

# DOES THE PRESENCE OF WOMEN ON THE AUDIT COMMITTEE AFFECT AUDIT FEES? EMPIRICAL EVIDENCE FROM THE BANKING INDUSTRY IN INDONESIA

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**Abstract.** The aim of this research is to investigate the relationship between female representation on audit committees and audit fees, considering various factors. The research methodology employed is multiple linear regression analysis. Data was gathered from secondary sources, specifically the banking industry listed on the IDX between 2018 and 2022, utilizing specific criteria. The analysis encompassed the presence and proportion of female audit committee chairs, employing purposive sampling. This research endeavors to shed light on whether female audit committee chairs exert a significant positive influence on audit fees. It aims to offer a clearer perspective on the impact of female representation at the leadership level of audit committees on audit fees. The findings reveal that female audit committee chairs significantly affect audit fees positively, while the proportion of female audit committee chairs has a significant negative impact on audit fees. Consequently, the banking industry in Indonesia could contemplate appointing female audit committee chairs to mitigate their company's risks.

**Keyword:** Audit Committee, Gender Diversity, Proportion, Audit Fees, Banking in Indonesia

## 1 INTRODUCTION

The demand for information contained in financial reports is increasing along with economic growth. Companies produce financial reports to demonstrate the operational performance achieved by the organization over a certain period of time. Users of financial reports, such as creditors and investors, often consider business prospects when making decisions by examining financial performance over one or more periods (Sitompul & Nasution, 2019).

In accordance with the Decree of the Chairman of BAPEPAM No. Kep.36/PM/2003, all issuer companies or public companies listed on the Indonesia Stock Exchange (BEI) are required to fulfill the obligation of submitting audited financial reports by a Public Accounting Firm (KAP) before publication to the public. Therefore, companies need audit services to assess their financial reports.

The compensation received by auditors for their professional work is referred to as audit fees. The cost model was initially studied by (Simunic, 1980). At times, the audit fees received by public accountants may not align with the risk and complexity of the services provided. Low audit fees can restrict the scope of the audit due to limited available resources, potentially affecting the independence of public accountants (Hay, 2017). IAPI regulations in Regulation Number 2 of 2016 allow Public Accounting Firms (KAP) to set compensation amounts for

accounting services higher than the predetermined rate. However, in Indonesia, actual audit fees remain very low despite existing regulations governing them (Harahap et al., 2018)

One of the companies found to have engaged in manipulation practices is Bank Bukopin. Discrepancies appeared in the 2018 financial report compared to the previous year due to the alteration of credit card data from the past 5 years, with a considerable number of modified cards more than 100,000 resulting in an inappropriate increase in credit positions and commission-based income. Following revisions for the last 3 years, specifically 2015, 2016, and 2017, BBKP's net profit witnessed a decline from the previously reported Rp. 1.08 trillion to Rp. 183.56 billion in 2016. Bank Bukopin is a large and intricate company. Despite Bukopin issuing an audit fee negotiation of Rp. 2.5 billion in 2018 to the responsible KAP for auditing the financial reports, there were still instances of financial report manipulation. (<https://finance.detik.com/> ).

From the earlier explanation, there's a discrepancy in setting audit fees as the amount is still perceived as low. The determination of audit fees for auditors still relies on negotiations between the auditor and the company. This situation carries the potential for tariff competition among Public Accounting Firms (KAP), potentially jeopardizing auditor independence. Therefore, both KAPs and companies need to comprehend the factors that influence audit fee determination. Several factors influencing the determination of audit fees include the presence of female audit committee chairs and the proportion of female audit committee chairs. Based on the background discussed above, it is crucial to initiate further research to gather evidence regarding the influence of female audit committee chairs, the proportion of female audit committee chairs, and the age of audit committee directors on audit fees.

Previous research has indicated that gender diversity within oversight committees can bring a broader perspective, enhance the quality of supervision, and have a positive impact on corporate decision-making (Mustapha et al., 2020; Aldamen et al., 2018)). In this context, the question arises as to whether the presence of women on the Audit Committee can influence audit fees, particularly within the banking sector in Indonesia.

Indonesia, as a rapidly developing economy, possesses a banking sector that plays a central role in supporting financial stability and economic growth. With increasingly stringent regulations concerning transparency and corporate accountability, the role of the Audit Committee in overseeing the audit process has become crucial (Kalelkar, 2017). Therefore, identifying and understanding the impact of women's presence on the Audit Committee on audit fees can provide deeper insights into the dynamics of supervision within the Indonesian banking

industry.

