

**THE EFFECT OF FAIR VALUE NON-CURRENT ASSETS IN  
DETERMINING AUDIT FEES**



**Script By:**

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**ACCOUNTING**

*It was proposed as one of the requirements to get a Bachelor of Economics degree*

**MINISTRY OF EDUCATION AND CULTURE  
FACULTY OF ECONOMICS UNIVERSITY OF  
SRIWIJAYA 2021**

**COMPREHENSIVE EXAMINATION APPROVAL LETTER**  
**THE EFFECT OF FAIR VALUE NON-CURRENT ASSETS IN DETERMINING**  
**AUDIT FEES**

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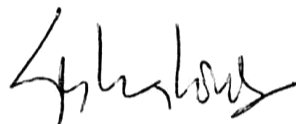


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Is truly the result of my word underguidance of supervisors. There is no other people work in this script that I copied without mentioning original sources.

I made this statement in a good faith. If I turns out that my statement is not true in the future then I will be willing to accept the sanctions in accordance with regulations, including cancellation of my degree.

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## **MOTTO**

My life motto is

‘The best pleasure in our life is doing what people say we can’t do.’

‘Learn to Shine, Lead to Share.’

‘Discipline is the bridge between goals and accomplishment.’

**(Jim Rohn)**

## PREFACE

Praise and thank to God for the blessing and mercy so author can complete the script entitled “**The Effect of Fair Value Non-Current Assets in Determining Audit Fees**)”. The script is made as one of the requirements to achieve Bachelor Degree of Economics (S1) in Economic Faculty, Sriwijaya University.

My sincere appreciation to many parties who have help me to finish the script. Therefore, author would like to express gratitude to:

1. My beloved family, my Father, **Kapian**, my brother and sister, **Agustria, S.T.** and **Paradise Novianita** for always giving their endless love, support and pray, thankyou will never be enough for all the things that you have done.
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3. **Prof. Dr. Mohamad Adam, S.E., M.E** as the Dean of Economic Faculty.
4. **Mr. Arista Hakiki, S.E., M.Acc., Ak.** as the Head of Accounting Department.
5. **Mrs. Dr.E. Yusnaini, S.E., M.Si., Ak., CA** as the Secretary of Accounting Department.
6. **Mrs. Dra. Hj. Kencana Dewi, M.Acc., Ak** as the first Script Supervisor and **Mr. Dr. Tertiarto Wahyudi, S.E., MAFIS., Ak., CPA** as the second Script Supervisor who have given their time, energy, and thought to guide and provide advices in completing this script.
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20. All of people related to the accomplishment of this script that author cannot mentions name one by one to the all its aid.

Author hope that this script can be beneficial for many parties. Therefore, criticism and suggestion from all parties can improve this script for perfection will always be welcomed in the future.

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## ABSTRACT

### **The Effect of Fair Value Non-Current Assets in Determining Audit Fees**

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This study aims to examine the effect of the fair value of non-current assets, company complexity, and regulated industries in determining the amount of audit fees. This study used quantitative methods with a cross-sectional design. The data used in this study is secondary data with a population of all companies listed on the IDX. The sampling technique in this study used purposive sampling technique and resulted in a total sample size of 82 companies. The results showed that both partially and simultaneously, the fair value of non-current assets, company complexity, and regulated industries have a positive and significant effect on the amount of the audit fee. Additional analysis was carried out by increasing the sample used to 164 samples and the results from multiple linear regression analysis were consistent with the main test results.

**Keywords:** *Fair Value Non-Current Assets, Audit Fees, Company Complexity, Regulated Industry.*

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## ABSTRAK

### The Effect of Fair Value Non-Current Assets in Determining Audit Fees

Oleh:

