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THE IMPACT OF CORPORATE GOVERNANCE STRUCTURE ON THE EXTERNAL AUDIT FEE IN SHARIA SHARES

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ABSTRACT

Introduction: This study aims to determine the impact of corporate governance structures on external fees in sharia stocks that are consistently listed in JII in 2013-2018.
Methods: The number of samples in this study recorded 12 consistent sharia stocks listed in the years 2013-2018. This study uses a quantitative approach with panel data analysis method.
Results: The results show that the average size of the board of commissioners is six to seven people, the average size of the board of directors is seven to eight people, the average size of the audit committees is three to four people, and the average size of the internal audit is fifteen to sixteen people. The hypothesis test shows that variables which have a significant impact on the audit fee are the size of the board of commissioners and the internal audit. Meanwhile, the size of the board of directors and the audit committees do not have a positive impact on audit fees.
Conclusion and suggestion: Companies use more funding from debt than their own capital. Judging from the liquidity ratio, it shows that the company is in a liquid state, which is very capable of fulfilling obligations or debts that must be immediately paid by the company.

INTRODUCTION

The financial statements of the company are an important source of information for stakeholders in making decisions. To increase stakeholders confidence on financial statement information, publicly listed companies are required to audit their financial statements (Chandra, 2015). According to Aryani in a study written by Chandra (2015) companies must use professional KAP services so that the audit assessment can be held independently. The companies must provide fees to public accountants who perform audit services on their financial statements.

In Indonesia, the amount of the audit fee is still becoming an interesting thing to discuss. According to Fachriyah (2010) in a study written by R. H. Wibowo (2012) there are many factors that influence the size of the audit fee, for example (1) the size of the client, (2) the location of the public accounting firm, (3) the size of the public accounting firm. In order to avoid improper determination of audit fees, IAPI issued Decree No. KEP.0241 / IAPI / VII / 2008 concerning about Policy on Determining Audit Fees. This decree was issued to serve as a guide for the public accountant profession and public accounting firm on determining audit fees (R. H. Wibowo, 2012).

Collier & Gregory (1996) and Goddard & Masters (2000) in a study conducted by L. Schrader and Lian Sun (2019) stated that the audit committee is the main entity in a public company with the responsibility for audit surveillance, and thus is in a position to demand more or less of audit scope. Assuming a production (supply) view, good mechanisms corporate governance, such as the impactive audit committees, should improve the control environment and in turn reduce the need for external audits, which lead to reduce audit costs.

Another component of the corporate governance structure is the presence of a majority shareholder and an internal auditor. The majority shareholder is an active investor who has a large investment in the company, therefore they will actively participate in determining the direction of company policy and will make every effort to demand transparency on the performance of the invested capital. This is the reason behind the increasing demand for external audit (Widiasari and Wahyu Prabowo, 2008).

The role of the impactiveness of corporate governance and internal control as a variable in monitoring company management. Besides that, financial reports also need to be audited by external auditors to increase confidence in the company's environment. In this process, the company needs to pay a cost which is called an audit fee. The role of corporate governance and internal control as a form of reliability in corporate financial reporting will certainly affect the size of the audit fee which to be paid (R. Wibowo and Rohman, 2013).

The case example above shows about the role of the impactiveness of corporate governance as a variable in monitoring company management. In addition, financial reports also need to be audited by external auditors to increase confidence in the company's environment. In this process, the company needs to pay a cost which is called an audit fee. The role of corporate governance as a form of reliability in corporate financial reporting will certainly affect the size of the audit fees that will be paid (R. Wibowo and Rohman, 2013).

Previous study related to audit fees conducted by (Zaman et. al, 2011) about the quality of corporate governance, audit fees and non-audit service fees found that after controlling the characteristics of the board of directors, there was a significant positive relationship between the impactiveness of the audit committee and the audit fees only for larger clients. The results suggested that impactive audit committees perform more monitoring which results in a wider audit scope and higher audit costs.

(Yatim, Kent, and Clarkson, 2006) in their study on the governance structure, ethnicity, and audit fees of listed companies in Malaysia, revealed that external audit costs are positively and significantly related to board independence, audit committee expertise, and audit committee meeting frequency. This study also found a strong negative relationship between external audit fees and Bumiputera-owned companies. Additional analysis into the internal governance structure of the companies in the sample showed that Bumiputera companies practice more profitable corporate governance compared to their non-Bumiputera counterparts.

Another study conducted by (Salehi et. al, 2018) about the relationship between corporate governance mechanisms, executive compensation and audit fees. Evidence from Iran. It showed that there is a positive relationship between audit fees and deltas, but not for Vega; this means that the premium cost is associated with Delta's CEO incentives. His findings suggested that Iranian companies pay more audit fees when they reward managers more. Furthermore, the results showed that there is no significant relationship between costs resulting from audit risk with Delta and Vega's incentives from the board. Inconsistent with agency theory, the authors found that the independence of board members has no impact on audit fees. Managers who invest in companies under their own management have no impact on the amount of audit fees. In other words, there is no significant relationship between board ownership and audit fees.