Against this backdrop, this research aims to explore whether the presence of women on the Audit Committee has a significant impact on audit fees and how these dynamics can be observed within the context of the Indonesian banking industry. The results of the study are expected to contribute to our understanding of gender diversity in the audit process and offer practical insights for companies, regulators, and relevant stakeholders in comprehending the factors influencing audit fees amid the diverse management structures.

## **2 LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

### **Agency Theory**

Agency theory developed by (Jensen & Meckling, 1976) describes the agency relationship between the owner and the representative as a relationship that develops as a result of an agreement agreed between the two parties to carry out tasks. which is in the principal's interest. Due to conflicting matters between the owner and the representative, it is necessary to have an impartial party, namely an independent auditor who will carry out the monitoring process together with his agent. Supervision procedures will increase agency costs, and one form of agency costs is the costs incurred to carry out audit procedures by a third party, namely in the form of audit fees (Jensen & Meckling, 1976). Internal audits, external audits, and directorships are monitoring practices that can help resolve conflicts of interest (Omer & Al-Qadasi, 2020). To cut agency costs or audit fees, it is likely that effective governance requires better audit quality (Ziad SHAKHATREH & Adnan ALSMADI, 2021).

According to agency theory, investors aim to ensure the quality of financial reports prepared by management through auditing to maximize shareholder value, while management requires audits to confirm the accuracy of the financial reports. In Indonesia, audit requests are still voluntary for private companies but mandatory for public companies. As management does not always prioritize investors' interests, agency costs emerge from the disparity between the interests of management and shareholders (Jensen & Meckling, 1976).

### **Audit Fee**

Audit fees refer to payments provided to auditors for conducting activities involving the auditing or examination of financial reviews within an agency. Public accountants need to consider the client's preferences, level of comprehension, responsibilities, and the required time frame when engaging public accountants and workgroups to complete financial audits based on agreed fixed fees (Kalelkar, 2017). As per (DeAngelo, 1981), audit fees represent the

payments made by clients for external auditor services. Therefore, the fee amount, which constitutes income for the Public Accounting Firm (KAP), is contingent upon the complexity and scope of the audit, as well as the perception of the KAP by the public, government, and investors.

### **Female Audit Committee Directors**

In particular, the audit committee is viewed by many as the board's most important subcommittee (Kesner, 1988; Klein, 1998; Xie et al., 2003), having broad authority over financial accountability and reporting processes. It appoints, compensates, and monitors the work and independence of external auditors. Additionally, the audit committee reviews general-purpose financial reports, provides oversight of internal control and risk management processes, and pre-approves all audit and non-audit services (Aldamen et al., 2018; Klein, 1998).

Recently, gender diversity on boards and committees has been recognized as a factor that increases effectiveness. Female directors on the board can influence the level of risk aversion and conservatism when making decisions and monitoring management (Gul et al., 2013; Thiruvadi & Huang, 2011). Several studies have also found that women have lower risk preferences (Barber & Odean, 2001; Charness & Gneezy, 2012; Dwyer et al., 2002; Hallahan et al., 2004; Jianakoplos & Bernasek, 1995; Johnson & Powell, 1994; Powell & Ansic, 1997; Thiruvadi & Huang, 2011; Watson & McNaughton, 2007) and make more conservative decisions than men (Byrnes et al., 1999; Levin et al., 1998; Powell & Ansic, 1997; Schubert, 2006; Watson & McNaughton, 2007). Conservatism in risk preferences will likely lower the potential for bankruptcy. Female directors are considered better directors because they take into account the interests of various stakeholders significantly more and consistently make fairer decisions when those interests are at stake (Bart & McQueen, 2013). These practices encourage better corporate governance.

The presence of women on the audit committee will likely lead to an increase in audit efforts, resulting in higher audit costs (Mustapha et al., 2020). When in high or senior management positions, women tend to exhibit stricter behavior, perform better, and ask more incisive questions than men (Mustapha et al., 2020).

Following EU regulations on gender diversity in corporate boardrooms (Aldamen et al., 2018) are the only authors to date who have examined the relationship between female audit committee directorships and audit fees using non-US data. The results of their empirical investigation show that audit fees are higher in companies with gender-diverse audit

committees. Research by (Thiruvadi & Huang, 2011) demonstrates a positive relationship between the presence of women on the audit committee and audit quality. The attributes of women, such as diligence, independence, conservatism, and risk aversion demonstrated in previous research, suggest that female audit committee members will demand higher levels of audit quality and require more detailed work by external auditors. This increase in audit effort will result in higher audit fees compared to companies whose audit committees consist entirely of men.

