

**THE ANALYSIS OF COMPANY COMPLEXITY,  
PROFITABILITY, AND AUDIT COMMITTEE GENDER  
DIVERSITY AND FINANCIAL EXPERTISE ON AUDIT FEES**



Undergraduate Thesis by:

**LUTHFITA ALFAINI**

**01031281924097**

**ACCOUNTING**

*Submitted as one of the requirements to obtain Bachelor of Economics degree*

**MINISTRY OF EDUCATION, CULTURE, RESEARCH AND TECHNOLOGY**

**FACULTY OF ECONOMICS**

**SRIWIJAYA UNIVERSITY**

**2023**

**LETTER OF COMPREHENSIVE EXAM APPROVAL**  
**THE ANALYSIS OF COMPANY COMPLEXITY, PROFITABILITY, AND AUDIT**  
**COMMITTEE GENDER DIVERSITY AND FINANCIAL EXPERTISE**  
**ON AUDIT FEES**

Submitted by:

Name : Luthita Alfaini  
NIM : 01031281924097  
Faculty : Economics  
Department : Accounting  
Concentration : Auditing

Approved to be used for comprehensive examination.

Approval Date  
Date  
: 23 May 2023

Supervisor  
Chair



Asfeni Nurullah, S.E., M.Acc., Ak

NIP. 198807122014042001

**LETTER OF THESIS APPROVAL**

**THE ANALYSIS OF COMPANY COMPLEXITY, PROFITABILITY,  
AND AUDIT COMMITTEE GENDER DIVERSITY  
AND FINANCIAL EXPERTISE  
ON AUDIT FEES**

**Submitted by:**

**Name** : Luthfita Alfaini  
**NIM** : 01031281924097  
**Major** : Accounting  
**Concentration** : Auditing

Has been evaluated in the Comprehensive Examination on July 12<sup>th</sup> 2023 and has conditions to be accepted.

Comprehensive Examination Committees  
Palembang, July 12<sup>th</sup> 2023

Chair,



Asfeni Nurullah, S.E., M.Acc., Ak  
NIP. 198807122014042001

Member



H. Aspahani, S.E., M.M., Ak  
NIP. 196607041992031004

Acknowledged by,

Ketua Jurusan Akuntansi

**ASLI**

JURUSAN AKUTANSI  
FAKULTAS EKONOMI UNSRI

20/2023  
10/2023

Arista Hakiki, S.E., M.Acc., Ak., CA

NIP. 197303171997031002

**STATEMENT OF RESEARCH INTEGRITY**

Herein signed by:

Name : Luthfita Alfaini  
NIM : 01031281924097  
Faculty : Economics  
Major : Accounting  
Concentration : Auditing

States the fact that my thesis with the title:

**THE ANALYSIS OF COMPANY COMPLEXITY, PROFITABILITY, AND  
AUDIT COMMITTEE GENDER DIVERSITY AND FINANCIAL  
EXPERTISE ON AUDIT FEES**

Supervisor : Asfeni Nurullah, S.E., M.Acc., Ak

Date of Comprehensive Exam : **July 12<sup>th</sup> 2023**

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Palembang, July 12<sup>th</sup> 2023

Who made the statement,

  
Luthfita Alfaini

NIM. 01031281924097

## MOTTO

“As I grow older, much older, I will experience many things, and I will hit rock bottom again and again. Again and again, I will suffer, again and again I will get back on my feet. I will not be defeated. I won’t let my spirit be destroyed.”

“May all your trials end in full bloom.”

“We will find a way. We always have.”

“True revenge is to be strong. To survive. To protect.”

## PREFACE

All praise and gratitude I say to Allah SWT for the abundance of blessings, mercy, and guidance that have been given, so that the writer can finally complete the thesis with the title "The Analysis of Company Complexity, Profitability, and Audit Committee Gender Diversity and Financial Expertise on Audit Fees". This thesis was prepared with the aim of fulfilling one of the requirements for obtaining a Bachelor of Economics degree at the Faculty of Economics, Sriwijaya University.

This thesis discusses the impact of variables such as company complexity, profitability, gender diversity, and financial expertise in the audit committee on audit fees for companies in the financial sector listed on IDX.

Finally, the writer realizes that in preparing and writing this thesis, it is still far from perfection. The writer hopes this thesis will be useful for various parties who come across this research.

