Fee

		Remote Audit	Client Company Size	Audit Fee
Remote Audit	Pearson Correlation	1	-.103	-.089
	Sig. (2-tailed)		.209	.278
	N	150	150	150
Client Company Size	Pearson Correlation	-.103	1	.997**
	Sig. (2-tailed)	.209		.000
	N	150	150	150
Audit Fee	Pearson Correlation	-.089	.997**	1
	Sig. (2-tailed)	.278	.000	
	N	150	150	150

The value of the regression coefficient ( $\beta_2$ ) client company size ( $X_2$ ) of 0.772. This value indicated the contribution or influence of the client company size variable ( $X_2$ ), meaning that if the client company size variable ( $X_2$ ) is increased by one unit, it would be followed by strengthening the Audit fee variable ( $Y$ ) by the value of the regression coefficient

The test results above showed that the score significance obtained is 0.278 with a correlation coefficient of -0.089. This proved that the implementation of Remote Audit had a weak relationship with the audit fees Public at Accounting Firm in Pekanbaru.

Table 3 above presented that the value of the correlation coefficient between the size of the client company and the audit fees is 0.997. These data indicated that the size of the client company had a significant relationship strong with audit fees at the Public Accounting Firm in Pekanbaru. Coefficient correlation marked positive to show that connection which is owned is a unidirectional relationship, meaning that the greater the value of the company size, the greater the value of the company audit fee.

Table 4. Summary of Relationship Test Results Remote Audit and Client Company size on Audit Fee

Model		Coefficient Correlation	Tcount	Sig.	ttable (df=148)	Ho
1	Remote Audit	-0.089	-1.088	0.278	1.655	accepted
2	Client Company Size	0.997	163.262	0.000	1.655	rejected

As presented in Table 4, the remote audit did not have a significant effect on audit fees with a significance value of 0.278 and a correlation coefficient of -0.089, then with an error rate of 5% so it was decided to accept  $H_0$  and  $H_a$  rejected.

Showed the significant relationship between Client company size ( $X_2$ ) table that on there was a significant relationship between Client company size ( $X_2$ ) with audit fee ( $Y$ ) with a significance value of 0.000 and a correlation coefficient of 0.997 at an error rate of 5%, so it was decided that  $H_0$  was rejected and  $H_a$  was accepted.

## DISCUSSION

Regarding the relationship between the remote audit and the client company size, based on the results of data processing that has been collected. It showed there was no significant relationship between Remote Audit with the Company Client Size. It meant the implementation of remote audits required technology which meant that the implementation of remote audits did not affect the size of the client company because the information technology used was not sophisticated and must be used by certain people, but technology that can be mastered by the general public, for example, such as the zoom application, google drive, WhatsApp and others. On the other hand, company size is not related to remote audit implementation. This meant that the implementation of remote audits will still be carried out if it is needed, such as during the current COVID-19 pandemic, both for clients who had large company sizes and clients who had small company sizes. This result is similar to Arens et al (2015:441) who found that most large entities, including small companies, relied on information technology to record and process business transactions. Due to the extraordinary advances in information technology, even relatively small companies used personal computers with commercial accounting software to carry out their accounting functions. Changes in internal control brought about by the integration of information technology into accounting systems such as computer controls replacing manual controls and the availability of higher quality information.

Regarding the relationship between remote audits and audit fees based on the results of data processing that has been collected, it showed that Remote audits did not have a significant effect on audit fees. It meant to use of technology information in remote audit activities did not affect either an increase or decrease of audit fees in all situations. The technology used in the implementation of remote audits was common so that the auditor did not require special audit fees for the use of information technology in each stage of the audit activity. This was in line with previous research, namely the research conducted by Chen et al (2014). The research showed that the use of information technology in audit activities did not affect to increase in audit fees.

Regarding the relationship between the client company size and the audit fees based on the results of data processing collected, it showed that client company size did not have a significant effect on audit fees. The higher the value of the company size, the greater the audit fees would be. Based on the decree of the chairman of the Indonesian Institute of Certified Public Accountants PP No.2/IAPI/III/2016 concerning guidelines for determining audit fees, one of the considerations in determining audit fees is the level of complexity of the work. The total assets of a company showed the complexity of a company. Auditors who carried out audit work in large companies required more time and a larger number of audit teams compared to auditing small companies because large companies had more complex transactions. So the larger the size of the company, the higher the audit fee that would be charged to the company. This result is similar to Kusharyanti (2013) and Chandra (2015).

The value of the correlation coefficient between Remote Audit and Client Company Size simultaneously with audit fees. The remote audit required the use of information and communication technology (ICT) in its audit activities. The bigger a company was, the more likely the company was ready in terms of human resource capabilities and infrastructure to carry out the audit process remotely. However, the smaller a company was, the more likely the company did not yet have the readiness in terms of human resource capabilities and also the infrastructure to carry out the audit process remotely because small companies often lacked competent information technology personnel, or they relied on consultants. information technology consultants who are engaged periodically to assist in the installation and maintenance of hardware and software. This result was similar to Arens et Al (2015:441). The use of information technology in the remote audit process made the auditor work remotely without having to visit the client's location. So it can reduce travel costs and save time. The high quality of information technology controls is associated with lower audit fees. However, remote auditing activities can also enhance integrated auditing efforts since the pandemic, such as managing and training virtual teams and meeting with clients. The increase in audit effort caused by remote audit activity can affect an increase in audit fees. Then, auditors who conducted audits in large companies would spend more time and resources reviewing client operations because large companies are involved in a large number of transactions which of course took hours for auditors to examine. If the total assets were high, it would make the audit process carried out by the auditor more complicated, and then the determination of the audit fee will be even higher.

## CONCLUSION

From the research that has been done, it can be interpreted that the implementation of remote audits did not affect audit costs. On the other hand, client company size affected the audit fees. This research is expected to be useful for a public accounting firm as a reference for determining audit fees according to the standards set by IAPI so that there are no large differences between public accounting firms and can be a source of reading for other researchers who wanted to study or learn about audit fees. However, this study has some limitations, the next study is expected to use more variables than the variables that have been used in this study. Therefore, the next research plan should be able to add other variables that are considered influential and provide a broader picture of the audit fee, which can increase the number of samples from the public accounting firm.

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