

Impact of Abnormal Audit Fees on Audit Opinion and Quality in ASEAN Countries

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ABSTRACT

Positive abnormal audit fee decreases audit quality. A high abnormal audit fee reduces audit quality because it interferes with the auditor's independence and objectivity. In addition, high audit fee allows a creation of economic bonding between auditors and clients. Likewise, a negative abnormal audit fee also decreases audit quality. This is because the auditor adjusts his/her audit effort and procedures according to the fee paid by his/her client. This study examines the effect of an abnormal audit fees on audit opinion and audit quality in five ASEAN countries which are Indonesia, Malaysia, Philippines, Singapore, and Thailand. The sample comprises companies listed on the stock exchanges in the five countries between 2010 and 2014. The regression result shows that a positive abnormal audit fee does not have a significant effect on the probability of a company to get an unqualified audit opinion. These results indicate that there is no opinion shopping.

Keywords: Abnormal audit fee, agency theory, audit quality, discretionary accruals, opinion shopping

INTRODUCTION

An abnormal audit fee is defined as the difference between the actual audit fee and the expected level of audit fee or "normal" audit cost of the audit engagement made

(Choi et al., 2010). In the previous research by Choi et al. (2010), Hope et al. (2009) and Higgs and Skantz (2006), the total audit fee was broken down into a normal and abnormal components and was tested for a relationship between abnormal audit fee and audit quality.

This study is an extension of Xie et al. (2010) and Choi et al. (2010) for the impact of an abnormal audit fee on the probability of a better audit opinion and audit quality. The samples used in the previous research were companies listed on the China Stock

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Exchange in 2010 (Xie et al., 2010) and in Korea from 2000 to 2003 (Choi et al., 2010). In this study, the sample comprises companies listed on the stock exchanges of five ASEAN countries between 2010 and 2014. The selection of the ASEAN region is motivated by its developing countries that has attracted many investors due to their low labor costs. Currently ASEAN is in the stage of establishing regional economic cooperation (ASEAN Economic Community - AEC) where one of its agendas is ASEAN capital market integration. For this integration, high-quality financial information is needed. To improve the quality of financial information, a quality audits are also needed.

The previous research found a positive correlation between audit fee and audit opinion where a high audit fee led to a better audit opinion (Chen et al., 2005; Fang & Hong, 2008). Opinion shopping occurs when there is a negotiation between an auditor and an auditee (management). As mentioned by Antle and Nalebuff (1991), the resulting financial statements depend on the negotiation strategy used by the auditor. This negotiation is an act in which the auditor consults the management regarding the conformity of the financial statements to the generally accepted standards. Negotiation is based on information generated in regular audits. The auditor examines the company's finances and seeks evidence to verify or deny the management statement (Robertson, 1990). Gibbins et al. (2001) stated that auditors believed that negotiations were an important part of their responsibilities and

also a part of the services they provided to clients. Thus, the independence and objectivity of the auditor in conducting assurance becomes disrupted by the actions of a management that conducts opinion shopping to get opinions according to its needs (Gavious, 2007). This research investigates whether a positive abnormal audit fees affect the probability of a company to get an unqualified opinion.

According to Choi et al. (2010), abnormal audit fees can be divided into a lower audit fees and a higher audit fees. A lower audit fee deals with the client's bargaining power, whereas a higher audit fee is associated with an economic ties with clients. In a broad sense, abnormal audit fees can be seen as "client-specific quasi-rent" (DeAngelo, 1981). The positive existence of this client-specific quasi-rent creates an incentive for auditors to compromise their independence of a particular client (Chung & Kallapur, 2003; DeFond et al., 2002; DeAngelo, 1981). Dye (1991) on the basis of his analysis, showed that audit quality was disrupted when auditors were overpaid. Based on these studies, it can be considered that the quality of audits decreases along with the high audit fees paid by clients. This is due to a several factors, such as the economic attachment between the auditor and the client, and the greater benefit the auditor receives over and above the cost, which may result in the auditor allowing opportunistic earnings management actions. They also make the auditor to compromise their independence to their clients which eventually degrades the quality of the audit.

This research aims to investigate whether an abnormal audit fees both positive and negative affect an audit quality.

Literature Review and Hypothesis Development

In accordance with agency theory, there is a conflict of interest between shareholders and agents (management). Agents are parties granted power by shareholders and they have the duty and responsibility to increase the value of the company and the interests of a shareholders. However, problems arise when the management misuses the powers for personal gain by ignoring the interests of the shareholders (Jensen & Meckling, 1976).

The auditor is the party chosen and paid directly by the auditee who, in this case is the management (Gavious, 2007). Dotoh et al. (2004) pointed out that it was the management that appointed or dismissed the auditor and paid them for the audit and non-audit services they performed.