Palembang, July 11<sup>th</sup>, 2023



Luthfita Alfaini

## ACKNOWLEDGEMENTS

In the process of preparing this research, the writer realized that this thesis could not be accomplished without the prayers, support, motivation, and guidance from various parties. There goes. The writer would like to express her sincere appreciation and gratitude to:

1. Mr. Prof. Dr. Ir. H. Anis Saggaff, MSCE as Rector of Sriwijaya University.
2. Mr. Prof. Dr. Mohamad Adam, SE, M.E as Dean of Faculty of Economics Sriwijaya University.
3. Mr. Arista Hakiki, S.E., M.Acc., Ak as Head of Accounting Department Faculty of Economics Sriwijaya University.
4. Mr. Muhammad Farhan, S.E., M.Si as Academic Advisor who has guided me from the start of the first semester till the last semester of college.
5. Mrs. Asfeni Nurullah, S.E., M.Acc., Ak as Thesis Supervisor who has given her time, energy, motivation, advices, and eye-opening insights and knowledges in preparing and completing this thesis.
6. All the lecturers of the Faculty of Economics, Sriwijaya University, who have shared their knowledge and experiences.
7. All the thesis' examiners who have provided such constructive criticism, feedback, and suggestions that have helped make this thesis improved for the better.
8. All the Administrative Staff at the Faculty of Economics, Sriwijaya University for all the assistance that has been given to the author during the lecture.
9. My beloved parents, Papa Ibu, my lights. Ahmad Salabi and Yudie Ariswati who are always there to give strength, support and be such brightest light in my darkest time.

10. My siblings, Muhammad Rizaldy and Rannisa Arsyadilla. Wishing a flower path for both of you always.
11. My dear friends. Destri Rimadhania, Nabilla Hasna, Rizka Nabila, Khoirun Nisa, Athiya Nur Ramadhani, Chofifah Muslihah, Mega Aulia, Dila Agustin, Nami, Lili, Aurel, Cindy, Arum and many more friends whom I'm always thankful for. Hoping the world always treats you kinder. Let's be happy.
12. BTS and The Rose, for your magical existence. You inspire me to love better, to be kinder, to grow. Thank you for your hard work, for your dedication to each other, and for sharing your music and talent with the world.
13. Class of 2023, the coolest colleagues. Pandemic happened but let's not stop dreaming and achieving. Go conquer the world, I guess. Way to go, guys!
14. Thank you for always pushing through even during the hardest times, Me!

Palembang, July 11<sup>th</sup>, 2023



Luthfita Alfaini

NIM. 01031281924097



## STATEMENT OF ABSTARCT

I as thesis supervisor states that the abstract from the student:

Name : Luthfita Alfaini  
NIM : 01031281924097  
Faculty : Economics  
Major : Accounting  
Concentration : Auditing  
Title : The Analysis of Company Complexity, Profitability, and Audit Committee  
Gender Diversity and Financial Expertise on Audit Fees

I have checked the spelling, grammar, and tenses. I approve for the abstract to be attached on the abstract page.

Palembang, July 12<sup>th</sup> 2023

Supervisor,



Asfeni Nurullah, S.E., M.Acc., Ak

NIP. 198807122014042001

Acknowledged by,

Head of Accounting Department



Arista Hakiki, S.E., M.Acc., Ak., CA

NIP. 197303171997031002

## ABSTRACT

The Analysis of Company Complexity, Profitability, and Audit Committee Gender Diversity and Financial Expertise on Audit Fees

By:

Luthfita Alfaini

The study aims to investigate the impact of company complexity, profitability, audit committee gender diversity and financial expertise on audit fees. The study was conducted using quantitative research method. The research objects are companies in the financial sector listed on the Indonesian Stock Exchange in 2019-2021. The sample used in this study was 120 samples, obtained based on the method of purposive sampling with an observation period of 3 years. The data is analyzed using SPSS 25 software. Data analysis techniques used in this study are statistical descriptive, classical assumption tests, multiple linear regression test, and hypothesis tests. The results show the company complexity and profitability are associated with audit fees. While, gender diversity and financial expertise in the audit committees do not affect the audit fees.