H1. There exists a negative relationship between the role of the female audit committee chair and audit fees.

### **Proportion of Female Audit Committee Directors**

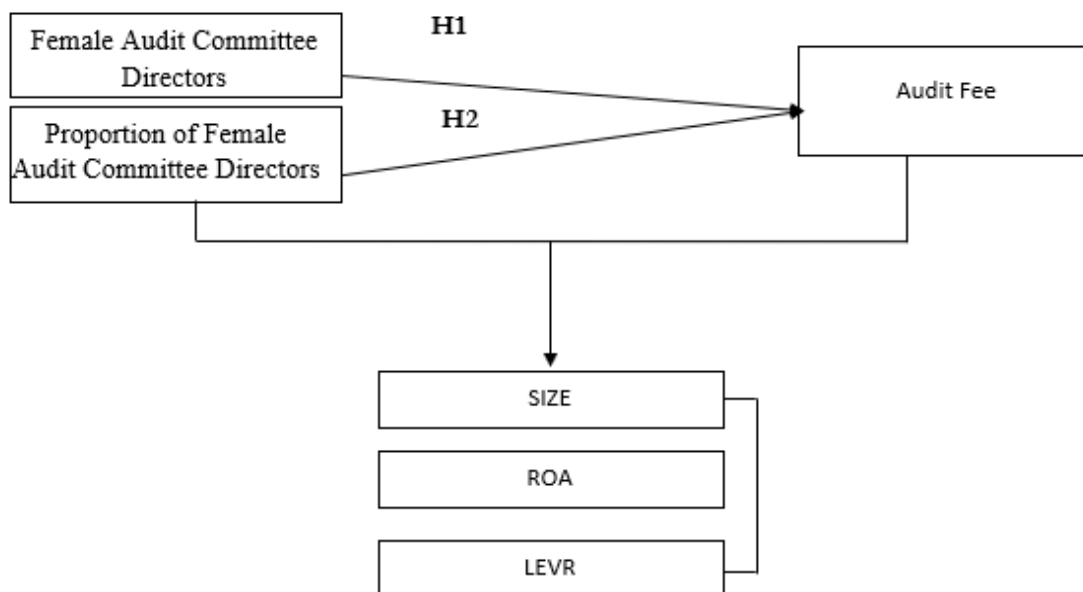
The proportion of female representation on audit committees offers insights into the committee's overall gender composition. Women serving on audit committees demonstrate a tendency for greater precision when analyzing financial reports, potentially enhancing report quality and expediting the audit process. The audit committee's responsibilities encompass overseeing the financial reporting function, internal control and compliance systems, internal audit functions, and external audit procedures. Members of these committees face potential reputational damage for neglecting their oversight duties. Prior research has indicated that directors with effective reputations are rewarded by increasing the number of directorships held, while those deemed ineffective may face penalties resulting in decreased directorships (Farrell & Whidbee, 2000; Gilson, 1990; Harford, 2003; Shivdasani, 1993). Additionally, turnover among audit committee members occurs when a company conducts accounting restatements (Srinivasan & Richardson, 2005). We posit that committee members inclined towards risk aversion, such as women, would likely prioritize greater assurance measures to safeguard their reputations as competent managers.

Greater assurance can be attained through various means; the audit committee may authorize the purchase of additional audit services such as increased hours or assigning a higher proportion of experienced auditors to the audit resulting in elevated audit fees. This perspective aligns with demand-side arguments. Previous studies have offered evidence supporting the demand-side argument: the independence, diligence, and expertise of the board (audit committee) positively correlate with audit fees (Abbott et al., 2003; Carcello et al., 2002; Goodwin-Stewart & Kent, 2006; Gul et al., 2011). These studies indicate that directors possessing specific characteristics exhibit a higher demand for audit services, thereby leading to increased audit fees. Consistent with the demand-side arguments proposed by (Goodwin-

Stewart & Kent, 2006) female audit committee members, due to their risk preferences, may advocate for purchasing more audit services to mitigate reporting risks and safeguard their reputation. Consequently, the presence of a female-dominated audit committee is associated with higher audit fees.

H2. The proportion of female members on the audit committee has a significant negative impact on audit fee.

### Conceptual Framework



### 3 RESEARCH METHOD

This type of research uses quantitative research techniques. Quantitative methods can be understood as positivist-based research approaches used to analyze certain populations or groups. It involves collecting data using research instruments and evaluating them quantitatively and statistically to test pre-existing hypotheses (Sugiyono, 2012). The population and sample used in this research are the bank subsector listed on the IDX (<https://www.idx.co.id/id>) from 2018 to 2022, utilizing purposive sampling techniques. To examine the relationship between independent and dependent variables, multiple linear regression analysis was employed.