In assessing the suitability of financial statements with generally accepted accounting standards, a proper and appropriate professional judgment is required (Ruiz-Barbadillo et al., 2004). Therefore, in a financial statement, there is a proportion of responsibility on the management as the appraised party and also the auditor as the party conducting the appraisal so that the financial statements of the company can be seen as a joint effort between the management and the auditors. Antle and Nalebuff (1991) suggested that the resulting financial statements depended

on the negotiation strategy used by the auditor.

An assessment of the fairness of a financial statement is indicated by an opinion issued by the auditor. There are several types of opinions that can be issued by the auditor, but an unqualified opinion indicates that a financial report is reliable and free of material misstatement. This opinion is considered to be ideal for management needs as it increases user confidence in the financial statements made by the management. Opinions issued by auditors are not only limited to the reliability of financial statements and free from material misstatements but also include an assessment of the viability of the company (going concern). Opinions related to this are referred to as "going concern opinions."

For auditors, giving a going concern opinion is a difficult and problematic as described Louwers (2007) that the going concern determination is one of the most difficult and complex decisions faced by the auditing profession. This difficulty is due to the fact that the auditor should provide an assessment of the survival of the company, they need to be very careful in doing so. For the management, opinions of going concern are avoided because the manager has an interest in building an image as the good steward (Watts & Zimmerman, 1986). In addition, going concern opinions are avoided by managers for the fear that the opinion could accelerate the bankruptcy of the company. Lennox (2002) referred to this as a self-fulfilling prophecy. When a going concern opinion is obtained by a company,

the market reacts negatively such that company value decreases. This causes the company difficulty when it seeks funding to address the going concern issue.

Consequent to the auditor's going concern opinion, the company is at risk of losing the trust of investors and other parties who fund the company when they experience problems related to the continuity of their business. Thus, the management will seek an unqualified opinion as a form of guarantee to the users of the financial statements that the company is in a good condition. According to Xie et al. (2010), problems arises when the management wants an unqualified opinion when it cannot be supported by reliable and qualified financial statements, which encourage the management to take other actions to retain the unqualified opinion.

Based on the abovementioned thinking, it is assumed that the company that wants to obtain or maintain an unqualified opinion but are not supported by a reliable and qualified financial statements performs an action that leads to the fraud of so-called "opinion shopping." Opinion shopping is done by management to provide high audit fees to the auditor. Previous research finds a positive correlation between higher audit fee and audit opinion; in other words, a high audit fees leads to a better audit opinion (Chen et al., 2005; Fang & Hong, 2008). Opinion shopping occurs when there is a negotiation between the auditor and the auditee (management). As mentioned by Antle and Nalebuff (1991), the resulting financial statements depended on the

negotiation strategy used by the auditor, whereby the auditor consulted with the management regarding the conformity of the financial statements to the generally accepted standards. The negotiation is based on information generated in regular audits. The auditor examines the company's finances and seeks an evidence to verify or deny the management's statements (Robertson, 1990). Gibbins et al. (2001) stated that auditors believed that negotiations were important, part of their responsibilities, and also part of the services they provided to clients.

Because auditors are appointed and dismissed by the management and operate as a business entities (e.g., public accountant firms) that aim to maximize profits, auditors tend to serve the requests of clients (management) to maintain loyalty. Thus, the independence and objectivity of the auditor in conducting assurance is disrupted by the actions of the management through opinion shopping to get opinions according to their needs (Gavious, 2007).

A high audit fee is paid by the management in the form of an additional cost in order for the auditor to continue providing or even enhance the opinion on an unqualified opinion. A higher fee implies a greater probability of the management to maintain or obtain an unqualified opinion. Therefore, based on the above explanation, the following hypothesis is proposed:

H1: A positive abnormal audit fee increases the probability for a company to receive an unqualified opinion.

The auditor comes as an independent party to conduct assurance against the financial statements objectively and ascertain whether the financial statements prepared by the management are reliable, of good quality, and free from material misstatement.

Dopuch and Simunic (1982) and Watts and Zimmerman (1986) stated that the basic purpose of the audit process was to enhance the quality of the financial reporting process through the provision of audits with quality improvement. In other words, to improve the quality of the financial reporting process, the quality of audit should be improved. DeAngelo (1981) also maintained that audit quality was determined by two factors: (1) the auditor's ability to test accounts in financial statements and identify errors or anomalies through technical competence and (2) objectivity through independence. However, after an audit was conducted, it was not followed by a quality improvement by the management. This was because under agency theory, as explained in the development of the first hypothesis, there was a conflict of interest between the main party and the agent (management), in which the agent was authorized to run the company in order to improve the welfare of the main party. However, due to the power given in running the company's operations, the management is also trying to take advantage to maximize profits for their own interests, thereby ignoring their basic tasks (Jensen & Meckling, 1976). To maximize their own personal interests, it is necessary to manipulate the financial statements in order

to trick the principal on the condition of the company so that the main party remains confident that what the management is doing is entirely in the interests of the main party.

