

Political Connection And Gender Diversity To Audit Fees

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ABSTRACT: Introduction: Audit fee is one of the factors that results in reduced audit quality. Audit fees are rewards provided by companies to public accountants for audit services provided.

Purpose: this study to investigate political connection and CEO gender affect the size of audit fee paid to public accountants by the company.

Method: This study uses secondary data in the form of the annual report of company going public in 2015-2018 and using a purposive sampling technique with a total of 407 company data companies. The variables used in this study are audit fee as the dependent variable while for the independent variables used in this study are political connection, CEO gender. Analysis techniques data used in this study are multiple linier regressions with classical assumption test

Finding: The results show that political connections can increase audit fee

Originality: the results show that CEO gender has no effect on audit fees

Limitation: Disclosure of audit fees in the annual report is still voluntary, so there are still many companies that do not meet the sample criteria. The variable used is limited to the gender of CEO Directors without involving the gender of the board of commissioners and audit committee

Keyword: Political Connection, Gender Diversity, Audit Fees

1. INTRODUCTION

The public accounting profession is one of the professions that is trusted by the public to provide a sense of confidence and trust for company owners regarding providing an audit opinion on the company's financial reports. Financial reports are useful for internal or external parties, so it is necessary to carry out an audit by an independent public accountant (Mulyadi, 2002). Ardinarsih (2013), revealed that auditors have the qualifications to understand the criteria used, because financial reports are useless if public accountants are not independent in collecting and evaluating evidence[1][2][3].

Audit fee is one of the factors that can reduce audit quality. Audit fee is a reward given by the company to a public accountant for the audit services provided. Guidelines for payment of audit fees have been issued by the Indonesian Institute of Certified Public Accountants (IAPI), but in reality the amount of audit fees paid by companies varies[4][5]. This condition is carried out subjectively by the company, because it depends on the bargaining power between the independent auditors and the company. Suharli and Nurlaelah (2008) state that the amount of audit fees is too high or too low for audit services provided by independent auditors depending on the bargaining power between the client and the auditor[6][7]. Yulio (2016), revealed that the amount of audit fees is influenced by two categories, namely client attributes and auditor attributes. Client attributes are size, complexity, risk, profitability of the auditor, while auditor attributes are the size of the Public Accountant Office, reputation, experience, industry specialization and competence of the Public Accountant Office[8][9][10].

A survey conducted by the International Forum of Independent Auditor Regulators (IFIAR), concluded that audit quality is still low, due to price wars in determining the amount of fees for audit services related to the governance of the Public Accountant Professional (www.mediaindonesia.com). Bargaining power between clients and auditors is very important to determine the size of the audit fee to be paid amid competition among public accountants. The policy for determining audit fees by the Public Accountant Office is one aspect of the quality review of the Public Accountant Office, so it is interesting to study[11][12].

Auditors need to carry out a risk assessment before the auditors perform audit procedures (Ghosh and Tang, 2015). The higher the audit risk, the higher the audit effort to provide an appropriate audit opinion according to the mutually agreed amount of audit fee (Ariningrum and DIYanti, 2017). Tunakotta (2013) stated that the type of risk inherent in a company is inherent risk, which is a risk that is assessed by the auditor before considering the effectiveness of the company's internal control. Companies with political connections have a high inherent risk, because political connections can increase the company's fraudulent practices[13][14].

Political connections often occur in developing countries, one of which is Indonesia. Political connections are made by placing people or parties who are close to the government, so that companies have a relationship or connection with the government, through commissioners, directors or company secretaries (Fisman, 2001). Wicaksono (2017), said that during the reign of President Soeharto to President Joko Widodo, commissioners of State-Owned Enterprises, who came from volunteers and members of political parties, served as commissioners of State-Owned Enterprises. Primasari and Sudarno, (2013), reveal that companies with political connections are given easy access to loans, low taxes and stronger market forces[15].

The managerial structure of the company includes gender, size and ownership of shares. Differences between individuals due to gender and ethnicity tend to influence decision making. The percentage of the number of Indonesian women leaders who chair a company has increased drastically by occupying the top ranks in Asia Pacific. According to a global survey of 5,500 companies in 36 countries, 46 percent of women managed to be in senior leadership positions, up from 36 percent in 2016[16]. Harjoto et al. (2015), revealed that there is high social pressure to maintain their leadership, female CEO and executives tend to have a greater preference for assurance (financial reporting reliability) and more timely audit reporting is related to reporting quality and reputation for CEO. Huang et al. (2014), revealed that auditors assess female CEO as having less inherent risk related to material misstatement of financial statements so that auditors are willing to reduce their scope and have an impact on low audit fee.

Previous research such as the description above has succeeded in proving the influence of political connections and CEO gender on audit fee. Several other studies actually found different results, such as Srinindi and Tianyi (2010), which found that political connections had no effect on audit fee. Xiang (2015) and Bosna (2017), revealed that CEO gender does not affect audit fees. The results of this study indicate that companies that were once led by female managers have the same audit fee as the audit fees charged when led by male manager[17].

