Conference Paper

The Effect Double Job of Audit Committee Member in Remuneration Committee on Audit Fees

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Abstract

The purpose of this study is to examine the effect of double job member of audit committee in remuneration committee on audit fees. This study refers to the Kalerkar (2012), by modifying the use of control variables and research samples. The dependent variables of this study is audit fees, the independent variable is double job in membership of audit committee at remuneration committee, this study also uses control variables to determine audit fees, there are audit risk, audit complexity, auditor characteristics, and audit committee characteristics. This study uses secondary data from annual reports and financial reports of all banking sector companies listed on the Indonesia Stock Exchange (IDX) in 2014-2017. The research sample was taken by purposive sampling method. The total sample in this study is 41 companies. The analysis method used in this study is the multiple linear regression analysis. The results of this study indicate that double job in membership of audit committee at the remuneration committee negatively affects the price of audit fees

Keywords: Audit Fees, Audit Committee, Remuneration Committee, Double job member of audit committee in remuneration committee.

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1. Introduction

The information in financial statements are very important in economic development. Financial statements contain information on company activities which are a reflection of the company's financial condition. Therefore, in the presentation of financial statements required to be relevant and credible because the results of financial statements are very useful for users of financial statements to make a decision. To maintain the neutrality of financial statements an independent auditor is very important. An independent auditor is an impartial auditor who is free from the interventions of financial statement users, both management and stakeholders (Sinaga & Rachmawati, 2018). As a result of the company using the services of an independent auditor to audit the company's financial statements, so the audit fee is arise.

Audit fees are the amount paid by the client to the Public Accounting Firm for services provided, in the form of examining financial statements (Iskak, 1999). The Indonesian Institute of Certified Public Accountants (IAPI) issued Management Regulations No.2 of 2016 concerning the determination of audit services wages of the financial statement. This regulations issued for all IAPI members who have or practice public accountants regarding the amount of audit services that are naturally and appropriately accepted by auditors in conducting professional services in accordance with applicable public accounting standards (Sinaga & Rachmawati, 2018).

Existing studies explain that auditor considers client reporting quality in determining audit fees (Feldman et.al, 2009). Research in audit found that client earnings management activities increase auditor litigation risk (Heninger, 2001). As a result of this, the auditor spends more time working on the audit and request more fees on the potential litigation risk. Research related to litigation risk finds a negative relationship between reporting quality and audit fees. Feldman et.al. (2009) examine the effect of restatement on audit fees and find that auditors charge higher fees for companies that restate their audit fees than for companies that do not restate their audit fees.

The auditor litigation risk can be decreased because the manipulation of financial statements by the client decreases when reported earnings are monitored effectively by the audit committee. Focusing on audit committee characteristics such as independence and financial expertise, existing studies show there are positive associations that occur between the effectiveness of audit committee monitoring and earnings quality (McMullen & Raghunandan, 1996).

To expand the discussion about the audit committee, some experts examine how the auditor sees the audit committee's monitoring of reported earnings in the audit fee decision. Existing studies show that auditors charge lower audit fees when they believe that audit committees monitor regularly reported earnings (Chang et al., 2013). Krishnan & Vishvanathan (2009) explain that companies pay lower audit fees when a director of an audit committee is a financial expert to monitor reported earnings. After discussing various results of research on the audit committee, the existence of an audit committee is closely related to the practice of Good Corporate Governance in a company. In addition to the establishment of a Good Corporate Governance implementation audit committee, it also requires the establishment of a remuneration committee in a company.

In recent years, following the requirements for independent commissioners on audit committees and remuneration for all industries listed on the United States main stock exchange, there has been an increase in the number of audit committee members whose members are also on the remuneration committee (Liao & Hsu, 2013). Based on

the results of his research, Liao & Hsu (2013) found that nearly two-thirds of their S & P 1500 companies had board members who were members of the audit committee and the remuneration committee between 2004 and 2008.