The implementation of audit work by auditors with an objective to improve the quality of financial statements enables the auditor to discern any manipulative matters performed by the management and not in accordance with generally accepted accounting standards. This, of course, causes the management to worry that improved audit quality will reduce the ability of the management to maximize their personal interests.

With this in mind, it can be expected that there are actions taken by the management to manipulate the quality of the audit. These actions come at the cost of high audit fees with the aim that auditors can reduce the audit quality through a negotiation between the auditor and the auditee, therefore, a company financial statements can be seen as a joint effort between the management and the auditors. This shows that the resulting financial statements depend on the negotiation strategy used by the auditor (Antle & Nalebuff, 1991). However, negotiations to reduce audit quality undermine the auditor's independence and objectivity.

There are two significant factors that influence the negotiation to reduce audit quality which are client bargaining power and economic bonding with clients (Casterella et al., 2004). The bargaining power of clients and economic ties with clients are based on the notion that the

management has power over the auditors in terms of appointment and dismissal. In addition, the public accountant firm also has a business goal to maximize profit and thereby have a high dependency on the client. Therefore, the two factors can reduce audit quality and undermine the independence of auditors.

In a perfectly competitive market for audit services, audit fees reflect the cost of the auditor's business and risk mitigation (Choi et al., 2008, 2009; Simunic, 1980). Actual cost differences can reflect the specific business and client risk differences. When auditors receive a high audit fees, it is assumed that they have an incentive to allow clients to perform opportunistic earnings management. Economic theory shows that this relationship is valid as long as the net gain received from the audit engagement is greater than its cost (Kinney & Libby, 2002). The auditor allows such management action because the profit to be received by the auditor is greater than the cost to be paid. Francis and Simon (1987) and El-Gammal (2012) demonstrated that audit quality had a positive and significant impact on audit fees.

Choi et al. (2010) stated that lower fee audit due to the bargaining power of the client, while higher audit fees were related to economics bonding with clients. The existence of economic bonding is supported by the argument about "client-specific quasi-rent", where it creates incentives for auditors to compromise their independence (Chung & Kallapur, 2003; DeFond et al., 2002) and eventually decreases the audit quality (Dye, 1991).

Based on these studies, it can be considered that the quality of audits decreases along with an increase in audit fees. This is due to several factors such as the economic attachment between the auditor and the client and the greater benefit that the auditor receives beyond the cost, which may result in the auditor allowing opportunistic earnings management actions. Based on the above explanation, the following hypothesis is proposed.

H2: A positive abnormal audit fee negatively affects audit quality.

As mentioned before, abnormal audit fee are divided into two types, a positive and negative abnormal audit fees. Based on the previous hypothesis, the positive abnormal audit fees will decrease the audit quality because high audit fees create economic ties between the auditor and the client, thereby reducing auditor independence and objectivity. Choi et al. (2010) found that negative abnormal audit fees did not have a significant influence on audit quality. In this case, the auditor has several incentives to compromise the quality of the audit, but with a negligible or zero audit service fee, the auditor's need for such incentives is not met; therefore, it is unlikely that the auditor will compromise the quality of the audit. The auditor compromises the quality of the audit when the profit earned is greater than the cost to be borne, but for the abnormal negative audit fee, this is not the case, therefore the auditor will perform its duties in accordance with the initial objective of the audit engagement.

According to Choi et al. (2010), when the abnormal audit fee was at a negative value, there were three possibilities. The possibilities were diverse and did not excluded the possibility of compromise between the auditor and the client regarding audit quality. First, for clients with negative abnormal audit fees, auditors had little incentive to compromise audit quality by agreeing to client pressure on substandard reporting. This was because auditor profits by retaining unprofitable or slightly profitable clients were not adequate to cover the expected costs of substandard reporting (e.g., increased risk mitigation and loss of reputation). The observable result, therefore, there was no relationship between abnormal audit fee and the magnitude of discretionary accruals for clients with negative abnormal audit fees. Second, there was a possibility that the lower the negatively abnormal audit fee the less the incentive for the auditor to compromise their independence, thus improving audit quality (the smaller the value of the discretionary accruals). Under such conditions, it could be observed that there was a positive relationship between abnormal audit fee and audit quality for clients with negative abnormal audit fees. Third, when the auditor bears a low audit cost in anticipation of the high audit costs of a favorable agreement in the future (thus, audit fee are now negative in the current period), it made the auditor vulnerable to client pressure to approve biased financial reporting according to the client's wishes). The existence of a discounting condition

in the early engagement period (low-balling effect) could disrupted the auditor's independence. Based on this, it could be observed that there was a significant negative relationship between abnormal audit fee and audit quality for clients with negative abnormal audit fees.