The agency relationship between the principal and the agent cannot be separated from the business environment. This agency relationship can lead to conflict between the principal and the agent who have their respective interests in the company. This conflict can be reduced if a third party is involved in implementing audit procedures (Jensen and Meckling, 1976). Audit fee is interesting to study considering there is a lot of competition between public accountants that is increasing and competing to provide the amount of audit services with varying prices. This study uses a sample of go public companies because it can provide a comprehensive picture of the conditions for companies in Indonesia[18].

The purpose of this study is to obtain empirical evidence of the influence of political connections and CEO gender on audit fee. The results of this study can be used as a reference for auditors when accepting an audit assignment so that auditors receive audit fee professionally and reference material for further research[19].

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency theory

Agency theory describes the agency relationship between the principal and the agent as a relationship that arises because of a contract agreed between the two parties to carry out tasks that are in the interest of the principal. The principal is the owner of the companies while the agent is the management of the company who is responsible for the company's activities. The agency relationship between the two parties does not rule out a conflict of interest from each other (Jensen & Meckling, 1976).

Political connection and audit fee

Agency theory is the basic theory used to understand political connections in this study. Politically connected companies are companies that in their own way have political ties to politicians or the government. Fan et al. (2007), companies that have politically connected CEO have a 37% lower performance than companies without political connections measured by stock returns for three years after the IPO. Primasarari & Sudarno (2013) and Ariningrum & Diyanti (2017) state that the greater the political connection a company has, the higher the audit fee charged to the company. Based on the description above, the hypothesis 1 proposed in this study is:

H1 : Political connections have a positive and significant effect on audit fee.

CEO gender and audit fee

The significant difference is mainly related to the quality of reports and decision making, indicating that women tend to increase the decision of the board of directors (Peni & Vaham, 2010), (Lakhali et al., 2015). Faccio et al (2016) prove that companies with female CEO have an effect on risk avoidance. Huang & Kisgen (2012), said that female CEO is less likely to be confident in decision making and less likely to make debt which worsens the condition of the company. Adam (2009) and Gul (2011) say that companies with female CEO have better attendance records and are more involved with committees that require incentive monitoring. Huang et al. (2014), found that auditors can see that companies with female CEO have a less inherent risk of material misstatement of financial statements, so that auditors are willing to reduce their scope and have an impact on lower audit fee. Faccio (2016) shows that female CEO tends to avoid risk by making choices or policies that are not high-risk. Aluy et al (2017) say that companies that have good governance are characterized by the formation of different board members. Based on the description above, the hypothesis in this study is:

H2 : Gender has a positive and significant effect on audit fee

3. RESEARCH METHOD

This type of research is quantitative. According to Kasiran (2008), quantitative research is a process of finding knowledge that uses data in the form of numbers as a tool to analyze information about what you want to know.

Definition and measurement of variables

Audit fee is a reward in the form of money or goods given to or received from clients or other parties for engagement from clients or other parties (Agoes, 2004). The audit fee variable in this study uses a natural logarithm of the amount of audit fee paid by the company to auditors (Ariningrum and Diyanty, 2017).

Political connections are seen from the presence or absence of direct ownership by the government in companies (Adhikari et al., 2006). Companies are said to have political connections if they meet one of the following criteria according to Fan et al. (2007) and Habib et al. (2017)

1. One of the shareholders with a minimum of 10% is a minister or former minister, member of parliament, or member of the military
2. At least one of the boards of directors is a concurrent position as a government official, concurrently serving as a military official, a former government official or a former military official.
3. At least one of the boards of commissioners is a concurrent position as a government official, concurrently as a military official, a former government official or a former military official.
4. Companies that explain the profile of the board of commissioners and directors are former or regional heads, members / former politicians, members / military officers, members / former ministers during the research period.

The company is politically connected as measured by a dummy variable; the number 1 is given if the company is related to politics and 0 if the company has no relationship with politics.

CEO gender is gender difference and not God's nature, in a biological structure and also formed through social and cultural processes (Oakley, 1972; Caplan, 1987). Gender in this study is the difference between male and female biologically (Maretno et al., 2015). CEO gender is measured using a dummy variable, 1 company with a female CEO and 0 companies with a male CEO (Huang et al., 2014).

Data Collecting Procedure

This study uses secondary data sourced from the annual report of go public companies 2015-2018. Sources of data are obtained through the Indonesian Stock Exchange website, namely the Indonesian Capital Market Directory (ICMD) and www.idx.co.id.