One thing that has not been widely discussed and has not been investigated about audit committees by audit experts is double job audit committee members in the remuneration committee. Some existing studies focus more on membership in committees under the board of commissioners and the results argue that such arrangements will increase the effectiveness of the audit committee in monitoring reported earnings. Given that remuneration contracts affect management to take actions that affect earnings (Bergstressers & Philippons, 2006) in this issue it confirms that coordination between the audit committee and remuneration will allow the audit committee to better understand the motives of management reporting (Liao & Hsu, 2013). Knowledge of top management reporting motives can guide audit committee members to change their monitoring, resulting in a positive impact on the quality of corporate reporting. Research that focuses on the double job of audit committee members on remuneration committee found that the existence of a double job of audit committee members in the remuneration committee affected the quality of reporting (Chandar et, al., 2012; Liao & Hsu, 2013). Previous research found that auditors consider the characteristics of audit committees that influence financial reporting in determining their audit fees (Krishnan & Vishvanathan, 2009).

This study has a dependent variable is audit fees and the independent variable is double job members on audit committee in the remuneration committee. This study also has four control variables there are audit risk, audit complexity, auditor characteristics and audit committee characteristics (Kalerkar, 2017).

2. Theoritical Framework and Hypothesis Formulation

Agency theory describes the relationship between the owner of the company as the principal in a company and the management of the company is an agent to manage the company (Jensen & Mecking, 1976).

Jensen & Meckling (1976) explained that agency problems can occur because there is information asymmetry between the principal and agent of the company. Information asymmetry occurs when one party has information that is not owned by another party, both principal and agent. Jensen & Meckling (1976) states that information asymmetry consists of two types, there are moral hazard and adverse selection. An example of an agency problem with the existence of information asymmetry is that moral hazard

happened if the manager acts without being known by the owner of the company for personal gain and causes a decrease in the profits of the company owner (Jensen & Meckling, 1976). Jensen & Meckling (1976) argues that the adverse selection arises if a party feels that it gets less information than the other party in this case is the principal and agent, then the party wants to implement the agreement and will tend to limit it with strict conditions and costs the greater one.

According to Noreen (1988), to deal with problems related to agency, the most important effort that can be made is to produce reliable financial reports on the operation of the company. According to Jensen & Meckling (1976) methods for controlling or minimizing agency problems that occur, then there arises an agency fee that will be paid by both the principal and the agent. Agency costs are divided into three types, there are monitoring costs, bond costs and residual losses (Jensen & Meckling, 1976). Monitoring costs are costs incurred that are paid by the principal to oversee the behavior of the agent. Bonding costs are costs paid by the agent to ensure that the agent can work in accordance with the interests of the principal and residual loss is a sacrifice which is a decrease in principal welfare due to the emergence of differences between the attitude of the agent and the attitude of the principal (Jensen & Meckling, 1976).

Auditors are third parties who are free from problems of interest between creditors and companies, because using auditors as third parties that are independent in producing reliable financial statements, there will be monitoring costs in the form of audit fees (Fachriyah, 2011).

2.1. The Effect of Double Job Member of Audit Committee on the Remuneration Committee

Regarding the influence of the independent variable, double job of members between the audit committee and the remuneration committee on the dependent variable, audit fees can be explained based on the agency theory described by Jensen and Meckling.

According to Jensen & Meckling (1976) the relationship between the owner of the company as principal and company management can cause an agency problem, an example of an agency problem is the information asymmetry. The effort that can be done to minimize the existence of information asymmetry is the way the company must produce a report financial that can be trusted with the man Jensen & Meckling (1976) explained that to overcome the agency problem, the agency cost was created. Jensen & Meckling (1976) explained that agency costs are divided into several costs, such as monitoring costs, bond costs and residual losses.agement of all company operations.

The auditor is an independent party that can ensure that the financial statements made by the company can be trusted by its users. As a result of the company using the auditor as a third party who is independent in making a credible financial report, monitoring costs will occur in the form of audit fees (Fachriyah, 2011).

The argument of the researchers that supports the existence of double job among members of the committee, if the double job of members of the audit committee in the remuneration committee in the company makes the audit committee more effective in monitoring the financial reporting quality of the company, in this study it is expected that auditors see lower risk in auditing client financial statements (DeFond et.al, 2012). Audit costs are positively related to audit risk, in this study hypothesized a negative relationship between the double jobs of members on the audit committee and the remuneration committee for audit fees (Kalerkar, 2017). The hypothesis of this study is:

H1: Double Job Audit Committee Members in the Remuneration Committee Have Negative Effects on Audit Fees

3. Research Methodology

3.1. Research Variable

Audit fees are used as the dependent variable in this study. Audit fees of a company can be found in the annual reports of companies listed on the IDX. To test the effect of the double job of members between the audit committee and the remuneration committee on audit fees, in this study using natural logarithms of audit fees as the dependent variable. Audit costs in research are measured naturally by the logarithm of audit fees. This audit cost variable is named AUDITFEE in the regression equation (Kalerkar, 2017).

