

Audit Fee and "The Big-Four": A Comparative Study at Initial Public Offerings (IPO) Companies in Indonesia Stock Exchange (IDX)

T. Husain¹
Alina Syniuta²

¹Persada Indonesia Y.A.I University, Jakarta, Indonesia

²National Aviation University, Kyiv, Ukraine

Abstract. The purpose of this study was to explain the significance of the difference in audit quality for those who conducted the initial public offerings (IPO) in 2019. Audit quality uses two measurement proxies, namely LNFE and The Big-Four category. The final sample of the study involved 26 companies obtained through the purposive sampling method. Methods of data analysis using statistical tests with the Independent Sample T-Test technique. The results show that there is no significant difference based on the audit fee and the "The Big-Four" category.

Key words: Audit Quality, IPO, LNFE, The Big-Four.

Introduction

Audit quality following Statements on Auditing Standards (SAS). Academic and practitioners view the financial audit product as an audit opinion, the name of the public accounting firm (hereafter "PAF"), and the amount of the audit fee is fundamental. Determination of audit fee service that is too cheap is a problem in itself that interferes with the integrity, quality, and independence of a healthy and conducive auditor profession (IAPI, 2016). The released report from the Canadian Public Accountability Board (CPAB) in 2015 produce with findings of 24 out of 93 files sampled compared to 2014, 7 out of 98 examined in report companies audited by The Big-Four indicated a decline in audit quality (IMAGAMA, 2016). On the other hand, this internal problem is still an obstacle that must provide clarity immediately so that auditors or PAF that have a good reputation, Indonesian auditor's must encounter competition with foreign auditors, especially in ASEAN Economic Community (MEA). The importance of communication with clients, especially in scheduling the audit process and gathering evidence so that auditors can choose and find alternatives to speed up decision making (Ridwan and Husain, 2017: 1-15). Furthermore, the quality of audit services is essential in responding to issues that arise over the inaccuracy of audit findings, by the way, rotating PAF in the hope of an increase in the accountability of the audited entity (Khorunzhak et al., 2020; Bedard et al., 2010: 12-19; Chung and Lindsay, 1988).

The Global Financial Crisis (GFC) presents adding a shred of evidence that the client carried out the fee audit deduction during the crisis on the auditor or PAF. This is a concern for regulators that low audit fees will have an impact on less effort in carrying out audit procedures and programs and can interfere with audit quality (Chen et al., 2018: 14-31; DeFond et al., 2013; DeFond and Zhang, 2014: 275-326). The Sarbanes-Oxley Act of 2002 accelerated the mandatory rotation of audit partners to 2014 through Directive 2014/56 / EU, and Regulation (EU) No. 537/2014 imposes mandatory processes at enterprise and partner levels. Almost 100 percent of KAP have complied with these regulations. The existence of KAP in Indonesia five years ago since the enactment of the ASEAN Economic Community (AEC) 2015 requires auditors to be independent of client influence in conducting audits and reporting their audit findings (Ridwan, 2019: 1-13). Investors and stakeholders expect the timeliness of audit reporting, and this is necessary

to maintain audit quality in the context of mandatory audit functions to avoid future corporate scandals (Ukoma, 2020: 87-99), this will undoubtedly have an impact on audit quality.

The factor determining the pricing of audit fees and the assignment of a PAF that carries out this audit is of particular concern among all stakeholders, especially companies that are going to IPO in Indonesian Stock Exchange (IPO) at a certain period. Stakeholders will highlight the company because the company explicitly states to sell its equity to the public at a substantial percentage. The public accounting firm that is included in supporting the professional institution's service that the company will go to general needs to appoint a public accountant registered with the Financial Services Authority to audit the company's financial statements. (Indonesia Stock Exchange, 2016).

Table 1. The Circumstance of IPO Companies by PAF "The Big Four" Categories

	Amount of <i>Big-4</i> Categories	Amount of <i>Non-Big-4</i> Categories	<i>The Big-Four</i> (%)
Companies	6	49	10.91
Source: IDX (2020)			

Table 1 demonstrates using Indonesia Stock Exchange (IDX) data regarding new listing activities in 2019, 55 companies conducted IPOs. Still, PAF audited only six companies in the category of "The Big Four" or only 10.91 percent. The company establishes a PAF that audits it can be understood very much considering many factors and components, so it is fascinating to conduct empirical studies. Many researchers are emphasizing the impact of failures from the audit quality since and before the Enron and World.com scandal of 2001 and "Arthur Andersen's" PAF with various approaches unable to define or detect audit quality (Husain, 2020: 1-7).