Based on the above three possibilities related to the effect of abnormal audit fee on audit quality, it cannot be ascertained directly whether the negative abnormal audit fees gives a positive, negative, or even has no significant effect to the client. Therefore, based on the above explanation, the third hypothesis is formulated:

H3: A negative abnormal audit fees affect audit quality.

MATERIALS AND METHODS

Research Model

The model used in this study to test Hypothesis 1 was based on the research model by Xie et al. (2010). This study used the same model with an addition of natural logarithmic variables of gross domestic product (LNGDP) of the five selected countries. This addition is aimed to distinguish interstate characteristics between the countries. Model 1 used to test Hypothesis 1 is as below:

$$\begin{aligned} LOGIT(OP_{t=i}) = & \beta_0 + \beta_1 ABNFEE_{it} + \\ & \beta_2 SIZE_{it} + \beta_3 \Delta ROA_{it} + \beta_4 \Delta LEV_{it} + \beta_5 \\ & GROWTH_{it} + \beta_6 LOSS_{it} + \beta_7 LOSSLAG_{it} \\ & + \beta_8 AUDCHG_{it} + \beta_9 LASTOP_{it} + \beta_{10} \\ & BigA_{it} + \beta_{11} LNGDP_{it} + \varepsilon_{it} \quad (1) \end{aligned}$$

where,

OP = Audit opinion for year t , where 1 for obtained unqualified opinion, 0 otherwise.

ABNFEE = Abnormal audit fee.

SIZE = Natural logarithm of asset at the end of tax year.

Δ ROA = Change in ROA (ROA = net income divided by total assets).

Δ LEV = Change in leverage (leverage = total liabilities divided by total assets).

GROWTH = Growth of the company (shown by growth rate of total assets).

LOSS = 1 if net income for the year is negative, 0 otherwise.

LOSSLAG = 1 for negative $t - 1$ net incomet-1, 0 for otherwise.

AUDCHG = 1 if auditor is different from previous auditor, 0 otherwise.

LASTOP = Opinion in previous year; 1 for unqualified opinion, 0 otherwise.

BIG4 = 1 for companies audited by Big Four, 0 otherwise.

LNGDP = Natural logarithm of total gross domestic product at the end of the year for each country.

The model used to test Hypotheses 2 and 3 is based on the research model of Choi et al. (2010). This study used the same model with an addition of natural logarithmic variables of gross domestic product (LNGDP) of the five selected countries. This addition is aimed to distinguish interstate characteristics between the countries. Model 2 used to test Hypotheses 2 and 3 is as follows:

$$ABS_DAC_{it} = \beta_0 + \beta_1 ABNFEE_{it} + \beta_2 SIZE_{it} + \beta_3 BIG4_{it} + \beta_4 BTM_{it} + \beta_5 CHGSALE_{it} + \beta_6 LOSS_{it} + \beta_7 LEV_{it} + \beta_8 AUDCHG_{it} + \beta_9 ROA_{it} + \beta_{10} LNGDP_{it} + e_{it} \quad (2)$$

where,

ABS_DAC = Absolute discretionary accrual

ABNFEE = Abnormal audit fee

SIZE = Natural logarithm of total assets

BIG4 = 1 for companies audited by Big Four, 0 otherwise

BTM = Book-to-market ratio

CHGSALE = Change in previous year's sales divided by total assets

LOSS = 1 if net income in the current year is negative, 0 otherwise

LEV = Total liabilities divided by total assets

AUDCHG = 1 for the first year of audit contract with the company, 0 otherwise

ROA = Return on assets for year $t - 1$

LNGDP = Natural logarithm of gross domestic product at the end of the year for each country

To measure ABNFEE using Choi et al.'s (2010) model, some variables (PENSION, REPORT_LAG, RESTAT, NBS, and NGS) are eliminated as they are difficult to obtain. The abnormal audit fee model (Model 3) is as follows:

$$AFEE_{it} = \beta_0 + \beta_1 LNNTA_{it} + \beta_2 INVREC_{it} + \beta_3 EMPLOY_{it} + \beta_4 LOSSLAG_{it} + \beta_5 LEV_{it} + \beta_6 ROA_{it} + \beta_7 LIQUID_{it} + \beta_8$$

$$BIG4_{it} + \beta9 SHORT_TEN_{it} + \beta10 BTM_{it} + \beta11 CHGSALE_{it} + \varepsilon_{it} \quad (3)$$

where,

AFEE = Natural logarithm of actual audit fee

LNTA = Natural logarithm of total assets

INVREC = Inventory and receivables divided by assets

EMPLOY = Square root of total employees

LOSSLAG = 1 for negative $t - 1$ net income, 0 for otherwise

LEV = Leverage (total liabilities divided by total assets)

