

The role of market share and portfolio share based auditor specialization on audit fees

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Abstract

This study aims to determine the effect of Auditor Specialization based on Market Share and Portfolio Share on Audit Fee in companies listed on the Indonesia Stock Exchange with control variables, namely Company Size, Institutional Ownership, KAP Big4, Audit Tenure, and Auditor Opinion. The sample population of this study is a company listed on the Indonesia Stock Exchange in 2020 - 2022. This study uses purposive sampling technique as a sampling method. The number of samples in this study were 37 companies for 3 years. The results showed that auditor specialization base on Market Share (ISP 1) have a significant positive effect on Audit Fee in company listed at IDX at the 0.05 significance level. The variables of Portofolio Share (ISP 2) have no effect on Audit Fee in company listed at IDX at a significance level of 0.05. This research can be useful for companies in selecting auditors and for further research

Keywords: Auditor specialization, Market share, Portofolio share, Audit fees

INTRODUCTION

Disclosure of audit fees in the financial statements of companies listed on the Indonesia Stock Exchange is not much. This is due to the absence of regulations regarding the disclosure of the nominal audit costs of companies in Indonesia which have not been regulated in statutory regulations. Not many companies disclose audit costs in their respective financial statements. The impact of the Covid-19 pandemic is not only related to the company's financial condition but also the company's decision to disclose financial information to the public. In disclosing financial information, the company's financial statements must be audited by a public accountant/auditor to ensure that the company's financial statements comply with financial accounting standards. Albitar et al. (2021) also stated that the financial instability experienced by companies during the Covid-19 pandemic affected the liquidity, risk and performance of the company which had an impact on the company's audit costs. As a result, companies experiencing financial difficulties will tend to move to auditors who provide audit services at the lowest cost.

Audit fees reflect the amount of effort made by the auditor to ensure that the client's financial statements are free from material misstatements and errors (Wang & Chui, 2015). Arens, A. A., et al, (2017) show that the amount of audit fees paid by companies to auditors is influenced by several things such as the level of risk, the level of expertise required, the complexity of the audit work, the size of the auditee, and the auditee's operational business According to Indonesian regulations (Financial Services Authority, 2021) Number 16 / /SEOJK.04/2021 companies are required to pay fees to external audit parties for financial statement audit services in accordance with the company's agreement with the public accounting firm. Meanwhile, the amount of audit fees in Indonesia has no laws and regulations governing the amount. Therefore, there are still many companies listed on the Indonesia Stock Exchange that have not disclosed the amount of audit fees in the financial statements or annual reports. The size of the audit fee is influenced by many things. According to (Yuniarti, 2011) the amount of audit fees depends on the risk of the assignment when auditing, the complexity of the services provided from the company, the expertise provided by the auditor and other professional considerations. Research conducted by (Yuniarti, 2011) shows that higher audit fees will result in higher audit quality. However, this opinion contradicts Supriyono's opinion (1988 Wati & Subroto, (2003)) which argues that the amount of audit

fees can affect the independence of public accountants because the amount of fees can make accounting firms unable to resist the wishes of clients, while small audit fees can limit the time and cost to carry out complete audit procedures.

In carrying out the duties of auditors, auditors are guided by the Public Accountant Professional Standards (SPAP) and Financial Accounting Standards (SAK) issued by the Indonesian Institute of Accountants (IAI). Great trust in auditors as a third party makes auditors pay attention to the quality of their audits. (Darmansyah & Suratno, 2018) One of the factors measuring auditor quality is by specializing in an industry. According to (Khaksar, J., Salehi, M. and Dashtbayaz, 2021) auditors who specialize in certain fields are called specialist auditors. This is because auditors who specialize in an industry have a database of effective practices in detail, errors that may occur, risks that are borne or may be borne by the company and transactions that are not common in an industry so that they have a more comprehensive understanding of industry characteristics and trends which of course will increase the effectiveness of the overall audit process. (Syifaudin, 2008)

Research on audit costs in Indonesia is rarely studied with influencing factors, namely industry specialization auditors, usually audit costs are examined with dependent factors, namely KAP size, Company size, etc. in accordance with research conducted by Nurintiati & Purwanto (2020) Therefore, the findings of research on audit costs vary because they use different testing proxies.