Population and Sample Research

Table 1
Sample Selection Process

Sample Criteria	2015	2016	2017	2018
The company goes public on the IDX	514	528	564	580
Companies that do not publish annual reports	(30)	(39)	(60)	(75)
Companies that do not disclose audit fee in the annual report	(270)	(246)	(251)	(285)
Companies that meet the criteria	214	243	253	220
Total Sample overall	930			

Source: processed data

Data analysis technique

The data analysis used in this research is multiple linear regression analysis. Before a linear regression analysis is carried out, it must be tested first to carry out a classical assumption test to ensure whether the regression model is used to avoid problems of normality, multicollinearity, heteroscedasticity and autocorrelation.

4. RESULT AND DISCUSSION

Descriptive Statistical Analysis

Table 2 will present the results of the descriptive statistics for the audit fee variables, political connections and CEO gender

Table 2
Descriptive statistics

Variable	Min	Max	Mean	Std Dev
Audit Fee	18.84	24.50	21	1.1
PC	0	1	0.25	0.30
CG	0	1	0.11	0.16

Source: processed data, 2019

The audit fee variable has a minimum value of 18.84, owned by PT Nusa Raya Cipta Plc (NRCA) in 2017 which paid an audit fee of Rp. 152,000,000, while the maximum value is 24.50, owned by PT Telekomunikasi Indonesia Plc (TLKM) in 2017 which paid an audit fee of Rp. 43,700,000,000. The mean value of 21 is greater than the standard deviation value of 1.1 indicating that the range or distance between one data and another. The political connection variable, the minimum value is 0, indicates that the company has no political connections. The maximum value of 1 indicates that the company has political connections. The standard deviation value of 0.30 is greater than the mean value of 0.25, indicating that the distribution of data in this study varies. The CEO gender variable, the lowest score is 0, illustrates that the CEO in the company is male and the greatest value is 1, illustrating that the CEO is female. The standard deviation value of 0.30 is greater than the mean value of 0.25, indicating that the distribution of data in this study varies.

Hypothesis Test

Before testing the hypothesis, the classical assumption is tested first. The classic assumption test can be seen in Table 3 below:

Table 3
Classic assumption test

Classic assumption test	Description
Normality test	Data is normally distributed
Multicollinearity Test	Data are free from multicollinearity
Heteroscedasticity Test	The data did not occur heteroscedasticity
Autocorrelation Test	Data is free from autocorrelation

Source: processed data, 2019

The next step is to test the hypothesis for each variable which can be seen in Table 4 below.

Table 4
Hypothesis Test

Model	<i>Unstandardized Coefficient</i>	t	sig	Description
constant	20.04	152.57	0.00	
PL	0.36	2.81	0.005	Accepted
CG	0.19	0.85	0.4	Rejected

Source: processed data, 2019

Table 4 shows that the political connection variable has a significance value of 0.005, which is smaller than 0.05, meaning that political connections have a significant positive effect on audit fee. CEO gender variable has a significance value of 0.4 which is greater than 0.05, meaning that CEO gender has no effect on audit fee.

The results of the statistical test for the political connection variable in Table 4 show a significance value of 0.005 indicating that H1 is accepted, meaning that political connections can increase the amount of audit fees paid by the company. The results of this study are supported by research conducted by Primasari and Sudarsono (2013) and Ariningrum and Diyanti (2017) that political connections have an effect on audit fee. Companies that are politically connected are companies that are risk takers, because the risk borne by the auditor has a high impact on the audit fee that must be paid according to the risk that will be received later. Agency theory is considered capable of explaining conflicts between management and shareholders in politically connected companies through the board of directors and the board of commissioners. Fan et al. (2017), show the results that companies with politically connected CEO have 37% lower performance compared to companies without political connections when measured by the company's stock return for three years after the IPO.

The results of statistical tests for the CEO gender variable in Table 4 show a significant value of 0.4 greater than 0.05, which means that CEO gender has no effect on audit fee. The results of this study are in accordance with research conducted by Xiang (2015) and Bosma (2015), which proves that the existence of Gender CEO in the company does not affect the audit fee that must be paid by the company. This shows that companies that were once led by female CEO have the same audit fees as the auditing costs incurred when companies were led by male CEO. While this study does not support the research conducted by Huang et al. (2014) and Harjoto et al. (2015) who succeeded in proving that companies with female CEO had a significant effect on audit fees, meaning that gender differences in companies, both led by male and female, did not affect the size of the audit fee charged on companies by auditors.

5. CONCLUSION

The results of testing and analysis show that political connections have a significant positive effect on audit fees. The test results for the political connection variable show that politically connected companies pay higher audit fee than companies without political connections, because companies are considered risk takers. CEO gender does not have a significant effect on audit fee, because companies that are led by women, the amount of audit fee paid is the same as or equal to men who are leaders in the company.

The limitation in this study is that the disclosure of audit fee in the annual report is still voluntary; therefore there are still many companies that do not meet the sample criteria. It is recommended for further research to consider other independent variables that are still rarely studied such as ethnicity and gender diversity in the Board of Directors and the Audit Committee, because the findings in this study indicate that CEO Gender has no effect on audit fee.

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