ROA = Return on assets (net income divided by total assets)

LIQUID = Current assets divided by current liabilities

BIG4 = 1 for companies audited by Big Four, 0 otherwise

SHORT_TEN = 1 for audit in first or second round of audit, 0 otherwise

BTM = Book-to-market ratio

CHGSALE = Change in last year's sales divided by total assets in the current year

ε_{it} = Error coefficient of company i in year t that later will be used as an estimated value of **abnormal audit fee**

ABS_DAC was used to measure audit quality as it could capture the quality of accounting information. The DA values themselves have been used in many studies, such as Healy (1985), DeAngelo (1986), Dechow and Sloan (1991), Jones (1991),

Dechow et al. (1995) and Fitriany et al. (2016). This research used the absolute discretionary accrual model by Kothari et al. (2005) as formulated follows.

$$\begin{aligned} \frac{TAC_{it}}{TA_{it-1}} &= \beta0 + \beta1 \left(\frac{1}{TA_{it-1}} \right) \\ &+ \beta2 \left(\frac{\Delta REV_{it} - \Delta REC_{it}}{TA_{it-1}} \right) + \beta3 \left(\frac{PPE_{it}}{TA_{it-1}} \right) \\ &+ \beta4 ROA_{it-1} + \varepsilon_{it} \end{aligned}$$

where,

TAC_{it} = Total accruals of company i in period t

NI = Net income

CFO = Cash flow from operating activities

TA_{it-1} = Total assets at the end of year $t - 1$

ΔREV_{it} = Change in net sales from year $t - 1$ to t

ΔAR_{it} = Change in total net receivables from year $t - 1$ to t

PPE_{it} = Total gross property, plant, and equipment of company i in year t

ROA_{it} = Return on assets for year $t - 1$

ε_{it} = Error coefficient of company i in year t that later will be used as an estimated value of discretionary accrual

RESULTS AND DISCUSSIONS

Sample Selection

Five countries within the ASEAN region which are Indonesia, Malaysia, Philippines, Singapore, and Thailand were selected on the basis of the companies listed on the

stock exchange in each country. These countries were chosen because they have many companies that have been listed on their respective stock exchanges. Sample selection was conducted by using purposive judgment sampling where it must be a non-financial companies, possess an information about audit fees and a complete data for all variables. Financial company were excluded from the sample as the financial report formats were different. Based on the data from Thomson Reuters Eikon, there were 3,100 companies listed as at 2014 with 521 companies from Indonesia, 919 companies from Malaysia, 733 companies from Singapore, 677 companies from Thailand and 250 companies from Philippines. The further analysis focused on data for year 2010. From the 3,100 selected companies, 2,686 companies were excluded as they were from financial industry, possessed no information on audit fees and no complete data for all research variables. From the remaining 1,292 samples, the number for abnormal audit fees was calculated by using Choi's (2010) model. The residual value (error) showed the number of abnormal

audit fees for each company. From the 1,292 samples, 549 companies had a positive abnormal audit fees and 743 companies had a negative abnormal audit fees. The positive value means the company paid an audit fee above the normal rate to the auditor whilst the negative value means the company, and vice versa. The details for the sample selection of Model 1 are presented in Table 1.

The total number of sample for Model 2 was 1,145 companies which was lesser than Model 1 because some data were deleted as it became an outlier on absolute discretionary accrual (ABSDAC) variable. The ABSDAC was dependent variable for Model 2. The details for the sample selection of Model 2 are presented in Table 2.

Descriptive Statistics

Model 1. An analysis of the descriptive statistics was performed to understand the characteristics and distribution of the data. The result can also show the fairness of the data used. The analysis was performed by observing the mean, median, standard deviation, and minimum/maximum values.