**Tabel 1. The definition of measuring variables**

Symbol	Variable	Measurement	Reference
Dependen Variable			
AF	Audit Fee	Natural Logarithm	(Sellami et al., 2020)
Independen			

Variable			
GEND	The number of female audit committee directors	The total number of women serving as chairpersons in the audit committee	(Aldamen et al., 2018)
PROGEND	Proportion of Female Audit Committee Directors	The number of female chairpersons in the audit committee divided by the total members of the audit committee multiplied by 100%.	(Harjoto et al., 2015)
Control Variable			
LN_SIZE	Company size	The natural logarithm of total assets.	(Harjoto et al., 2018)
ROA	Return on asset	Net income divided by total assets.	(Aldamen et al., 2018)
LEV	Leverage ratio	Total debt divided by total assets.	(Nekhili and Gatfaoui 2013)

From the table of variable measurements, the regression equation to test the influence of the presence of women in the Audit Committee on audit fees can be formulated as follows:

$$AF_{it} = \alpha + \beta_1 GEND_{it} + \beta_2 PROGEND_{it} + \beta_3 LN\_SIZE_{it} + \beta_4 ROA_{it} + \beta_5 LEV_{it} + \varepsilon (1)$$

## 4 RESULTS AND DISCUSSION

### 4.1 Description of Research Data

The data in this research include information regarding the banking industry in Indonesia listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022. This research examines the effect of the independent variables on the dependent variable with control variables. The dependent variable used is the audit fee, while the independent variables used are the number of female audit committee chairs and the proportion of female audit committee chairs. The data also include company size (SIZE), Return On Assets (ROA), and LEVR.

The sampling method used was purposive sampling with specified criteria. The data obtained and meeting the criteria from 2018 to 2022 amounted to 135 entries.

**Table 2. Descriptive statistics**

Variable	Obs	Mean	Std. dev.	Min	Max
ln_fee	135	21.582	1.072	19.568	23.964
Gend	135	0.111	0.315	0.000	1.000
Progend	135	0.029	0.085	0.000	0.333
ln_size	135	31.963	1.696	28.980	35.228
Roa	135	1.636	3.037	-8.500	14.750
Lev	135	0.769	0.186	0.122	1.000

Based on the table above, the results of descriptive statistical tests reveal that the observation data amount to 135. The dependent variable, Audit Fee (ln\_fee), measured using the natural logarithm of audit fees, indicates that the minimum audit fee value is 19,568, attributed to the Banten Regional Development Bank (BEKS) in 2021, while the maximum value is 23,964, associated with Bank Negara Indonesia (BBNI) in 2022. The mean value stands at 21,582, and the standard deviation is 1,072. These findings suggest that the size of the audit fees in the sample is relatively large, given the proximity of the mean value to the maximum value. A standard deviation of 1.072 indicates a relatively large data variance, with considerable distance between the average value and standard deviation.

The variable 'female audit committee chairperson' (GEND), based on the results of descriptive statistical tests, demonstrates that the minimum value for female audit committee chairpersons is 0.000, while the maximum is 1.000. The mean value stands at 0.111, with a standard deviation of 0.315. These findings indicate that the majority of banking companies listed on the IDX from 2018 to 2022 do not have female audit committee chairs. Approximately 11.1% have female audit committee chairs, revealing significant data variations, as shown by a relatively high standard deviation of 0.315.

The variable 'proportion of female audit committee chairs' (PROGEND) has a minimum value of 0.000 and a maximum value of 0.333. The mean value is 0.029, with a standard deviation of 0.085. These results indicate that the proportion of female audit committee chairs in Indonesian banking companies is still relatively small. This inference is drawn from the proximity of the mean value to the minimum value, and notably, the mean value being smaller than the standard deviation.

The company size variable (ln\_size) has a minimum value of 28,980 and a maximum value of 35,228. The mean value is 31.963, and the standard deviation is 1.696. These results indicate considerable size variances among companies listed on the IDX from 2018 to 2022, as evidenced by the relatively large standard deviation values. The Return on Assets (ROA)



variable shows an average ROA of 1,636 with significant variations ranging from -8,500 to 14,750, and a standard deviation of 3,037. This signifies notable variations in bank asset performance within this data sample. Regarding the leverage ratio variable (Lev), it indicates an average leverage ratio of 0.769 with considerable variations ranging from 0.122 to 1.000 and a standard deviation of 0.186. These results highlight substantial differences in debt levels among various companies.

