EEAJ 1 (1) (2023) 100-108

Economic Education Analysis Journal

SINTA 3 Accredited

https://journal.unnes.ac.id/sju/index.php/eeaj

Sustainability Report and Audit Fee: Evidence from Manufacturing Companies

Dhini Suryandari✉, Saripah

DOI: 10.15294/eeaj.v1i1.77223

Accounting Department, Faculty of Economics and Business, Universitas Negeri Semarang, Semarang, Indonesia

Article History

Received: 28 May 2023
Approved: 04 November 2023
Published: 30 December 2023

Keywords

Audit Commite; Audit Fee; Company Complexity; Profitability; Suistainability Report

Abstract

Financial reports are used as a basis for decision making and need to disclose information on the entity's social responsibility for the environment presented in the sustainability report. Companies are required to disclose a sustainability report to protect the environment, social and natural resources. The financial statements are presented in a valid and relevant manner so they must be audited by an independent party. The audit process raises audit fees where the more a company discloses a sustainability report, the more it will have an impact on the audit process which will affect the audit fee. In this case the auditor and the company must consider the factors that can affect the audit fee. The purpose of this study is to find empirical evidence regarding the influence of audit committees, firm complexity and profitability on audit fees moderated by firm size. The population of this study are manufacturing companies listed on the Indonesia Stock Exchange for the 2019-2021 period. While the sample is 45 with 135 units of research analysis. The sampling technique is purposive sampling. The analytical method used to test the hypothesis is moderation regression analysis with SPSS Statistics 26. The results of this study prove that audit committees have a significant negative effect on audit fees, company complexity and profitability have no effect on audit fees, company size can weaken the influence of audit committees on audits fees, but cannot moderate the effect of company complexity and profitability on audit fees.

How to Cite

Suryandari, D., & Saripah, S.(2023). Sustainability Report and Audit Fee: Evidence from Manufacturing Companies. *Economic Education Analysis Journal*, 1 (1), 100-108.

✉ Correspondance Address:
Unnes, Sekaran, Kec. Gn. Pati, Kota Semarang, Jawa Tengah 50229
Email: dhini.surya@mail.unnes.ac.id

p-ISSN 2252-6544
e-ISSN 2502-356X

INTRODUCTION

In the world, currently has been intensively discussing issues regarding global warming. Utilization of resources and the environment that is used continuously to gain profit is the cause of global warming, as well as environmental pollution by companies from their operational activities which will cause social conflict. To overcome this, an understanding of sustainable development is needed. In Indonesia, sustainable development is now becoming known. Sustainable development is development that meets the needs of the present world without ignoring the ability of future generations to meet their needs (Adhipradana, 2013). The goal of sustainable development is to balance two interests at once, namely economic development and environmental preservation (Yudaruddin & Pratiwi, 2019). Now companies are being demanded by various parties from stakeholders, not only investors and creditors, but also employees, suppliers, consumers, the community, and the government for more transparency and accountability in activities related to company sustainability. Current company management activities are not only based on economic aspects but also consider social aspects. Since the development of issues regarding corporate social responsibility (CSR) and corporate sustainability, the main focus has been on its role in the environment. In Indonesia, it is mandatory to disclose the social responsibility of every company, this policy is supported by the government as stated in the Limited Liability Company Law Number 40 of 2007 Article 74 regarding the Financial Services Authority (OJK). This condition compels companies to disclose sustainability reports. The implementation of CSR is expected to be useful for protecting the environment, social and natural resources, where indirectly the company has invested in the future. Reviewing the role of financial reports, companies are required to present relevant and valid information. The more a company discloses a sustainability report, the more they will have an impact on the audit process which will affect the amount of the audit fee (Griffin et al., 2008) . This is because companies with disclosure of sustainability reports will increase the scope of the audit and the auditor takes quite a long time to complete the audit process. The purpose of the audit is to achieve company goals. One of the company's goals is to produce quality financial reports so that they can be trusted by external parties, especially for shareholders who want to invest in the company.

Quality financial reports must be audited by an independent party, namely an independent auditor. In the process of completing an examination or audit of financial statements, the company incurs an audit service fee which is called an audit fee. Audit fees are fees for services issued by the auditee to pay for audit services on their financial statements. Therefore, the auditee (client company) as well as the auditor needs to consider what factors have an influence on the audit fee. Several previous studies have conducted studies on the factors that have an influence on audit fees using different methods, samples and variables. This study will discuss the factors that influence the audit fee by using variables and measurements that are different from previous research.