Environmental factors of internal and external structures are no less important. A scientific approach to understanding problems needs to be taken by companies in solving significant problems, such as with commercial success that is obtained in a way that is guided by ethical CSR standards and respect for people, society, and the environment (Syniuta, 2018: 1-11). The representation of this concept, especially audit quality services, and financial reporting quality, produces a model scheme for the internal quality control system for audit activities (Razborska and Pudkaliuk, 2018; Sarhan et al., 2019: 85-107; Svanström, 2013: 337-366). In the context of the internal and external environment of the auditee, the PCAOB views the importance of disclosing the name of the engagement partner on the AP Form to the audit quality engagement in detect weaknesses of materiality level in internal control (Dao et al., 2019). As an Example, EY Indonesia, which entered into an audit engagement with PT AirAsia Indonesia Tbk. Explicitly disclosed the amount of the audit fee, the payment schedule, and invoicing at the 14th pointer in detail the Audit Statutory (Ernst and Young Indonesia, 2018). Another example is PT Bliss Properti Indonesia Tbk. (POSA, ticker code), who conducted an IPO on May 10, 2019, explicitly states that the amount of the audit fee on the 28th page of the Annual Report is IDR 460 million in appointment a PAF i.e., non-Big-Four categories (PT Bliss Properti Indonesia Tbk, 2019).

Audit quality and earnings management on Taiwan IPO companies using 367 new issues period of 1999-2002, with the findings show that "The Big Five" auditors can reduce earnings management do it companies in the IPO year in Taiwan (Chen et al., 2005: 86-104). Differentiation of Audit Quality and IPO Underpricing on PAF non-Big Five, for answers the question whether lower IPO Underpricing and higher auditor

compensation indicate determinants of audit quality, with the findings, show that PAF non-Big Five differentiated quality compared to firm non-national due to higher audit fees in terms of experience (Albring, 2007; Qi et al., 2015: 71-88; Rajgopal et al., 2018: 1-64). Big-4 Fee Premium and Audit Quality on the UK listed companies between 2005 and 2011 on a fee premium in the context of better audit services, with the findings showing that to improve the competitiveness of the audit market, supervision by regulators, especially for Big-4 categories (Campa, 2013).

The findings above are essential for the further and specific study of the audit fee components and the Big-Four category in measuring audit quality, considering that only about 10 percent of the IPO companies in 2019 audited by Big-Four KAP. These two pieces will examine to identify which there are or no differences in audit quality measurements or not. To find a solution to the comparison of whether or not there are different components in measuring an audit quality, a model requires limits the study or scope of this research. The model can interpret a parameter formulated in the form of structure, layout, content, number, and meaning with boundaries limited by specific measurements (Husain, 2019: 1-9). The research model is formulated as follows:

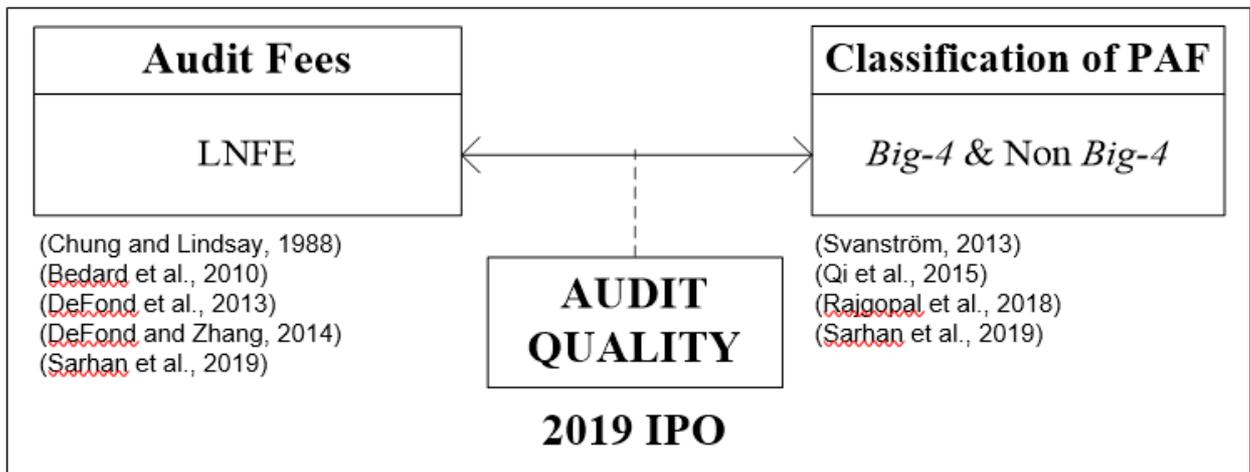


Fig. 1. Research Model. Source: (Christensen et al., 2016: 1648-1684; Husain, 2019)

Statement of hypothesis:

H0: There is no difference significantly between the measurement of audit quality between audit fees with *The Big-Four*.