### Multicollinearity Matrik

Multicollinearity occurs when two or more independent variables in a regression model display a high correlation. This condition can be detected using a correlation matrix. According to Gujarati (1995), multicollinearity becomes a serious issue if the correlation between two independent variables exceeds 0.8. However, if the correlation between explanatory variables is not greater than the correlation of the dependent variable with each explanatory variable, then it can be inferred that there is no serious problem. From this correlation matrix, indications of multicollinearity are evident, as the correlations between certain variables appear to be strong, with a correlation value exceeding 0.8, specifically at 0.9748.

**Tabel 3. Correlation**

	Ln_Fee	Gend	Progend	Ln_Size	Roa	Lev
Ln_Fee	1					
Gend	-0.0362	1				
Progend	-0.0295	0.9748	1			
Ln_Size	0.4233	-0.1513	-0.1524	1		
Roa	0.0845	0.0528	0.0846	0.0895	1	
Lev	0.2138	-0.0548	-0.1036	0.2855	-0.5905	1

### Regression Test

**Tabel 4. Regresion Result**

	(1) Ln_fee	(2) Ln_fee	(3) Ln_fee
Gen	0.0309 (0.24)		0.845* (1.72)
Pro_Gend		-0.107 (-0.22)	-3.075* (-1.72)
Ln_Size	0.558*** (4.15)	0.571*** (4.20)	0.602*** (4.43)
ROA	0.0161 (0.84)	0.0191 (1.02)	0.0102 (0.53)
LEV	-0.649 (-0.73)	-0.576 (-0.65)	-0.478 (-0.54)

_Cons	4.214 (1.00)	3.749 (0.88)	2.673 (0.62)
N	135	135	135
r <sup>2</sup>	0.153	0.153	0.176

t statistics in parentheses

\*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

The results of the regression tests on three different models illustrate the factors that might influence the performance of the banking industry from 2018 to 2022, particularly regarding audit fees. The following provides a brief explanation of each model.

First model (audit fee): This model aims to understand the influence of female audit committee chairpersons (GEND) and company size (ln\_size) on audit fees. The results indicate that female audit committee chairs (GEND) have a positive influence on audit fees, implying that banking industries with female audit committee chairs tend to have higher audit fees. The R-squared ( $R^2$ ) value of approximately 15.3% suggests that the factors included in the model explain only a small portion of the variation in audit fees.

Second model (audit fees): In this model, the variable 'proportion of female audit committee chairs' (ProGend) takes center stage. The results indicate that the proportion of female audit committee chairs has a negative impact on audit fees. This implies that the banking industry, which has a higher proportion of female audit committee chairs, tends to have lower audit fees.

Third model (audit fees) This model incorporates the variables 'female audit committee chair' (GEND) and the 'proportion of female audit committee chairs' (ProGend) in the analysis. The findings reveal that the variable 'female audit committee chair' (GEND) significantly and positively influences audit fees, whereas the variable 'proportion of female audit committee chairs' (ProGend) significantly and negatively affects audit fees. Consequently, it can be concluded that hypothesis 1 is rejected and Hypothesis 2 is accepted.

The comprehensive results of this analysis underscore the significance of audit committee characteristics, specifically gender and proportion, alongside other factors like company size, in influencing audit fees. Female audit committee chairs exhibit a tendency to mitigate risks, potentially contributing positively to the company's survival, thereby increasing audit fees. Moreover, audit committees with a greater proportion of female chairpersons tend to conduct more meticulous examinations of financial reports, potentially enhancing report quality and

expediting the audit process.

## 5 CONCLUSION

Based on the results of research conducted in the banking industry listed on the Indonesia Stock Exchange ( <https://www.idx.co.id/id> ) from 2018 to 2022, it can be concluded that the number of female audit committee chairs (GEND) has a significantly positive effect on audit fees, whereas the proportion of female audit committee chairs (ProGend) has a significantly negative effect on audit fees. Company size (Ln\_SIZE) significantly influences audit fees, while Return on Assets (ROA) and Leverage ratio (LEV) do not exhibit a significant effect on audit fees.

Future researchers are advised to increase and diversify the number of research variables. Additionally, expanding the sample to encompass various industrial sectors listed on the IDX would be beneficial. The banking industry in Indonesia should consider the impact of having female audit committee chairs and the proportion of female audit committee chairs, as these factors influence both the size of audit fees and the company's continuity. By considering the suggestions and results derived from this research analysis, the banking industry in Indonesia can focus on the factors affecting audit fee size and endeavor to enhance the financial quality and sustainability of their businesses.

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