Table 1
Sample selection for Model 1

Criteria	2010	2011	2012	2013	2014
Company listed in each year	3,100	3,100	3,100	3,100	3,100
- Financial Industry	(648)	(648)	(648)	(648)	(648)
- No information about audit fee	(1,519)	(1,306)	(1,649)	(1,797)	(1,795)
- Incomplete data	(519)	(707)	(595)	(529)	(552)
Sample	414	439	208	126	105
Total observation			1,292		
Sample with positive abnormal audit fees			549		
Sample with negative abnormal audit fees			743		

Table 2
Sample selection for Model 2

Criteria	2010	2011	2012	2013	2014
Company listed in each year	3,100	3,100	3,100	3,100	3,100
- Financial Industry	(648)	(648)	(648)	(648)	(648)
- No information about audit fee	(1,519)	(1,306)	(1,649)	(1,797)	(1,795)
- Incomplete data	(569)	(771)	(615)	(541)	(553)
Sample	364	375	188	114	104
Total observation			1,145		
Sample with positive abnormal audit fees			487		
Sample with negative abnormal audit fees			658		

There were some descriptive statistics used to describe the research data. This was related to the presence of the two models used to test the proposed hypotheses in this study. Model 1 was used to test the effect of audit fees to audit opinion and model 2 was used to test the effect of positive and negative audit fees to audit quality. Table 3 below summarized the descriptive statistical obtained.

Table 3 presented the descriptive statistical analysis for Model 1 (Hypothesis 1). OP variables were dependent variables with binary form and indicated by values 1 and 0. OP variables were opinions received by firms in period t . The highest score was 1, which describes a company with an unqualified opinion; opinions other than unqualified opinion were shown with a value of 0.

Table 3
Descriptive statistic of Model 1

Variable	Average	Std. Deviation	Min	Max
OP (Opinion Audit)	0.6867	0.4643	0	1
ABNFEE Positive	362,548.20	613,041.90	1,189.80	3,263,669
SIZE (USD)	1,584,421,883.78	5,195,234,412.72	949,537.86	53,328,542,009.01
Δ ROA	-0.0018	0.1115	-0.5684	0.5604
Δ LEV	-0.0029	0.1002	-0.5077	0.5290
GROWTH	0.0875	0.1721	-0.5134	0.6815
LNGDP (Million USD)	13,728.57	17,560.48	2,145.24	56,284.33
DUMMY VAR	DUMMY=1	DUMMY=0		
LOSS	14.03%	85.97%		
LOSSLAG	10.56%	89.44%		
AUDCHG	22.77 %	76.23%		
LASTOP	82.51%	17.49%		
BIG4	54.00%	46.00%		
Observations	549			

Based on the descriptive statistics in Table 3, it was seen that the ABNFEE was the independent variable. This variable was obtained after conducting a regression on the audit fee model. ABNFEE was the residual value of the audit fee model and was used as a proxy for an abnormal audit fee. The average abnormal audit fees was USDS 362,548, the maximum value was USD 3,263,669 and the minimum value was USD 1,189.80. The data used to test Hypothesis 1 was a positive abnormal audit fee only because hypothesis 1 predicted companies that paid audit fees above normal (positive abnormal audit fee) have a high probability of getting an unqualified opinion.

The operationalization of the SIZE variable was the natural logarithm of the total assets of the firm in the corresponding period. However, in the table of descriptive statistics above, total assets represented the dollar value of assets and not the value of natural logarithms. The unit of currency used for all data in this study was USD. The average total assets was USD 1,584,421,883, with a minimum value of USD 949,537 and a maximum value of USD 53,328,542,009.

ROA was used as a proxy to assess performance of company. Higher ROA values indicated better corporate performance. Negative ROA values resulted from a company reporting a net loss in year t . ROA described the company's ability to turn their assets into income, thus, the higher the ROA the more effective the company. ROA variables in this study had

a vary characteristics because the standard deviation was higher than the average value.

The LEV variable was a change in the leverage of the firm. The average change in corporate leverage was increased by 0.29%, with a minimum value of -5.07% and a maximum value of 5.2% . GROWTH samples have an average of 0.0875, with a minimum value of -0.51 and a maximum of 0.68.

LOSS and LAGLOSS described the condition of the company's financial statements, scored 0 if the company had a positive net income and 1 if the company had a negative net income. These variables had an average of 0.14 and 0.10, respectively. Therefore, only 14% of the sample experienced losses in year t and 10% in year $t - 1$. AUDCHG indicated whether the company had changed its auditor in the last two years. The average indicated that 22% of firms had changed the auditors. The BIG4 dummy variable indicated the condition of the auditing firm in relation to the Big Four. The average indicated that 54% of firms used the Big Four.

Model 2. The descriptive statistics presented in Tables 4 and 5 were the result of regression for abnormal values of positive and negative audit fees using Model 2. The presented values followed the outliers test and then winsorized to overcome the issue of data including outliers (above the upper limit or below the lower limit).