**Renaldi Setiawan**

Penelitian ini bertujuan untuk menguji pengaruh dari Nilai Wajar Aset Tidak Lancar, Kompleksitas Perusahaan, dan industri yang diregulasi terhadap penentuan besaran fee audit. Penelitian ini menggunakan metode kuantitatif dengan desain cross sectional. Data yang digunakan dalam penelitian ini adalah data sekunder dengan populasi seluruh perusahaan yang terdaftar di BEI. Teknik pengambilan sampel dalam penelitian ini menggunakan teknik *purposive sampling* dan menghasilkan jumlah sampel sebanyak 82 perusahaan. Hasil penelitian menunjukkan bahwa Nilai Wajar Aset Tidak Lancar, Kompleksitas Perusahaan, dan industri yang diregulasi baik secara parsial maupun secara simultan memiliki pengaruh yang positif dan signifikan terhadap besarnya nilai fee audit. Analisis tambahan dilakukan dengan menambah sampel yang digunakan menjadi 164 sampel dan hasil dari analisis regresi linear berganda konsisten dengan hasil pengujian utama.

**Kata kunci:** *Fair Value Non-Current Assets, Audit Fees, Company Complexity, Regulated Industry.*

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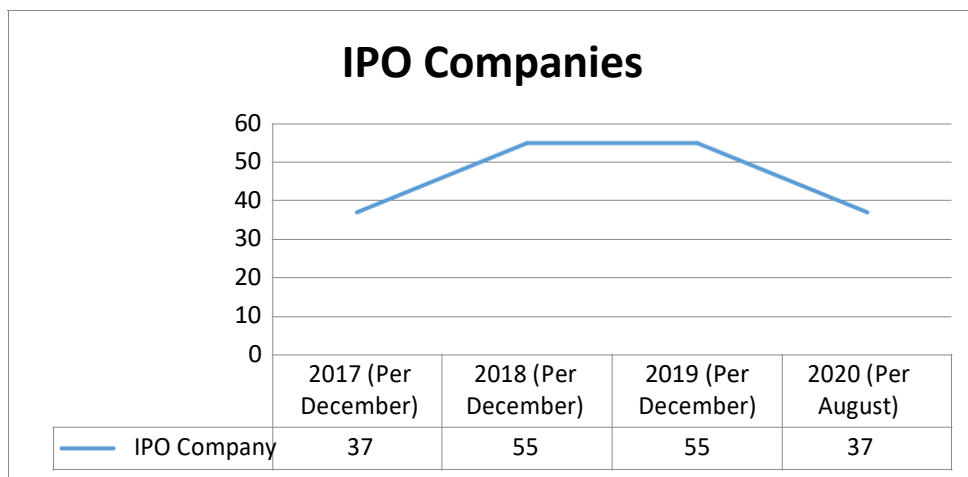
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## CHAPTER I INTRODUCTION

### 1.1. Background

Nowadays, the needs for audit services has started to increase along with the increasing number of companies registered otherwise known as Initial Public Offerings (IPO) Company in the Indonesia Stock Exchange. Based on Figure 1.1., data regarding the number of companies that made initial public offerings conducted by the Indonesia Stock Exchange, was found that from time to time more companies listed their shares on the stock exchange, which in 2020 (per August) there were 35 companies, 55 companies in 2019, 55 companies in 2018 and 37 companies in 2017.



Source: [www.idx.co.id](http://www.idx.co.id)

**Figure 1.1. The Development of IPO Companies on IDX**

The development of the IPO company is a motivating factor of the audit services needed by companies to produce financial reports which can be comparable, relevant, reliable, and understandable in accordance with the

existing conceptual framework. Audit services are not only carried out in the private sector, but also in the government sector. Audit services in the private sector are usually carried out by CPA Firm, which are currently dominated by “the big four” consisting of Deloitte, PricewaterhouseCoopers, Ernst & Young, and KPMG. Apart from "the big four", currently in Indonesia there are many public accounting firms that provide audit services for the private sector.

The company provides rewards for the audit services used in the form of audit fees. The amount of audit fees that must be incurred by the company is regulated in Management Regulation Number 2 of 2016 concerning Determination of Audit Service Fees for Financial Statement stipulated by the Indonesian Institute of Public Accountants (IAPI). In attachment 1 of regulation, it is explained that there are several methods needed to determine the fees received by the auditor. In addition, attachment 2 states that the fees received by the auditors are adjusted to different conditions and characteristics (IAPI, 2016). The table below is an indicator of the lower limit of hourly service fees that have been classified into stages by IAPI.