While research related to industry specialization in Indonesia is associated with delays in submitting audit fees, namely Audit Delay. Other research related to auditor industry specialization by Zadea & Majidah (2021) is measured by comparing one industry with another. In addition, auditor specialization is sometimes tested by only comparing client size and number of clients. such as research conducted by Nirmala & Makhabati (2019) or research using auditor specialization as a moderating variable conducted by Rosharlianti.

LITERATUR REVIEW AND HYPOTHESIS DEVELOPMENT

The Correlation Between Auditor IS and Audit Fees

Auditor industry specialization is defined as auditors having more extensive experience and training, which is related to the concentration of several industries to produce better audit results. If auditor specialization results in greater dominance in the industry, then auditors can charge a fee premium to increase total profits and cover the costs of acquiring industry-specific knowledge, in addition, competition between clients can create incentives for auditors.

Research by explains that a specialist's knowledge of an industry is formed through extensive audit experience, specialized staff training, expensive investments in information technology and more control. Auditors will charge higher audit fees to compensate for this. (Cahan & Sun, 2015) explains that one of the factors for high audit fees is the auditor's industry specialization and is one of the many factors that make it easier for auditors to determine the value of audit fees when negotiating with clients.

According Fajrin, (2015) audit fees are honoraria or fees charged by public accountants to auditee companies for audit services performed by public accountants on financial statements. The amount of audit fees for members may vary depending on the risk of the assignment, the complexity of the services provided and the level of expertise required to carry out these services, the cost structure of the KAP concerned, and other professional considerations. Professional auditors analyze the cost of what they do, the length of time, location, responsibility, and so on. People in general tend to negotiate high prices in proportion to the quality obtained, and vice versa.

According to DeFond, M.L., Francis, J.R. and Wong (2000), market share is one of the metrics he uses in research on auditor industry specialization with audit fees which shows that auditors experienced in auditing the industry get more fees. Because auditors get industry differences. In this case, better audit services in response to consumer needs for accurate financial information will eliminate asymmetric information.

H1: There is a positive correlation between auditor IS as measured by MS and audit fees across Indonesian public companies.

The Correlation Between Auditor Industry Specialization and Audit Fees

Audit fees are sometimes in situations for shared efficiency, industry-specific auditors compete for business and receive low fees. In most developing countries, small family-owned companies prefer cheaper audit services (Khaksar, J., Salehi, M. and Dashtbayaz, 2021). This is due to the less obvious scenario agency issues. Fee discounts increase audit firm competition. (Abdullatif, M. and Al-Rahahleh, 2020). This is typical for most developing countries, as shown in the analysis conducted by (Khaksar, J., Salehi, M. and Dashtbayaz, 2021) Utilizing data from Iran, they show that businesses with tight political ties increase audit market competition but decrease quality and integrity. Cairney, T.D. and Young, (2006) argue that specialist auditors are more competent and efficient, requiring less time and effort. According to the concept of shared efficiency, increased audit efficiency and expertise can result in fewer man-hours and lower prices.

H2: There is a negative correlation between auditor industry specialization, as measured by PS, and audit fees across Indonesian public companies.

RESEARCH METHODS

Population and Sample

This study uses financial statement data for all companies listed on the Indonesia Stock Exchange (IDX) during the 2020-2022 time period. The use of financial statement data for a 3-year period aims to determine the differences in financial statement results during the Covid pandemic and after the Covid pandemic. This study uses a sample collection method (sampling method) using purposive sampling. Sampling is carried out based on the following criteria:

- a. Companies listed on the Indonesia Stock Exchange (IDX) with the time period 2020-2022.
- b. Companies studied on the IDX must report annual reports for 3 consecutive years.
- c. The companies studied on the IDX must include information in the annual report on the amount of audit fees incurred by the company for audit services.
- d. All data needed in this study is available in the Company's annual report.