Table 4

Statistic descriptive of Model 2 – Positive ABNFEE

Variables	Mean	Std. Dev.	Minimum	Maximum
ABS_DAC	0.0725	0.0719	0.0001	0.3101
ABNFEE positive (USD)	391,832.38	678,166.73	1,189.80	3,464,234
SIZE (USD)	1,784,417,074	5,488,962,508	982,964	53,328,542,009
BTM	0.85	0.5976	-0.136	3.3417
CHGSALE	0.081	0.2476	-0.7821	0.9893
LEVERAGE	0.3995	0.2254	0.005	1.0302
ROAt-1	0.0334	0.1551	-0.767	0.8266
GDP (USD)	14,326.67	18,144.54	5,145.24	56,284.33
DUMMY VAR	DUMMY=1	DUMMY=0		
BIG4	56.00%	44.00%		
LOSS	19.00%	81.00%		
AUDCHG	24.00%	76.00%		
Observations	487			

Table 5

Statistic descriptive of Model 2 – Negative ABNFEE

Variables	Mean	Std. Dev.	Minimum	Maximum
ABS_DAC	0.0733	0.0704	0.0001	0.3101
ABNFEE negative (USD)	-378,248.42	403608.82	-3,365,507	-16.72
SIZE (USD)	1,860,689,881	4,168,519,808	8,130,108	44.450.479.402
BTM	0.7652	0.5596	-1.781	2.8246
CHGSALE	0.122	0.2428	-0.7821	0.9893
LEVERAGE	0.51	0.2031	0.0038	1.2048
ROAt-1	0.0467	0.1286	-0.767	0.7674
GDP (USD)	14,704.15	18,050.84	2,145.24	56,284.33
DUMMY VAR	DUMMY=1	DUMMY=0		
BIG4	54.00%	46.00%		
LOSS	16.00%	84.00%		
AUDCHG	24.00%	76.00%		
Observations	658			

Abnormal Audit Fee and Audit Opinion

Table 6 showed *P* value of 0.0000, meaning the research model could be used to predict results. The pseudo R-squared of 0.1795 indicated that the independent variables could explained 17.95% of the dependent

variable and the rest of 82.05% was explained by other factors which were not yet included in the model. The coefficient of the positive ABNFEE variable was insignificant, meaning an above-normal audit fee did not cause the company to have a higher

Table 6
Regression result of Model 1

Variables	Prediction	Coefficient		Prob.
ABNFEE positive	+	0.0000		0.176
SIZE	-	0.1696	**	0.013
ΔROA	+	-1.3506		0.113
ΔLEV	-	-3.4712	***	0.003
LOSS	-	0.3070		0.202
GROWTH	+	2.5192	***	0.000
LOSSLAG	-	0.1797		0.134
AUDCHG	+	0.0105		0.487
LASTOP	-	1.5476	***	0.000
BIG4	+	-0.0101		0.484
LNGDP	+	0.3293	***	0.000
Pseudo R ²	0.1795			
Prob>Chi ²	0.000			
Observation	549			

Dependent variable: Audit opinion

probability of obtaining an unqualified audit opinion. This result was inconsistent with the prediction of Hypothesis 1, which stated that when the auditor received a positive abnormal audit fee it would incentivized negotiations between the auditor and the client through opinion shopping. This result was inconsistent with the findings of Xie et al. (2010) and Fang and Hong (2008) in China which found that abnormal audit fees related to audit opinion when the level of quality of accounting information was low. The insignificance of the results in this study probably because it did not distinguish a qualified and non-qualified financial reports.

Positive Abnormal Audit Fee and Audit Quality

Table 7 showed a *P* value of 0.0000, meaning the research model could be used to predict results. The pseudo R-squared of 0.0755

indicated that the independent variables could explained 7.55% of the dependent variable and the rest was explained by other factors which were not yet included in the model. The coefficient of the positive ABNFEE variable was positively significant. This means that the greater the value of positive ABNFEE the greater the value of ABS_DAC. Because ABS_DAC was inversely proportional to audit quality, the greater the value of positive ABNFEE the lower the audit quality. Impaired audit quality implies any profit management action performed by the client.

These results showed that Hypothesis 2 was supported. When the auditor received a high audit fee, the auditor tend to tolerate the earnings management actions performed by the client such that it degraded the quality of the audit. The provision of high abnormal audit fees enabled the creation of

Table 7
Regression result of Model 2

Variables	Pred	Coefficient		Prob.
ABNFEE positive	+	0.0000	***	0.000
SIZE	-	-0.0047	**	0.016
BIG4	-	-0.0010		0.452
BTM	-	-0.0189	***	0.000
CHGSALE	-	-0.0177		0.115
LOSS	+	0.0033		0.365
LEV	+	0.0413	***	0.010
AUDCHG	+	0.0051		0.299
ROA	-	-0.0217		0.238
LNGDP	-	-0.0067	**	0.045
R ²	0.0755			
Prob>F	0.0000			
Observation	487			

Dependent variable: Audit quality proxied by ABS_DAC

economic ties between auditors and clients that could disrupted auditor independence and objectivity. The results of this study were in accordance with the results of Krauß et al. (2015) who found that abnormal audit fee negatively affected audit quality, which implies that a premium abnormal audit fee was a significant indicator of compromised auditor independence.