**Table 1.1. Minimum Hourly Charge-out Rates**

Region	Junior	Senior	Supervisor	Manager	Partner
Category	Auditor	Auditor			
Jabodetabek	100.000	150.000	300.000	700.000	1.500.000
Outside	70.000	125.000	200.000	500.000	1.200.000
Jabodetabek					

Source: IAPI (2016)

In order to determine audit fees, public accountants must consider aspects such as client needs, independence, duties and responsibilities both

morally and legally, as well as the level of complexity of the work performed by the auditor. Therefore, the company which being audited must understand the factors that affect the amount of the audit fee that must be spent fairly so that the auditor can provide services in accordance with the requirements of applicable public accountant professional standards.

In academic literature, audit fees are frequently modeled as a function of the cost of audit effort and the auditor's expected legal liability (Simunic, 1980). Generally, expected legal liability based on several key factors which include the material misstatements probability in the financial statements, the possibility that the auditor will be failed in detecting misstatement, and the probability that the auditor will assume a legal liability due to an audit failure (Choi et al., 2008). The increase in auditor legal liability could drive the increases of audit fee. Research by Ghosh and Pawlewicz (2011) which proxied the Sarbaney-Oxley Act as the auditor legal liability found that the audit fee increased following SOX. The changes of the legal liability/litigation could lead the audit fees to be higher (DeFond & Francis, 2005). This study uses several factors that can affect the amount of audit fees paid by the company, including the fair value used by the company, company complexity and regulated industry.

The level of complexity of financial statements can be seen from the accounting methods used by the company. Before Indonesia adopted an IFRS-based accounting system that had been issued by the IASB (International Accounting Standards Board) as an International Financial Reporting Standard,

Indonesia used a US-GAAP accounting system issued by the FASB (Financial Accounting Standard Board). In the US-GAAP system, measurement of company assets and liabilities using the historical cost method by recording assets based on acquisition prices which will be depreciated annually using the depreciation method and liabilities in the amount stated on debt securities. Whereas the IFRS principle uses the Fair Value method where the financial statements made by the company can reflect the real conditions of the company.

The widespread application of fair value among companies has increased the attention of practitioners, academics and standards makers, which has led to debate about implementing fair value without stopping. According to Apandi (2017), some circles consider that accounting standards that use the historical cost concept are considered to be no longer relevant because of their failure to measure economic reality. The problem which is then realized by the accounting world is the historical cost method in accounting records that is recorded in the financial statements does not take into the actual value (Yao et al., 2015). This is because changes in currency values over time.

Furthermore, fair value measurement of financial assets and financial liabilities allows the stakeholders of financial statements to do a better assessment about the consequences of a financing strategies and company's investment. However, the application of accounting standards on a basis of fair value is considered not easy, because it requires estimates or precise estimates, assumptions, and judgments in their use by management. Because fair value

requires precise estimation in its use, the application of fair value accounting is often assessed as not objective or unreliable as a historical cost, measurement of fair value requires a more subjective assessment in the process of preparing accounting information, which can lead to inaccuracies and uncertainties which constitute a loophole for financial statement manipulation especially if the estimation made does not have a liquid market for comparison (Hapsari & Apandi, 2018).

This study focuses on the effect of fair value measurement on non-current assets on audit fees at companies in Indonesia. The fair value usage that replaces historical cost has an impact on the presentation of financial statements that are reliable and relevant as a basis for decision making. In addition, the fair value usage can improve the comparability of financial statements and the information that is available, can be closer to what users of financial statements want. However, the application of fair value in the company can increase the complexity and difficulty for auditors to ascertain the value of assets, resulting in increased audit costs (Ettredge et al., 2011).

Several studies have been done in order to see what factors can affect audit fee, including fair value non current asset, company complexity and regulated industry. Based on the results of research conducted by Apandi (2017) where the use of fair value non-current assets has an effect on increasing audit fees. Another previous studies produce different results, Goncharov et al. (2014) states that the use of fair value can reduce audit fees.