**Keywords:** Audit fee, complexity, profitability, gender diversity, financial expertise, audit committee, financial sector

Supervisor,



Asfeni Nurullah S.E., M.Acc., Ak

NIP. 198807122014042001

Acknowledged by,

Head of Accounting Department



Arista Hakiki, S.E., M.Acc., Ak., CA

NIP. 197303171997031002

## ABSTRAK

### The Analysis of Company Complexity, Profitability, and Audit Committee Gender Diversity and Financial Expertise on Audit Fees

Oleh:

Luthfita Alfaini

Penelitian ini bertujuan untuk menginvestigasi pengaruh kompleksitas perusahaan, profitabilitas, keberagaman gender dan keahlian keuangan dalam komite audit terhadap biaya audit. Penelitian ini dilakukan dengan menggunakan metode penelitian kuantitatif. Objek penelitian ini adalah perusahaan-perusahaan sektor keuangan yang terdaftar di Bursa Efek Indonesia tahun 2019-2021. Sampel yang digunakan dalam penelitian ini adalah 120 sampel, diperoleh berdasarkan metode purposive sampling dengan periode pengamatan selama 3 tahun. Data yang didapatkan diolah menggunakan software SPSS 25. Teknik analisis data yang dilakukan adalah deskriptif statistik, uji asumsi klasik, uji regresi linear berganda, dan uji hipotesis. Hasil pengujian menunjukkan kompleksitas perusahaan dan profitabilitas memiliki pengaruh terhadap biaya audit. Sedangkan keberagaman gender dan keahlian keuangan pada komite audit tidak berpengaruh terhadap biaya audit.

**Kata Kunci:** Biaya audit, kompleksitas perusahaan, profitabilitas, keberagaman gender, keahlian keuangan, komite audit, sektor keuangan

Ketua,



Asfeni Nurullah, S.E., M.Acc., Ak

NIP. 198807122014042001

Mengetahui

Ketua Jurusan Akuntansi



Arista Hakiki, S.E., M.Acc., Ak., CA

NIP. 197303171997031002

## CURRICULUM VITAE

Name : Luthfita Alfaini  
Gender : Female  
Birth of Place, Date : Palembang, August 3<sup>rd</sup> 2000  
Religion : Islam  
Marital Status : Single/Not Married  
Address : Jl. Kamboja No. 3919, Ilir Timur I, Kota Palembang  
Email Adress : luthfitaalf@gmail.com



### Formal Education

Elementary School : SD Negeri 40 Palembang  
Junior High School : SMP Negeri 2 Bandar Lampung  
Senior High School : MA Negeri 3 Palembang

### Experience

1. Staff of Fundraising Department Unsri Mengajar.
2. Participant of Kampus Mengajar Batch 2.
3. Awardee of One Semester Scholarship Program for ASEAN Students (OSSPAS).
4. Student Exchange to Kasetsart University, Aug-Dec 2022.

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# **CHAPTER I**

## **INTRODUCTION**

### **1.1 Background**

Financial statement is a document that details the financial performance of an organization. Company's financial statements are also indicators that can be used by stakeholders as their consideration in the decision-making process. Financial statements are a measure that shows whether the company has been successful in carrying out its operational activities. Information contained in financial statements can influence the decision-making process of shareholders/investors for the company (Revinsia et al., 2019). Given the importance of financial statements for the company, the aspects such as reliability and accuracy statements are needed to avoid information asymmetries that would be detrimental to the client and the company itself. As a way to prevent this, the company needs the services of an external auditor in order to provide the assurance through its opinion that the financial statements have been free of any materiality or misstatement.

Arens et al., (2012) revealed that most users of financial statements use the auditor's report as an indicator of the reliability of financial statements because audit results are assumed to be complete, accurate, and objective. Financial statements that have a greater level of quality the better the audit quality is (Defond and Zhang, 2014). The effectiveness of the external audit in raising the credibility of the financial statements relies on the quality of the audit services provided, and for the service provided by auditor, the company will have to be charged for a fee called audit fee.

The total amount of audit fees that a company pays to have its audits done shows how good the audits are (Hallak and Silva, 2012). Indonesian Institute of Certified Public Accountants (IAPI) published a Government Regulation No. 2 of 2016 on Determination of Fees for Financial Statement Audit Services. The law is helpful in guiding members in deciding how much

payment for audit services is appropriate and consistent with the honor of the public accounting profession and in an appropriate amount so that they can provide services in accordance with the requirements of a valid public accountant. It applies to all IAPI members who own or practice public accounting services. Determination of reasonable audit service fees to ensure that members do not set low audit fees for high-risk audit because fees for audit services that are too low can cause risks in the form of personal conflict of interests that have the potential of non-compliance with the code of ethics of the public accounting profession (IAPI, 2016). Even though IAPI released Government Regulation No. 2 of 2016 about Determination of Fees for Financial Statement Audit Services, the amount of activity of the audit fees determined is continuously fluctuating. This situation indicates that the determination of audit fees is actually carried out subjectively or based on the ability of the client and the auditor negotiation (Wea, 2019). There is a phenomenon where the audit fee paid does not match to the audit quality given by the auditor.