Ha: There is difference significantly between the measurement of audit quality between audit fees with *The Big-Four*.

Methodology

This type of research uses a quantitative approach with a comparative study. Comparative analysis intended to compare the contained in 2 (two) condition, whether the two situations are the same or there are differences if differences are found, the conditions in which place are better (Arikunto, 2016: 6). The population in this study were companies listed on the IDX that conducted IPO's during 2019. The sampling technique used the purposive sampling method that is the sampling technique with certain considerations with the requisition i.e. the company conducted an IPO in 2019 and has a 2018 annual report and so as a complete information on research variables.

Table 2. Number of Sample Based on Sampling Criteria

Sample Characteristic	Sample Size
1) The number of population is a company conducted IPO's in IDX period of 2019	55
2) The company does not publish its annual reports in 2018	(6)
3) The company does not include the audit fee in the annual report	(23)
Final Sample (Observation)	26

Analysis Method

The data analysis method used the t-test different test approach. The different t-test was determining whether two unrelated samples had different mean values compared to the standard error (Ghozali, 2017: 64). Firstly, this test requires the feasibility model through data normality and homogeneity tests. If one or both of the characteristics of the above tests are not normally distributed or come from the same variance, an alternative non-parametric statistical test with Mann-Whitney Tests can be used (Uyanto, 2009: 321). To interpret the t-test, first, determine the α value and degree of freedom (df) and compare the t-stat with the t-table score. The probability of significance specified is 0.05 with the criteria for acceptance of the hypothesis, is that if the t-stat is greater than the t-table (H_0 is accepted), or vice versa if the t-count value is smaller than the t-table (H_a is received).

Results

Descriptive Statistics

Based on Table 3, Audit Quality with LNFE proxy has a mean of 19.476806 units. Audit Quality with The Big-Four proxy has a standard of 0.08, meaning that the Big-4 PAF category audits only a small proportion of IPO companies.

Table 3. Descriptive Statistics Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
LNFE	26	17,2968	21,0511	19,499592	,9346988
The Big-Four	26	0	1	,08	,272
Valid N (listwise)	26				

Source: SPSS Ver22.00 (2020)

Homogeneity Test

Based on Table 4, the Audit Quality with LNFE proxy in the PAF category between the Big-Four and non-Big-Four is 0.269, meaning that the audit quality in both reps has the same variance.

Table 4. Test of Homogeneity of Variances LNFE

Levene Statistic	df1	df2	Sig.
1,279	1	24	,269

Source: SPSS Ver22.00 (2020)

Hypothesis Test

Hypothesis testing using the *Independent-Samples T Test* technique by looking at the similarities or differences in audit quality with the average value of LNFE and *The Big-Four* category.

Table 5. Test of *Independent-Samples T*

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Audit Fee	Equal variances assumed	1,279	,269	2,056	24	,051	1,3308333	,6474218	-,0053796	2,6670462
	Equal variances not assumed			3,587	1,731	,086	1,3308333	,3710051	-,5280005	3,1896671

Source: SPSS Ver22.00 (2020)

Based on Table 5 above, the Audit Quality with LNFE proxy in the PAF category produces an F-stat value of 1.279 with a significant probability of 0.269 more than 0.05 (H₀ is accepted). Because the significance of F-stat has an equal variance assumed decision, the t-test also uses the equal variance thought. The t-value obtained is 2.056, with a significance probability greater than 0.05, so that it rejects H_a. This hypothesis statistically proves that there is no significant difference between audit quality using LNFE and "The Big-Four" category. In general, the measurement of these two proxies of audit quality can be assessed based on the audit fee and categorization of "The Big-Four".

Conclusion

The conclusion from the comparative study of audit quality measurement in companies that made initial public offerings (IPO) in 2019 is that there is no significant difference based on the audit fee and the "The Big-Four" category. The measurement of audit quality can be extended to other proxies such as discretionary accruals, tenure and auditor switching, number of subsidiaries, restatements, going concern opinions, and others so that the findings can further enrich the future research results.

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