Negative Abnormal Audit Fees and Audit Quality

Based on Table 8, *P* value of 0.0000 means the research model could be used to predict results and R-squared value of 10.78%. This means that the independent variables used had been able to explain 10.78% of the dependent variable (ABS_DAC) while the rest (89.22%) was explained through other factors outside the variables that had been used in this research. Negative ABNFEE proved to have a significant

positive effect on ABS_DAC or a negative effect on audit quality (because ABS_DAC inversely related to audit quality). It means, audit fees improved the action of earnings management and decrease the quality of audit. Based on the development of the third hypothesis, this was because the auditor bore a low audit cost in anticipation of high audit costs of a favorable deal in the future (so audit fee are now negative in the current period). This made the auditor vulnerable to client pressure to approve biased financial reporting (as the client wishes). This result was in accordance with Choi et al. (2010) who demonstrated a negative relationship between the negative abnormal audit fees and audit quality. Blankley et al. (2012) argued that audit quality might be disrupted by discounted fees because auditors would adjust their audit effort and audit procedures according to their wages, e.g., lowering audit hours or assigning inexperienced

Table 8
Regression result of Model 3

Variables	Pred	Coefficient		Prob.
ABNFEE negative	+/-	0.0000	*	0.072
LNTA	-	-0.0047	***	0.004
BIG4	-	-0.0010		0.205
BTM	-	-0.0189	***	0.000
CHGSALE	-	-0.0177		0.460
LOSS	+	0.0033		0.251
LEV	+	0.0413	***	0.000
AUDCHG	+	0.0051	***	0.004
ROA	-	-0.0217		0.365
LNGDP	-	-0.0067		0.426
R ²	0.1078			
Prob>F	0.0000			
Observation	658			

Dependent variable: Audit quality proxied by ABS_DAC

auditors (Gregory & Collier, 1996). In addition, based on research by Hoitash et al. (2007) and Hribar et al. (2014), abnormal audit fee negatively affect audit quality.

CONCLUSIONS

The results of this study are in accordance with agency theory, where conflicts of interest not only occur between the principal and the management but also between the management and the auditor. The existence of economic ties between auditors and clients leads to a decrease in auditor independence and objectivity. The management that wants to maximize profits will try to influence the auditor's judgment, for example, by providing an incentive in the form of higher audit fees to the auditor. With a higher audit fees, the auditor tends to allow the earnings management practices by his clients. In addition, the management wish to

obtain an unqualified audit opinion for the sake of the company's business continuity. However, in this study, there is no significant effect between abnormal audit fees and the probability of obtaining a good opinion. This study finds that a positive abnormal audit fees can reduce audit quality because they interfere with the auditor's independence and objectivity. Negative abnormal audit fees can also reduce audit quality because there is a possibility that auditor will reduce their audit efforts and procedures according to the fees received.

This study finds that many companies have not disclosed the amount of audit fees in their financial statements. Therefore the regulator needs to encourage the disclosure of audit fees so that financial statement users can estimate whether the audit fee is still within a normal scale. If the audit fee is abnormal, it may effect the audit quality. Regulators need to make a policies to set

a minimum standard for audit fee, such as rate per hour for audit partners, supervisors, managers and auditors.

Limitations

There are some limitations in this study. The model used to estimate the value of discretionary accruals in this study, Kothari et al. (2005) utilized ROA to detect earnings management practices. In this study, no other existing models such as the Kasznik's (1999) model and Jones's (1991) model are used for comparison. This study used audit fee data, thus, many companies in the sample were eliminated for the lack of data on abnormal audit fees. Future research is expected to look more deeply at the financial statements of each company to obtain a comprehensive data. In this study, the only variables used as controls to view the intercountry characteristics is the gross domestic product (GDP) per capita during the sample selection period. Further research is expected to consider other characteristics such as applicable laws, geographical conditions, corporate governance, related government regulations, and others. This study is subject to limitations in data collection also because of the considerable sample scope of the five ASEAN countries, thus, data can only be obtained through Eikon and Datastream which contain many unknown values for each variable. It is suggested to discover at other sources by looking directly at the financial statements of each company and other valid sources.

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