One of the cases of financial statement manipulation of the financial sector that quite captured the public's attention occurred in PT Bank Bukopin that manipulated material-value information on the financial report 2015-2017 by reducing the value of the net profit in 2016 by about Rp 896,44 billion of the actual value. In addition, the provision and commission revenues also changed to Rp 317,88 billion which previously amounted to Rp 1,06 trillion (Rachman, 2018).

Regarding the audit results of financial reports in 2016 and 2017, KAP Purwantono, Sungkoro, and Surja received audit fees of Rp2.000.000.000,00 and Rp1.960.000.000,00. The amount of this fee is not comparable to the quality of the audit given because it announces an incorrect opinion as a result of an insufficient evidence obtained. Reported from the Center for Construction of Financial Professions (2019) of SPAP violations carried out by public accountants is SA 200. For the violations, Purwanto, Sungkoro, and Surja imposed a \$1 million fine on U.S. regulators. (Malik, 2017).

There are no ideal guidelines in determining the audit fees, as the amount of fees provided is influenced by various factors. There are so many factors that influence how much a firm pays for audit fees, according to Yulio (2016), two factors, namely client characteristics and auditor characteristics, affect how much the audit fees will be (Yulio, 2016). In this case, this study investigates the client characteristics or the internal factors that potentially affecting the audit fees which can be determined in terms of company complexity, profitability, and audit committee's gender diversity and financial expertise. While for the auditor characteristic is determined by auditor firm size as control variable.

According to Fitriana (2018), The complexity of the firm's transactions equates with the complexity of the firm. The practice of transacting with other currencies, the quantity of the company's subsidiaries and branches, and international commercial activities all contribute to this complexity. The complexity and size of the organization determine how much time is spent on the audit process. As a result, the auditor has been given the power to set prices for the proposed audit service in accordance with the nature of the audit work to be performed (Muslim, et al., 2020).

Company profitability is used to assess management performance in utilizing the resources as effectively and efficiently as possible. High-profit companies will be less secretive about their financial results, disclosing their achieved profits. Disclosure of more information is used to persuade shareholders of the company's success, strengthening the company's position and worth. According to Huri & Syofyan (2019) companies that have a high rate of profit have the potential for manipulation or misunderstanding that affects the risk faced by auditors, so validity testing and recognition of income is necessary to prevent the occurrence of material misunderstandings. This causes auditors to take more time and effort that ends up in the high audit fees paid by the company to the auditor.

The independent variables in the form of company complexity and profitability provide inconsistent results. Research conducted by Cristansy and Ardiati (2017), Andriyani and Laksito (2017), and Tanujaya and Mandela

(2022) found that audit fees are not much impacted by company complexity. On the other hand, analysis carried out by Yulio (2016), Erik Tat and Murdiawati (2020) state that complexity of a company has a significant positive influence on fees of audit. Musah (2017), Andriyani and Laksito (2017) in their research stated that company profitability has a significant effect on audit fees, research carried out by Tanujaya and Mandela (2022) states that company profitability has a negative significant effect on audit fees. However, Naser & Hassan (2016), Sanusi and Purwanto (2017), Tat and Murdiawati (2020) found no significant effect of profitability on audit fees.

Existing literature considers characteristics of corporate boards and their committees as important determinants of audit fees (Hay et al., 2006; Adams et al., 2010; Habib et al., 2019; Carcello et al., 2002). The majority of decisions are taken at the committee level; thus, it is appropriate and beneficial to concentrate on how committees such the audit committee and the compensation committee are structured. Therefore, the aim of this research is to analyze and examine the relationship between the two characteristics of the audit committee such as gender diversity and financial expertise impacting on the audit fees.