METHODS

This research uses a deductive-quantitative type of research using a purposive sampling technique which takes research samples from manufacturing sector companies listed on the Indonesia Stock Exchange (IDX) during the 2019-2021 time period. The companies taken as samples are companies that have joined the list of manufacturing sector companies for three consecutive years and reported financial reports for the period January 1 2019 to December 31 2021.

Audit fee is the dependent variable in this study, the independent variable is the audit committee, company complexity and profitability, while the moderating variable is company size. The operational definition of each variable is presented in table 2.

This study used data collection techniques with a documentation study based on the sample company's financial statements. The data analysis method applied is descriptive statistical analysis and inferential statistical analysis with the help of statistical software IBM SPSS version 26. Hypothesis testing uses inferential analysis and moderation regression analysis to test the moderating variable after the data meets the classic assumption test criteria.

Table 1. Sampling Criteria

No.	Information	Amount
1.	Manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period	193
2.	Manufacturing companies that do not publish annual reports continuously from 2019-2021	(66)
3.	Manufacturing companies that do not include *audit fee information* in their annual reports	(41)
4.	Manufacturing companies that experienced losses during the 2019-2021 period	(41)
Number of sample companies (a)		45
Observation year (b)		3
Number of analysis units (a*b)		135

Source: Processed data, 2023

Table 2. Definitions and Indicators of Research Variables

No	Variable	Definition	Indicator
Dependent Variable			
1	Audit Fees	Audit fees or audit fees are fees for services received by external auditors from companies that become their clients for providing audit services.	Audit Fee = Ln (Audit Fee) (Ananda & Triyanto, 2019)
Independent Variable			
1	Audit Committee	The audit committee is a committee whose formation is carried out by the board of commissioners in carrying out oversight of the performance of public accountants and carrying out internal controls to reduce the risk of financial statement misstatements.	Audit Committee = ∑ Audit Committee (Princess Puspita Ayu & Tika Septiani, 2018)
2	Company Complexity	The complexity of the company is the complexity of transactions based on the large number of subsidiaries which indicates that the company has more operating elements so that every transaction and the records that follow must be examined.	Company Complexity = ∑ Subsidiaries (Cristansy & Ardiati, 2018).

No	Variable	Definition	Indicator
3	Profitability	Profitability is a ratio to measure a company's ability to make a profit while running its business in a certain period	$\frac{Earning\ after\ taxes}{Total\ Equity}$ (Putri, SA, Abbas, DS, & Zulaecha, HE, 2022)
Moderating Variable			
1	Company Size	Company size describes the size of a company which can be seen from the total assets owned by the company	Company Size = Ln Total Assets (Wijayaningsih, 2021)

Source: Processed data, 2023

RESULTS AND DISCUSSION

This study uses descriptive statistical analysis to see the minimum, maximum, mean, and standard deviation of the research variables. The following are the results of the descriptive analysis presented in Table 3.

The classical assumption test is requirement of parametric inferential statistical analysis in testing the research hypothesis. The normality test was carried out using the Normal Probability Plot, Histogram Graph and the one sample Kolmogorov-Smirnov test. The results of the normal Probability Plot test show the scattering of the sample data around the diagonal line and following the direction of the diagonal line, so that it can be concluded that the residuals have been normally distributed. The normality test with a histogram graph shows that the data is not skewed to the left or right, which means that the data is symmetrical so that this condition explains that the data has followed a normal distribution pattern. Meanwhile, the Kolmogorov-Smirnov one-sample test showed that the data met the normal distribution requirements due to the significance expressed by the Asimp value . Sig. (2-tailed) is 0.056 while the tolerance value is 0.05 (5%) so that the significance level is greater than the tolerance value. Each variable has a tolerance value ≥ 0.10 and a VIF value ≤ 10 based on the multicollinearity test. So it can be concluded that the data used as research is free from multicollinearity problems. Heteroscedasticity testing with the White test shows that the value of R square (R2) is 0.570 and n = 135, so the calculated value of c 2 can be found with 135 x 0.570 = 76.95. The value of c 2 tables with df = 135 (n-1) and a significant level of 0.05 is 163.1161. Based on

Table 3. Results of Descriptive Statistical Analysis of Research Variables

Descriptive Statistics					
	N	Minimum	Maximum	Means	Std. Deviation
Audit Fees	135	18.45	23,64	20.5721	1.19275
Audit Committee	135	2	4	3.03	0.243
Company Complexity	135	0	60	8.67	11,569
Profitability	135	0.0040	1.4509	0.149307	0.2248618
Company Size	135	21.70	32,51	28.8145	1.97398
Valid N (listwise)	135				

Source: Processed data, 2023

the analysis, c 2 count is smaller than c 2 table (76.95 <163.1161), meaning that there is no heteroscedasticity problem in the regression model.