The second factor in this study that can affect the audit fees is company complexity. According to Yulio (2016), company complexity is related to the hassle of transactions in the company. The complexity of a company can come from transactions using foreign currencies, the number of subsidiaries, the number of branches and the existence of business operations abroad (Rukmana et al, 2017). In this study, the company complexity is seen from the large number of subsidiaries and branches of the company that is the object of research. According to Nurdjanti and Pramesti (2018), if the company has a domestic subsidiary, the transactions that the client has will be even more complicated because it needs to make a consolidated financial statements. Companies that have a high level of complexity make auditors need more time, special expertise, and sufficient experience in conducting audits. In addition, the higher the complexity of the company, the audit risk becomes greater. This causes the audit fee paid by the company to be higher.

Several studies have been conducted to find the effect of company complexity on audit fees. Ardianingsih (2013) found that company complexity were not significantly affected the audit fees. But the research conducted by Yullo (2016) shows that the company complexity were significantly related to audit fees.

The third factor in this study that can affect the audit fees is regulated industry. In Indonesia, the firms that include in the financial industry are regulated by the Financial Services Authority (OJK). The usage of public accountant services and public accounting firms in financial service activity is

regulated in the Financial Services Authority Regulation number 13 / POJK.03 / 2017. Ashton et al. (1989) divides the types of industry into two major groups, namely the financial sector industry as regulated industry and the non-financial sector industry as non-regulated industry. The financial sector industry is an industry that provides financial services and is related to money and investment (Megayanti & Budiarta, 2016). Financial industry companies consist of the banking sector, financial institutions, securities companies and insurance, while the rest sectors included as non-financial industrial companies (manufacturing companies, namely various industries, consumer goods industries, and basic and chemical Industries).

Previous studies about the audit fees are generally drawn from the corporate governance in the less regulated or non-financial industry (Carcello *et al.*, 2002; Abbott *et al.*, 2003; Goodwin-stewart and Kent, 2006). This is because the companies which include in the financial industry are different from other industry companies, as they are more difficult and complex to monitor and thus, tight monitoring and greater regulatory oversight are applied to these firms.

From the above research results, there is no meeting point caused this study to remain attractive and still worth to be researched. Furthermore, the reverse results of the variable above make the researcher's concern to re-examine whether the fair value measurement, company complexity, and regulated industry had an effect on the audit fee.

This difference between this study with previous study which the research object used is the data of companies in Indonesia. This is because Indonesia is a country that fully adopted IFRS, so estimations, assumptions and judgments in the application of IFRS are complex things to be applied to companies in Indonesia. The second difference lies in the object of this study where the previous studies only used companies in certain sectors as their objects. This study uses all companies listed on the Indonesia Stock Exchange, so the research results can be generalized well. Furthermore, the measurement of audit fees and fair value non current assets variables in this study are measured by transforming the total non-current assets of the company into a natural logarithm in order to reduce excess data fluctuation without changing the proportion of the actual total assets.

According to the explanation above, the author at last determine to conduct a study with the title “The Effect of Fair Value Non-Current Assets in Determining Audit Fees”.

## **1.2. Research Problems**

According to the explanation about background above, the problems in this study can be formulated as follows:

1. How does the effect of Fair Value Non-Current Assets on Audit Fees?
2. How does the effect of Company Complexity on Audit Fees?
3. How does the effect of Regulated Industry on Audit Fees?

### **1.3. Objective of Research**

Based on the research problems that has been formulated above, the purpose of this study is:

1. This study empirically examines the phenomenon about the effect of Fair Value Non-Current Assets on Audit Fees.
2. This study empirically examines the phenomenon about the effect of Company Complexity on Audit Fees.
3. This study empirically examines the phenomenon about the effect of Regulated Industry on Audit Fees.

### **1.4. Contribution of Research**

#### **1.4.1. As theoretically implications**

This study will extend the literature of the relationship among audit fees with fair value non-current assets, company complexity, and regulated industry.

#### **1.4.2. As practical implications**

The result of this study will provide practical contributions to the company. Companies will get more concern on the measurement of non-current assets, company complexity, and regulated industry for considering the audit fees that paid by the company.

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