Over the past ten years, the gender diversity of boards and board committees has emerged as one of the key factors influencing the committee's effectiveness (Adams et al., 2010; Gul et al., 2008; Loukil, 2014). However, it cannot be denied that in reality, there is still a lack of awareness of gender-diverse environments and there are still differences in the rights to use facilities between men and women. Meanwhile, every nation should strive to achieve a better life for its citizens through human development and a safe environment. This goal should be aimed at all human beings without discrimination based on gender to achieve equal rights and justice in getting a quality life. It is also included and in respect of the philosophy of the Republic of Indonesia stated in Paragraph 1 of Article 27 of the *Undang-Undang Dasar 1945*, “all citizens shall be equal under the law and in government and shall uphold the law and government without exception”. To eradicate the differences or inequality between men and women, during the

UN General Assembly in 2015, world leaders approved the 17 Global Goals (also known as Sustainable Development Goals) and one of which is gender equality that works for equal rights for all human beings.

Gender equality means how women and men both get four things, namely access, participation, control, and benefit. Arkaniyanti (2012) states that gender equality is a concept of women and men should have the liberty to develop their personal abilities and make decisions without being narrowed by a set of standards, stereotypes, prejudices, and conventional images. Indonesia is a country with a high gender gap. According to the 2022 Global Gender Gap Index (GGGI) report, Indonesia ranked 92<sup>nd</sup> out of 146 countries in terms of gender equality (World Economic Forum, 2022) means the level of gender equality in Indonesia is the fourth highest among the other ASEAN countries. Also, the Minister of Women's Empowerment and Child Protection states that gender equality in Indonesia is still very low, reflected in the Gender Development Index (GDI) 2021 report released by United Nations Development Programme (UNDP), Indonesia ranks 110th out of 191 countries or the third lowest in ASEAN.

In 2022, only 45 CEOs listed in Fortune 500 were women. This is the highest record of all previous years, 33 out of 500. According to statistics provided by the iPrice Group (2018), just 21% of women hold the position of president director, or the highest level in firm management, in the technology industry, or the e-commerce category particularly. According to the World Bank (2016), some industry sectors that are dominated by men are mining, manufacturing, and construction. Startup founders are also dominated by men with a percentage of 91% (Bekraf, 2018). Film, animation, and music industry are also dominated by men (Bekraf, 2018). Women workers only dominate in just three sectors: fashion, culinary, and craft (Bekraf, 2018). Whereas, in this era of Industry 4.0, there should not be any limitation in work opportunities between men and women.

The difference between women and men arises with the existence of a patriarchal culture that developed in indigenous Indonesian society. The values brought by patriarchal culture emphasize the dominance of men's roles

over women. A bias that viewed men as stronger, more powerful, more entitled to occupy important roles, and to provide the household while women are viewed as housewives that only relate to household activities. Those outlooks have constructed a cultural order that favors men over women. Patriarchal culture also often raises the cases of oppression of women in various fields of life. Women's oppression often hinders women's participation in economic, political, educational, health and other fields.

The problem of gender-biased human development has begun to receive serious attention, as indicated by increases in development indicators related to gender. Gender diversity in the workplace is one of many ways to achieve gender equality in work life for quality life and human development. Gender diversity means having students, staff, committee's member, employees from a range of backgrounds, including nationality, socioeconomic level, gender, race, and ethnicity. It is important to have diversity of thought, experience, knowledge, understanding, and perspective. That's why a comprehensive diversity in the audit committee is fundamental for the business going concern (Salleh et al, 2012).

Developed countries, especially European Union (EU) members, had once issued about improving the gender-balance among directors in the listed companies in 2012, their urgency to establish the law requiring gender quota in boardroom (Sellami and Cherif, 2020). After that issue, some EU members have now required their boards to be fulfilled with gender quotas. "France and Spain required 40 percent of female representation on the company's board" (Lai et al., 2017; Gull et al., 2018).

As for the condition in Indonesia, Indonesia is slowly making an improvement toward the perspective of gender equality at work employment, education, and politics. Built upon the results of a census of Women in Executive Leadership Teams (ELTs) in the IDX200 Company in December 2021 to March 2022, conducted by Indonesian Stock Exchange in collaboration with the Indonesia Business Coalition for Women Empowerment (IBCWE) and BOI Research, found that the number of women with executive positions in 200 listed companies with the largest



capitalization and transaction activities on the stock exchange or also known as IDX200, is still few. The Executive Director of IBCWE, stated that female employees with leadership roles in ELT are only 15 percent of the 200 listed companies. Meanwhile, during the same period, only four percent of companies had a female CEO in the IDX 200 company. This number is equivalent to only eight companies and the figure has not changed since 2019. “These eight companies are PT Vale Indonesia Tbk (INCO), PT Bank Ganesha Tbk (BGTG), PT XL Axiata Tbk (EXCL), PT MNC Studios International Tbk (MSIN), PT Prodia Widyahusada Tbk (PRDA), PT Unilever Indonesia Tbk (UNVR), PT Surya Biru Murni Acetylene Tbk (SBMA), and PT Hasnur International Shipping Tbk (HAIS)” (IBCWE, 2022).