Then the autocorrelation test using the Langrange Multiplier (LM) test shows that the R Square value is 0.772 with 135 units of analysis. The Chi R Square calculated is: N x R Square (135 x 0.772 = 104.22). While the value of Chi Square table is: 3.182 (Df = 3, α = 0.05). Based on this analysis, it can be seen that the calculated Chi Square value < Chi Square table (104.22 < 3.182), meaning that the research data does not occur autocorrelation.

The moderation regression analysis test aims to test the moderating variable in weakening or strengthening the correlation between the independent variables and the dependent variable. The following are the results of the moderation regression test which are presented in Table 4.

Simultaneous significance test (f-test) was conducted to determine whether simultaneously (overall) the independent variables have or do not influence the dependent variable. The results of the F test show that the significant value expressed by the Sig. is 0.000 less than the tolerance value of 0.05 (5%). So it can be concluded that the independent variables of the audit committee, company complexity, and profitability simultaneously have a significant effect on audit fees.

The coefficient of determination test was carried out to measure the ability of the regression model to explain variations in the dependent variable. The results show that the adjusted R Square value is 0.562 or 56%. This means that variations in the audit fee variable can be explained as much as 56.2% by audit committee variables, company complexity, profitability and moderated independent variables (X1Z), (X2Z), and (X3Z). While the remaining 43.8% is explained by other variables outside this research model.

It can be seen from the moderation regression test that the variables that have a significant effect are the audit committee and also the audit committee which is weakened by company size, while the other variables have no significant effect. Then the direction of the influence of the moderating regression coefficient is shown in the Figure 1.

Table 4. Moderation Regression Test Results

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Betas		
1	(Constant)	18,478	.913		20,229	.000
	Audit Committee	-1,584	.597	-.322	-2,656	.009
	Company Complexity	.245	.162	2,379	1,511	.133
	Profitability	-9,184	8,572	-1,731	-1,071	.286
	X1*Z	.073	.018	.629	3,987	.000
	X2*Z	-.007	005	-2,038	-1,276	.204
	X3*Z	.354	.285	2017	1,241	.217

a. Dependent Variable: Audit Fee

Source: Processed data, 2023

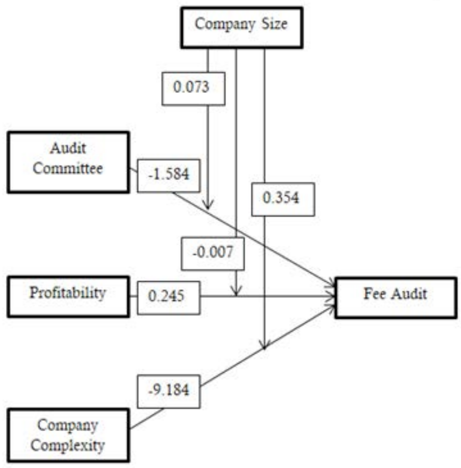

Figure 1. Research Result Model

Table 5. Summary of Hypothesis Results

Hypothesis	Information	B	Sig	Results
H1	The audit committee has a significant negative effect on the audit fee	-1.584	0.009	Accepted
H2	Company complexity has a significant positive effect on audit fees	0.245	0.133	Rejected
H3	Profitability has a positive effect on audit fees	-9,184	0.286	Rejected
H4	Firm size weakens the influence of the audit committee on audit fees	0.073	0.000	Accepted
H5	Firm size strengthens the effect of firm complexity on audit fees	-0.007	0.204	Rejected
H6	Firm size strengthens the effect of profitability on audit fees	0.354	0.217	Rejected

Source: Processed data, 2023

The results of this study indicate that the audit committee has a significant negative effect on the audit fee. This is not in line with agency theory which states that each individual will act in their own self-interest . The greater the number of audit committees, the lower the audit fee burden. (Naibaho et al., 2021) . Audit committees are an effective tool for conducting oversight mechanisms, so as to reduce agency costs and improve the quality of company disclosures (Foker, 1992 in Said et.al, 2009). Companies that have a larger number of audit committees will work optimally so that they can provide confidence to independent auditors that the error rate in reporting is small. Therefore, the scope and audit evidence required by the auditor is not much. In addition, companies that have an audit committee with a larger number will ease the auditor's performance in the audit process. An independent audit committee is able to suppress agency problems by providing internal control through strict supervision or optimal performance. This optimal audit committee performance can reduce the scope and audit evidence required by the auditor so that the auditor does not require a large amount of time and effort to carry out the audit process.