Table 1. Sample Selection Method

	Total Companies	Pooled
Preliminary sample	868	2604
(-) Companies that disclose audit fees during 2020 to 2022	(831)	(2493)
Total Sample	37	111

Table 2. Variables Definitions and Measurements

Variable	Measurement
<i>LnAFEEES</i>	The natural log of audit fees.
<i>ISP1</i>	<p><i>ISP1</i> is a dichotomous variable set to 1 if <i>ISP1</i>'s market share exceeds the industry's total audit fees market share cut-off (10%), and 0 otherwise computed as follows:</p> $ISP1 = \frac{\sum_{j=1}^{j^k} x_{ijk}}{\sum_{i=1}^{i^k} \sum_{j=1}^{j^k} x_{ijk}}$ <p>Where: <i>ISP1</i> represents market share of audit company <i>i</i> in industry <i>k</i>; <i>X</i> represents audit fees; <i>i</i> represents the auditor; <i>k</i> represents the industry; and <i>j</i> represents the client.</p>
<i>ISP2</i>	<p><i>ISP2</i> is a continuous variable reflecting the auditor's proportion of total audit fees collected from each industrial category, and measured as follows:</p> $ISP2 = \frac{\sum_{j=1}^{j^k} x_{ijk}}{\sum_{k=1}^k \sum_{j=1}^{j^k} x_{ijk}}$ <p>Where: <i>ISP2</i> displays the portfolio percentage of industry <i>k</i> for auditor <i>i</i>; <i>X</i> represents audit fees; <i>i</i> represents the auditor; <i>k</i> represents the industry; and <i>j</i> represents the client.</p>

Variable	Measurement
<i>BIG4</i>	<i>BIG4</i> is a dichotomous variable that is set to 1 if the auditor company is one of the Big 4 auditing firms (PwC, KPMG, Deloitte, or E&Y), or zero otherwise.
<i>TENURE</i>	<i>TENURE</i> is a three-year audit tenure, labelled 1 if the audit company did not alter, 0 if it did.
<i>OPINION</i>	<i>OPINION</i> is a categorical variable representing a value of one if the company obtains an unqualified opinion; otherwise, zero is recorded.

RESULTS AND DISCUSSIONS

Table 3. Descriptive Statistics

	AUDIFEE	ISP1	ISP2	BIG4	TENURE	OPINION
Mean	20.1840	7.6113	3.0033	0.2342	0.7027	0.2702
Median	20.130	7.6113	3.0022	0	1	0
Maximum	22.583	7.6118	3.1172	1	1	1
Minimum	17.504	7.61085	2.8624	0	0	0
Std. Dev.	1.1110	0.0004	0.05522	0.42543	0.4591	0.4461
Skewness	-0.0059	-0.00030	-0.1287	1.2550	-0.88696	1.0345
Kurtosis	2.4804	1.4999	2.5149	2.5751	1.7867	2.0703
Jarque-Bera	1.24923	10.406	1.3949	29.97	21.36	23.798
Probability	0.5354	0.0054	0.4978	3.09821	2.2971	6.7943
Sum	2240.42	844.85	333.37	26	78	30
Sum Sq. Dev.	135.781	1.8117	0.3354	19.9099	23.189	21.891
Observations	111	111	111	111	111	111

The table above presents the statistical analysis for all variables included in the empirical study (pooled for the years 2020–2022), encompassing mean, median, standard deviation, minimum and maximum. Audit fees constitute the dependent variable (*Audifee*). There is a low standard deviation of 1.11 for *AUDIFEE*s, with a mean and median of 20.18 and 20.13, respectively, indicating that audit fees vary across Indonesian listed enterprises. This outcome agrees with some recent analyses in developing countries (Mohammadi et al., 2021; Baatwah et al., 2021, 2022; Khaksar et al., 2021b). The mean of auditor industry expertise detected by *ISP1* (*ISP2*) is 7.6113 (3.0033), the median is 7.6113 (3.0032), and the standard deviation is 0.0004 (0.0552).