Compared to other countries, the value of 11.6% is lower than Australia (13.8%), North America (16.1%), and Europe (17%). Minister of State-Owned Enterprises, Erick Thohir has also begun to promote female involvement in state-owned businesses, with a 15% board director representation rate (Fauzan, 2020).

According to a study by Peterson Institute (2016), organizations with greater female leadership in corporate management had a rise in yearly profits of 2.7% compared to those without, with data collected from 21,980 businesses in 91 countries. There are distinct characteristics between female and male directors’ ethical orientation in the work field. Female directors are more likely to uphold stronger moral standards and exercise greater levels of supervision. Therefore, their presence on corporate boards results in higher audit fees (Lai et al., 2017). Furthermore, the different ways in the decision-making process that would result in different output for the companies. Male is known as a risk-taker and very much career-oriented, while the female is very relationship-oriented and tends to avoid unnecessary risks (Betz et al., 1989). “Psychology literature also provides strong evidence that females are less overconfident than their male colleagues” (Barber and Odean, 2001). These factors underlie eye-opening insights related to how this study will be conducted. The efficacy of the board is significantly boosted by the presence

of female directors, which ultimately results in excellent audit quality and higher audit price (Zaman et al., 2011; Lai et al., 2017).

In the process of external audit, one of the most crucial measures for corporate governance is the arrangement of boards and their committees. Due to the audit committee's fundamental and significant function in the internal governance of the company and its relevance to the firm's financial reporting and auditing, the audit committee's makeup was the topic of the majority of existing research on accounting and finance (Rani, 2018). The audit committee is in charge of monitoring the financial reporting procedure as well as hiring and paying external auditors (Rani, 2018). Audit committees are also in charge of overseeing the risk-management procedure, making sure that the control systems are functional, and protecting the independence of the auditors.

Recently, psychology, sociology, and management scholars have reported gender differences with respect to thinking, solving problems, decision-making, communication, leadership, risk management and monitoring styles (Daily and Dalton, 2003). Given this diversity, the board's and its committees' efficacy is influenced by the participation of women, the assumption underlying this is that gender differences result in such diversity in cognitive functioning, social preferences, decision-making, and risk attitudes that may affect audit effort and intensity of monitoring. Studies have long sought to determine whether companies with gender-diverse boards outperform those without, but conflicting findings have been found about the performance impact of female directors. While some studies have shown no effect or a negative effect, others have concluded that gender diversity has a favorable impact on company performance.

This research will extend the investigation relating to the impact of gender diversity in the audit committee on audit fees, as well as the effect of the financial background of the audit committee on audit fees especially in Indonesian financial companies listed in the IDX. Audit fees reflect on the quality of audit because companies spend higher cost to obtain high quality audit (Abbott et al., 2003). According to the research of Wea, et al. (2019),

gender diversity on boards dramatically increases the audit fees. Gender diversity in the audit committee has been chosen as an independent variable as there are some inconclusive results in the previous studies regarding the impact of women's presence in the audit committee.

A study by Sellami and Cherif (2020) analyzes female representation on the audit committee and the association between female audit committee representation and audit fees. They employed a sample of 790 firm-year observations for years of 2013 to 2017. The study found the association between the number of women on the audit committee positively influenced the audit fees. The same favorable findings about the impact of women members on the audit committee board were found in research by Bhuiyan et al. (2020) that employed a sample of 5,047 firm-year observations for the years 2004 to 2010. However, an earlier study conducted by Miglani and Kamran (2018) showed female representation in audit committees is negatively related to the audit fees.