This study uses an independent variable double job audit committee members on the remuneration committee. The author in this study uses an indicator to identify the double job of audit committee members in the remuneration committee, where if at least one member of the audit committee is a member of the remuneration committee. Next the variable is named DOUBLEJOB in the equation (Kalerkar, 2017).

This study uses control variables such as audit risk. The results of research on previous audits document that audit risk changes with company operations, quality reporting, and company performance (Higgs and Skantz, 2006). Audit risk in this study is calculated based on company operations and company performance. Based on the research of Chandar et al. (2012) the company's operations in this study can be proxied by company size (income), company leverage (TL2TA), and company liquidity (Liq), while

for company performance proxied by Return on Assets (ROA) and losses (Loss). This study also uses audit complexity control variables. Previous research has argued that audit complexity will increase audit costs (Ashton et al., 1987; Ashton et al., 1989; Ng & Tai, 1994; Simunic, 1980). Based on the research of Chandar et al. (2012) The complexity of the audit in this study is proxied using the company's business segment (BusSeg) and the proportion of foreign clients (Foreign) operations. This study also uses auditor characteristics as a control variable. According to Chandar et.al (2012) argues that audit costs are positively related to auditor characteristics. Based on the research of Chandar et al. (2012) auditor characteristics can be proxied using auditor size (Big4), auditor turnover (Switch), and auditor tenure (Audten) Other variables used as control variables in this study are the characteristics of the audit committee. Previous research on corporate governance has argued that effective boards will demand more audits, and thus have a positive impact on audit costs (Lee & Mande, 2005). Based on the research of Chandar et al. (2012) the characteristics of the audit committee can be proxied by the size of the audit committee (ACSize), the number of the board of directors (Boardsize), the number of financial experts in the board of directors (FinExp).

3.2. Population and Sample

The population chosen in this study is a banking sector company that is still listed on the Indonesia Stock Exchange as many as 43 companies listed on the Stock Exchange in 2014-2017. This banking sector company was chosen as the population in the study because companies in the banking sector already have audit committees and remuneration committees in the under their board of commissioners. Based on BI Regulation Number 8/4 / PBI / 2006 concerning Implementation of Corporate Governance for the Banking Sector Article 12. Meanwhile, sample selection is conducted using the Purposive Sampling method with the following criteria:

1. Banking sector companies registered on the Indonesia Stock Exchange in 2014-2017.

2. Banking sector companies that report their annual reports and audited financial statements on the IDX website in 2014-2017.

3. Banking sector companies that have annual reports and audited financial statements that contain all the data needed in the study.

3.3. Analysis Methods

The method of multiple linear regression analysis is used to test the hypothesis in this study because it is intended to find out how the dependent variable in this study can be predicted by the independent variable and the control variable. The regression equation from this study can be seen as follows:

$$AUDFEE = \beta 0 + \beta 1* DOUBLEJOB + \beta 2 * SIZE + \beta 3 *INCOME + \beta 4 * TL2TA + \beta 5 * LIQ + \beta 6* ROA + \beta 7* LOSS + \beta 8* BUSSEG + \beta 9 * FOREIGN + \beta 10 * BIG4 + \beta 11 * SWITCH + \beta 12 * AUDTEN + \beta 13* ACSIZE + \beta 14* BOARDSIZE + \beta 15* FINEXP + \varepsilon$$

Where:

AUDFEE	: Logarithm of audit fees
DOUBLEJOB	: 1 if at least one audit committee member sits on remuneration committees;
SIZE	: Logarittm of total assets;
INCOME	: Growth in net interst income;
TL2TA	: Total liability to total aset;
LIQ	: Loan to Deposit Ratio (LDR);
ROA	: Return On Asset;
LOSS	: 1 if firm has a negative net income
BUSSEG	: Square root of business segment;
FOREIGN	: 1 if the profit or loss of a foreign currency is not zero or not lost, and 0 otherwise;
BIG4	: 1 if auditor is Big 4 firm;
SWITCH	: 1 if companies switch their auditor;
AUDTEN	: The number of years the auditor currently serves as an auditor;
ACSIZE	: Logarithm of the number of audit committees;
BOARDSIZE	: Logarithm of the total directors in the board of directors;
FINEXP	: 1 if the audit committee member is a financial expert
ε	: Error