The client portfolio-sharing technique is the most used strategy for auditor specialization in our sample. It is consistent with the findings of research on industrial specialization in the USA (Almutairi et al., 2009).

Table 4. Random Effect Models

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-7.1518	28.612	-0.2499	0.8031
ISP1	-4.2119	3.7666	-1.1182	0.2660
ISP2	19.771	0.0882	24.108	1.4371
BIG4	0.0308	0.0119	2.5908	0.0109
OPINION	-0.0132	0.0092	-1.4267	0.1566
TENURE	0.0120	0.0123	0.9816	0.3285

Table 5. Effects Specification

	S.D.	Rho
Cross-section random	0.0313	0.806
Idiosyncratic random	0.0155	0.193

Table 6. Weighted Statistics

	Coefficient		Coefficient
R-Squared	0.9981	Mean Dependent Var.	5.4883
Adjusted R-Squared	0.9980	S.D. Dependent Var.	0.3751
S.E. of Regression	0.0164	Sum Squared Resid.	0.0205
F-Statistic	11405.24	Durbin-Watson Stat	1.5647
Prob (F-statistic)	7.03592		

Table 7. Unweighted Statistics

	Coefficient		Coefficient
R-Squared	0.9985	Mean Dependent Var.	20.18
Sum Squared Resid.	0.1421	Durbin-Watson Stat	0.313

This outcome is consistent with the efficiency gains associated with shared auditing. According to portfolio metrics, un-tabulated univariate analysis reveals those non-Big 4 auditors account for most industry specialists (Alharasis, Alidarous, & Jamaani, 2023). Consistent with Almutairi et al. (2009) and Audousset-Coulieret al. (2016), the strategies for assigning the greatest PSs result in fee reductions, and this may reflect the scale economies (i.e. audit companies charge reduced costs for their major clients). This is consistent with Numan and Willekens (2012), who demonstrated that auditor sector experience exerts a strong and beneficial influence on audit fees. As well, our research is consistent with Behn et al. (2008) and Audousset-Coulieret al. (2016) in those expert auditors receiving lower payments in the shared efficiency scenario, which is the situation in Jordan (Abdullatif and Al-Rahahleh, 2020). They create economies of scale as suggested by Cairney and Young (2006). This result aligns with evidence from Iran, which was investigated by Khaksar et al. (2021b), confirming that countries with high political involvement in an industry experience more competition in auditing but the quality of audits is poorer (audit fee in the present study). The conclusion agrees with the triangulation of the agency, signaling and stakeholder theories, meaning that expert auditors are more likely to offer cheaper fees in the shared efficiency scenario (PS) than nonspecialists (Griffith et al., 2015). On the other hand, expert auditors provide better audit quality that satisfies stakeholders' need for reliable financial documentation (Gulet al., 2013; Rahman et al., 2016). This might help managers communicate the reliability of financial data to interested parties. As a result, the analysis accepts H1, meaning that the scenario of market share results in reduced audit fees.

CONCLUSION

This study aims to examine the effect of auditor industry specialization based on market share and portfolio share on audit costs controlled by several control variables. Based on the results of the panel data regression analysis that has been carried out, it can be concluded that auditor industry specialization based on portofolio share has a negative effect on audit fees.

The results showed that auditor specialization base on Market Share (ISP 1) have a significant positive effect on Audit Fee in company listed at IDX at the 0.05 significance level. The variables of Portofolio Share (ISP 2) have no effect on Audit Fee in company listed at IDX at a significance level of 0.05. In this study there are still limitations that need to be improved in future studies. This limitation is that the selection of independent variables in this study is only seen from two variables with several control variables. It is hoped that further research can add other independent variables that may affect audit costs.

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