This condition can reduce the burden of audit fees issued by the company. In this case the company also has to conduct an external audit which is said to be a form of corporate governance that can minimize agency problems and minimize gaps (Eriandani & Dewi, 2022). This research is in line with Iftikha & Nazar (2021) which explains that the audit committee has a significant negative effect. This means that the more audit committees there are, the lower the audit fees due to the reduced auditor workload (Iftikha & Nazar, 2021).

The results of this study indicate that company complexity has no significant positive effect on audit fees. The test results on the second hypothesis are not in accordance with agency theory which states that each party will prioritize individual interests (self-interest). Companies that have larger subsidiaries will find it difficult to supervise management performance. Supervision that is not strict will reduce the quality of disclosure of the sustainability report. So that public trust in corporate environmental responsibility will decrease. This condition triggers the company to involve the auditor as an independent external party in providing supervision through the audit process, which will increase audit fees. The results of this study strengthen empirical evidence from Jessyln and Aloysia's research (2018) which shows that company complexity has no effect on company audit fees . This indicates that the complexity of the company cannot determine the amount of audit fees issued by the company (Cristansy & Ardiati, 2018).

These results indicate that profitability has a significant negative effect. The results of this study are inconsistent with agency theory which assumes that agents and principals act prioritizing their respective interests (self-interest). The higher the level of company profitability, the lower the agency level so that agency costs including audit fees will be lower (Fadhil Izzani & Khafid, 2022). Companies with high profitability tend to be more optimal in earning profits and more effective in carrying out their operational activities. In this case, it means that the company has implemented good internal control so that it can reduce audit fees. The higher level of profitability reflects the entity's ability to generate higher profits, so that the entity is able to increase its social responsibility, as well as disclose its social responsibility in a broader financial report. However, profitability as measured by the ratio between the amount of profit after tax and the amount of equity owned by the company or Return on Equity (ROE) is not the dominant factor that influences the determination of the amount of the audit fee. The existence of profitability as measured by ROE does not have enough effect on the level of profit generated. This was caused by other factors such as the efficient use of asset resources. The results of this study strengthen empirical evidence from Hadhratin's research (2022) which shows that profitability has no significant effect on audit fees. This indicates that the profitability variable cannot determine the amount of the audit fee issued by the company (Susanto, 2022).

The results of this study illustrate that firm size as a moderating variable can have an impact on weakening the influence of the audit committee on audit fees . This result is inconsistent with agency theory which states that each party, be it an agent or a principal, will act in accordance with personal interests (self-interest). The audit committee is considered capable of reducing conflicts of interest between agents and principals which results in reduced audit fees. However, large companies usually have a wider range of subsidiaries and businesses. This condition results in difficulties for principals in terms of providing oversight to agents, resulting in a higher risk of asymmetric information occurring. Low supervision results in a higher risk of misstatement which in turn results in an increase in the audit fee charged to the auditee. This condition will have an impact on the disclosure of corporate environmental responsibility where the company will reconsider in disclosing its environmental responsibility report because the company makes more use of existing costs to pay for audit services than to disclose a sustainability report. This can lead to reduced public trust regarding the company's environmental responsibility if the company does not disclose a sustainability report.

The results of this study indicate that company size as a moderating variable is not able to have an impact on the effect of company complexity on audit fees . The test results on the sixth hypothesis are not in accordance with agency theory which states that each party, both agents and principals, will act more prioritizing personal interests (self interest). Companies that are increasingly complex result in the low ability of shareholders to provide oversight of management performance and demand high quality audits with detailed and thorough audit procedures. In addition, a company with a large size certainly has extensive business activities and more and more transactions occur, which can lead to lower shareholder ability to carry out the oversight function. Low oversight by shareholders encourages greater occurrence of asymmetric information, resulting in an increase in audit fees that must be issued by the company. The increase in audit fees will have an impact on the disclosure of corporate environmental responsibility, where the company will again consider disclosing a sustainability report because the existing costs are insufficient.

The results of this study indicate that company size as a moderating variable is not able to influence profitability on audit fees . The results of testing the sixth hypothesis are not in accordance with agency theory which states that each party, both agents and principals, will act prioritizing personal interests (self interest). Profitability is considered capable of minimizing conflicts of interest between agents and principals which results in reduced audit fees.