The researcher selected financial expertise as the second independent variable due to the ambiguous association between gender diversity, financial expertise, and audit fees. It is crucial to look at the traits and credentials of the financial professionals on the audit committee. Specifically, the relevance of the experience of financial experts, previous board director and audit committee experience, general managerial experience, and accounting and auditing expertise. A study by Miglani and Kamran (2018) found that women directors with financial expertise are significantly associated with higher audit fees, while Sellami and Cherif (2020) and Bhuiyan et al. (2020) showed there are no significant relations between the audit committee's financial expertise and audit fees. In addition, the study finds more benefits when a female director has professional experience and reputation. The favorable/positive impact on the audit committee members' expertise and experience in accounting, auditing, and finance is confirmed by Alzeban & Sawan (2015).

Previous studies shown above have such inconsistent outcomes on the association between company complexity, profitability, and audit committee gender diversity and financial expertise on audit fees, this indicates the need

for further research. This study differs from other studies in terms of the research variables, the study's subject, and the year it was conducted. This research aims to fill the gap in the existing literature by adding financial expertise as one of the independent variables that impact the fees of audit. This variable is measured by calculating the ratio of the number of audit committee members who have financial expertise to the total number of audit committee members. In the previous studies, Researchers maintained their attention on highly developed nations like Australia (Aldamen et al., 2018), France (Nekhili et al., 2020), USA (Ittonen et al., 2010; Lai et al., 2017), and Swedia (Sellami et al., 2018) and very little research that has been conducted in the developing countries.

This research focuses on financial services companies listing on the Indonesia Stock Exchange as the research object as Indonesia corporate environment offers clear institutional differences compared to the evidence from more advanced capital markets in developed countries. These institutional variations may have an impact on how managers and the board of directors run their businesses, which could ultimately have an impact on the effectiveness of the board and audit committees.

Financial companies were not included in the previous study because they engage in unique natural activities and are subject to stricter laws and said to have different external audit fee's structure (Sellami et al., 2019; Naser et al., 2016; Basioudis & Fifi, 2004; Cameran, 2005). This study specifically chooses financial institutions because after checking all the companies in every sector listed in Indonesian Stock Exchange Market, the researcher found that the female members on the audit committee are majority coming from financial sectors. There are about 54 out of 106 financial companies whose audit committee members are female. Among those companies are PT Bank Raya Indonesia Tbk, PT Bank Jago Tbk, PT Bank Central Asia Tbk, PT Bank KB Bukopin Tbk, and others. Besides, the financial sector is one area that is crucial for fostering a nation's economic development (Supartoyo et al., 2018), financial companies contributed 4.34% to national GDP with a total value of IDR 16.97 quadrillion in 2021 and

higher 1.56% in 2021 than the previous year (BPS, 2021). Also, financial companies require important supervision, innovation, and risk mitigation play an important role in the sustainability of the financial sector industry because the financial sector industry is very vulnerable to crises, especially the banking sector.

In raising the topic of gender equality, the theory used is the gender socialization theory by Betz et al., (1989). This theory suggests that each gender, namely male and female, brings its own character and characteristics into its work culture. Men are much more career-oriented and willing to take big risks in their work whereas women are more relationship-oriented and avoid unnecessary risks (Betz et al., 1989). These kinds of psychological traits are inseparable from the CEO and the audit committee, who are both experts in their fields (Huang et al., 2014). This is to see how empirically gender differences will affect the audit fee.

Based on the background that has been described above, the researcher is interested in conducting research with the research title “**The Analysis of Company Complexity, Profitability, and Audit Committee Gender Diversity and Financial Expertise on Audit Fees**”.

## **1.2 Research Problems**

Based on the background, the questions to be answered in this research are:

1. Does the company complexity have any effect on the audit fees?
2. Does the company profitability have any effect on the audit fees?
3. Does the gender diversity of the audit committee have any effect on the audit fees?
4. Does the financial expertise of the audit committee have any effect on the audit fees?

## **1.3 Research Objectives**

The objectives to be achieved in this research are:

1. To investigate the effect of company complexity on audit fees.
2. To investigate the effect of company profitability on audit fees.

3. To investigate the effect of gender diversity in audit committee on audit fees.
4. To investigate the effect of the financial expertise of audit committee on audit fees.

#### **1.4 Research Benefits**

The results of this study should be helpful for:

1. Academics

To provide reliable information for the researcher and the readers about the audit fees determinants such gender and expertise.

2. Management

This research hopefully can be considered as decision-making material to obtain quality audit especially relating to the variables this study used.

3. Public Accountant

As analyzing and evaluating tools for public accountant firms to obtain quality audit.

4. Future Researcher

As literature references for future researchers in conducting the same topic more comprehensively.

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