4. Research Results and Discussion

4.1. Description of Research Samples

Secondary data used in this study are data obtained from IDX. Banking sector companies listed on the IDX for four years (2014-2017) were used as the population in this study. Samples are collected using the purposive sampling method. The number of banking sector companies that have been listed on the Stock Exchange in 2014-2017

are as many as 43 companies. While companies that are sufficient as criteria for the study sample are 41 companies. Thus the number of samples used is 41 banking sector companies during 2014-2017, resulting in 164 data used as observations in the study. To be clearer, the sampling criteria can be seen in table 1 as follows:

TABLE 1: Data Sample Details

No	Explanation	Number of Companies
1	Banking sector companies listed on the IDX (2014-2017)	43
2	Banking sector companies that do not have complete annual reports (2014-2017)	(2)
3	Banking sector companies provided complete annual reports (2014-2017)	41
4	Research sample	41
5	Year of Research	4
6	Number of observation data	164

Source: Secondary Data Processed, 2019

4.2. Descriptive Statistics Analysis

The results of descriptive statistics analysis display the values of data such as the standard deviation, average, minimum and maximum values. The results of the descriptive statistics analysis explained that the total sample (N) was 164. The results of the descriptive statistics also showed that the average value of the logarithm of AUDFEE was 20.8602. Descriptive statistics also show that 60.37% of the banking sector companies listed on the IDX have DOUBLE JOB. In addition, the average number of members in a company that experiences a double job in a banking sector company listed on the IDX is 0.597561.

The average logarithm of the SIZE variable is 30,8093. The average INCOME, TL2TA, LIQ and ROA variables in banking sector companies listed on the Stock Exchange are respectively 15.33293%, 84.4266%, 85.1590% and 0.8914%. Descriptive results show that 12.8% of banking sector companies listed on the Stock Exchange in 2014-2017 experienced LOSS.

The average logarithm value of BUSSEG is 1.834447 and the average value of FOREIGN variable is 73.78%, this illustrates that many banking sector companies listed on the Stock Exchange have reported foreign exchange gains or losses. The descriptive statistics show that 67.68% of banking sector companies listed on the Stock Exchange

use public accountant affiliated with BIG4 public accounting firms, and the average SWITCH variable is 21.34%, and the average AUDTEN variable is 2.024 years.

The average logarithm value of the AC SIZE variable is 1.2536 and the average logarithm value of the BOARDSIZE variable is 1.7632 and the average of the FINEXP variable is 60.98%. This shows that members of the audit committee in the banking sector many listed on the Stock Exchange are financial experts. The results of descriptive statistics from this study can be seen in table 2 as follows:

TABLE 2: Descriptive Statistics

	N	Min	Max	Mean	Standard Deviation
AUDFEE	164	18,1885	23,3046	20,860280	1,2388093
DOUBLEJOB	164	0	1	0,6037	0,49064
DOUBLEJOBMEM	164	0	1	0,597561	0,4918915
SIZE	164	24,9917	34,6577	30,809332	1,9186391
INCOME	164	-78,2292	257,9452	15,329303	35,7315847
TL2TA	164	,8800	96,9600	84,426640	9,7657483
LIQ	164	11,0700	112,5400	85,159024	12,2642120
ROA	164	-11,1500	4,7300	0,891463	2,5011247
LOSS	164	0	1	0,1280	0,33517
BUSSEG	164	1,0000	2,6458	1,834447	0,3425309
FOREIGN	164	0	1	0,7378	0,44118
BIG4	164	0	1	0,6768	0,46912
SWITCH	164	0	1	0,2134	0,41097
AUDTEN	164	1,0000	4,0000	2,024390	1,0027644
ACSIZE	164	0,6931	1,7918	1,253628	0,2616634
BOARDSIZE	164	0,6931	2,3979	1,763215	0,4570764
FINEXP	164	0	1	0,6098	0,48930

Source: SPSS Output, Processed Secondary Data, 2019

This study also uses additional analysis in descriptive statistics analysis, analyzing the decrease in audit fees in 2014-2017, the growth of companies that has double jobs audit committee members in the remuneration committee in 2014-2017 as follows:

The results of descriptive statistics show that the average natural logarithm of audit costs in the banking sector companies listed on the IDX year-on-year has decreased where the rate of decline in audit fees in 2014 was 0.43%, in 2015 amounted to 0.0938%, in 2016 amounting to 0.0528% and in 2017 amounting to 0.3809%. Furthermore, the results of companies that experience double jobs from 2014-2017 are as follows:

TABLE 3: Decrease in Audit Fees in 2014-2017

	Year			
	2014	2015	2016	2017
Audit Fee Average (Ln)	21,1237	21,1039	21,0927	21,0124
Decrease in Audit Fees (%)	-0,4300	-0,0938	-0,0528	-0,3809

Source: SPSS Output, Processed Secondary Data, 2019

TABLE 4: Growth in Companies that Has a Double Job Audit Committee Members in Remuneration Committee at 2014-2017

	Year			
	2014	2015	2016	2017
Company With Double Job Average	58,53%	60,97%	60,97%	60,97%
Growth in Company With Double Job (%)	0	4,1667%	0	0

Source: SPSS Output, Processed Secondary Data, 2019

Descriptive statistic results show that the average listed banking sector company on the IDX which experienced a double job of members between the audit committee and the remuneration committee in 2014 showed that there was no growth in companies that experienced double jobs of audit committee members and remuneration committees. In 2015 there was an increase of 4.16666%. The company experienced a double job among members of the audit committee and its remuneration committee. In 2016 and 2017 there was no increase in companies that experienced double job members between the audit committee and its remuneration committee.

4.3. Discussion of Research Results

The regression results in this study are double job audit committee members on the remuneration committee supported because in this case the regression coefficient of the DOUBLEJOB variable is -0.195 with a significance of 0.019 where the significance value is <0.05. This is in line with the research conducted by Kalerkar (2017) which explains the auditor gets a lower audit risk when there is a double job of the audit committee members on the remuneration committee. This shows that a company with a double job audit committee member on the remuneration committee will pay a lower audit fee. The hypothesis test results in this case indicate that the banking companies listed on the IDX will pay lower audit fees to their external auditors if there is a double job of the audit committee member in the remuneration committee at the company. Hypothesis test results can be seen in table 5 as follows:

TABLE 5: t Statistic Test

Variable	B	t	Sig
(Constant)		9,106	0,000
DOUBLEJOB	-0,195	-2,367	0,019*
SIZE	0,003	0,030	0,976
INCOME	0,034	0,468	0,640
TL2TA	0,093	1,282	0,202
LIQ	-0,046	-0,605	0,546
ROA	-0,138	-1,260	0,210
LOSS	-0,266	-2,480	0,014*
BUSSEG	0,117	1,615	0,108
FOREIGN	0,165	2,066	0,041*
BIG4	-0,018	-0,200	0,841
SWITCH	0,061	0,707	0,481
AUDTEN	0,043	0,519	0,604
ACSIZE	0,018	0,223	0,824
BOARDSIZE	0,350	3,224	0,002*
FINEXP	-0,024	-0,319	0,750

*Significant level in 5%

Source: Output SPSS, Processed Secondary Data, 2019

5. Conclusion and Limitations

The results of this research hypothesis test is the double job of audit committee members on the remuneration committee negatively affects audit fees supported by the results of the analysis obtained. This shows that banking companies listed on the IDX will pay lower audit fees to their external auditors if there is a double job audit committee member on the remuneration committee at the company.

The results of this study there are several limitations such as: The population used in this study is limited to 43 banking sector companies listed on the Stock Exchange and the criteria of research samples that cannot be met by banking sector companies make the number of samples limited, 41 companies from 43 companies. The DOUBLEJOB variable measurement in this study uses a dummy variable, so that in this study the measurement of the existence of a double job audit committee on the remuneration committee of a company is less reliable in reflecting the truth. The independent variable

in this study is limited to the double job of the audit committee members on the remuneration committee alone, other independent variables such as earnings management can be added.

Based on these limitations, further research is recommended for this research to be carried out in other sectors or regions and to expand the population to obtain unlimited samples so as to improve the results of the study. Change the measurement of DOUBLEJOB variables with measured values, such as how many audit committee members and remuneration committees have double jobs. Add more independent variables such as earnings management or company reporting quality and control variables can be added such as proxies of auditor characteristics thare are audit busy and audit lag and also in the proxy of the control variable, characteristics of the audit committee can be added to the board of directors' busy schedule (board busy).

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