The low audit fee will have an impact on the disclosure of corporate environmental social responsibility because the company has sufficient funds to disclose a sustainability report. Therefore, companies tend to increase the disclosure of environmental social responsibility so that people will have more trust in the company. However, large companies usually have subsidiaries and broader businesses. This causes difficulties for principals in supervising agents, resulting in a higher risk of asymmetric information occurring. Low supervision creates a higher risk of misstatement so that the audit service burden increases (Kikhia, 2014) . Therefore, the company will reconsider disclosing its environmental responsibility report because the company uses the existing costs to pay for audit services rather than to disclose a sustainability report. This can lead to reduced public trust regarding the company's environmental responsibility if the company does not disclose a sustainability report.

CONCLUSION

Based on the results of the tests that have been carried out and the discussion that has been described, the following conclusions can be drawn: (1) The audit committee has a significant negative effect on the audit fee. These results indicate that the larger the size of the audit committee as measured by the number of audit committees in the company, the smaller the audit fee issued by the company. So that companies have many opportunities to express their environmental social responsibility because of sufficient costs. This condition can increase public trust due to increased disclosure of environmental social responsibility by companies, (2) The complexity of the company has no effect on the audit fee. The results of this test conclude that whether the company is complex or not has no effect on determining the amount of the audit fee, (3) Profitability has no effect on audit fees. The results of the tests that have been carried out show that the level of profitability does not affect the size of the audit fee, (4) Firm size can weaken the influence of the audit committee on audit fees. The results of this test indicate that the presence of the company size variable can strengthen the influence of the audit committee on audit fees, (5) Company size cannot moderate the effect of company complexity on audit fees. The test results show that the size of the company does not have an impact on the effect of company complexity on audit fees, (6) Firm size cannot moderate the effect of profitability on audit fees. The test results show that the size of the company does not have an impact on the effect of profitability on audit fees.

REFERENCES

Cristansy, J. & A., & Ardiati, Y. (2018). Pengaruh Kompleksitas Perusahaan, Ukuran Perusahaan, dan Ukuran KAP terhadap Fee Audit pada Perusahaan Manufaktur yang Terdaftar di BEI tahun 2012-2016. *MODUS*, 30(2), 198–211.

Eriandani, R., & Dewi, S. R. (2022). Karakteristik Komite Audit Dan Kualitas Audit. *Akurasi : Jurnal Studi Akuntansi dan Keuangan,* 5(1), 1–14. https://doi.org/10.29303/akurasi.v5i1.125

Fadhil Izzani, A., & Khafid, M. (2022). Pengaruh Dewan Komisaris, Ukuran Perusahaan, Profitabilitas Perusahaan, dan Risiko Perusahaan Terhadap Audit fee. *Business and Economic Analysis Journal,* 2(1), 1–13.

Griffin, P. A., Lont, D. H., & Sun, Y. (2008). Corporate Governance and Audit Fees: Evidence of Countervailing Relations. *Journal of Contemporary Accounting & Economics,* 4(1), 18–49. https://doi.org/10.1016/s1815-5669(10)70028-x

Iftikha, M. N., & Nazar, M. R. (2021). Pengaruh Independensi Dewan Komisaris, Rapat Komite Audit Dan Profitabilitas Perusahaan Terhadap Fee Audit (Studi Kasus Pada Perusahaan Sektor Pertanian yang Terdaftar Di Bursa Efek Indonesia Periode Tahun 2016-2019). *e-Proceeding of Managemen*, 8(6), 8261–8269.

Kikhia, H. Y. (2014). Board Characteristics, Audit Committee Characteristics, and Audit Fees: Evidence from Jordan. *International Business Research*, 7(12), 98–110. https://doi.org/10.5539/ibr.v7n12p98

Naibaho, D. P., Melisa, Fransiska, L., & Sinaga, A. N. (2021). Pengaruh Ukuran Perusahaan, Ukuran Kap, Komite Audit, Resiko Perusahaan, Dan Profitabilitas Terhadap Audit Fee. *Journal of Costing,* 5(1), 343–350.

Susanto, H. A. (2022). Faktor-Faktor yang Mempengaruhi Audit Fee pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia (BEI) Tahun 2018 dan 2019. Skripsi Universitas Muhammadiyah Sumatera Utara.

Yudaruddin, Y. A., & Pratiwi, K. C. (2019). Pengaruh Komite Audit, Dewan Direksi dan Profitabilitas terhadap Publikasi Suistainability Report. 1–23.