Although the literature and studies on audit fees is quite developed currently, it can be said that there is still lack of studies examining the impact of corporate governance structures on audit fees, especially in sharia stocks that are consistently listed in JII in 2013-2018. Therefore this study aims to examine the impact of corporate governance structures consisting of commissionaire size, board size, audit committee size, and internal audit size on audit fees in sharia stocks that are consistently listed in JII in 2013-2018.

LITERATURE REVIEW

Agency Theory

In a modern economy, management and company's supervision are increasingly being separated from company ownership. This is in line with the Agency Theory which emphasizes the importance of company owners (shareholders) handing over the management of the company to the professional staffs (called agents) who have better understanding on their daily business. The purpose of separating management from company ownership is that the company owner can get the maximum possible profit at the most efficient cost by being managed by professional staff (Sutedi, 2011). Meanwhile, the supervisory mechanism is carried out by internal and external parties to the agent. This mechanism can be internal, such as through the impactive role of the board of commissioners (in a two tier structure) or non-executive boards (in a one tier structure), the audit committees and internal auditors, or can be external through the auditors, the media, and regulators (Mutmainnah and Wahdani, 2013).

According to Jensen and Meckling (1976) in study conducted by Istiqomah and Adhariani (2017) Agency theory is a theory that explains agency problems that arise when the company owner (principal) gives authority to management (agent). The problem arises when the agent has different interests from the principal, which is called the agency problem. Then the agency problem will bring out the costs or what is commonly known as agency cost. Agency cost is the cost that must be incurred by the company which will reduce the principal's wealth to ensure that the agent acts in the interests of the principal. One of the costs that must be incurred is the cost of supervision, both internal supervision (for example through the audit committee and internal audit) and external supervision (for example through external audit).

External Audit Fee

The external auditor is a person who carries out this audit function so that the services offered by the external auditor are assurance services that serve to improve the quality of information from decision makers. In performing these services, the external auditor not only checks whether the presentation of the financial statements is in accordance with the provisions or not, but also sees the condition of internal control within the company for the next audit process (Mutmainnah and Wahdani, 2013). According to McDaniel et al. (2002) in a study written by Mutmainnah and Wahdani (2013) the roles and responsibilities of external auditors are very essential where the

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results of the audit are the end of governance reforms carried out by companies within a certain period of time.

On July 2, 2008 the Indonesian Institute of Public Accountants (IAPI) issued Decree No. KEP.024 / IAPI / VII / 2008 about Audit Fee Determination Policy. This Decree is issued with the aim of serving as a guide for the Public Accountant profession and for the Public Accounting Firm in determining audit fees. In the Attachment 1 of Decree No. KEP.024 / IAPI / VII / 2008 about the Policy for Determination of Audit Fees, it is explained that this guide is issued as a guide for all members of the Indonesian Institute of Certified Public Accountants who practice as public accountants in determining a fair amount of compensation for the professional services they provide (Widiasari and Wahyu Prabowo, 2008).

Corporate Governance

Corporate governance is an overall system of rights, processes and controls that are determined internally and externally over the management of a business entity with the aim of protecting the interests of all stakeholders (Minarni, 2013). Meanwhile, according to The Indonesia Institute for Corporate Governance (IICG, 2012), Corporate Governance (CG) is a series of mechanisms that direct and control a company so that the company's operations run according to the expectations of stakeholders. The Forum for Corporate Governance in Indonesia (FCGI) revealed that corporate governance is a regulation related to rights and obligations that organize the relationship between shareholders, the management (those who manage the company), creditors, government, employees and other stakeholders or the system that controls the company (Lestari and Murtanto, 2017).

Based on the above definitions, corporate governance is defined as internal control system of the company that has the main objective on managing significant risk in order to fulfill its business purposes through safeguarding company's assets and increasing the investment value of the shareholder in the long term (Effendi, 2009). The principles of Good Corporate Governance are as follows, fairness, disclosure and transparency, accountability, responsibility, and independence (Lestari and Murtanto, 2017).

Previous Study and Hypothesis

The Size of Board of Commissioners and External Audit Fees

According to Mulyadi (2000), the function of the board of commissioners is to oversee the management of the company which is carried out by management (directors) also to be responsible for determining whether management has fulfilled their responsibilities in developing and implementing the company's internal control or has not. The size of the board of commissioners is the number of members of the board of commissioners in a company. Coller and Gregory (1999) in Sembiring (2005) stated that the greater the number of members of the board of commissioners, the easier it will be to control the chief executive officer (CEO) and the monitoring will be more impactive (Erwanti and Haryanto, 2017). In this study, the size of the board of commissioners is measured by the number of members who are on the board of commissioners.

In a study conducted by Hamid and Abdullah (2012) revealed that audit fees are positively and significantly related to the size of the board. Chandra (2015) also argued in his study that the size of the board of commissioners has a positive but insignificant impact on audit fees. Based on the previous studies, the hypothesis adopted in this study is as follows:

H1: The size of the board of commissioners has a positive impact on audit fees

The Size of Board of Directors and External Audit Fees

The board of directors is an agent of shareholders to ensure that the company is managed for the benefit of the company. The board of directors itself according to the Limited Liability Company Law is a corporate organ that is fully responsible for the management of the company for the interests and purposes of the company and owns the company both inside and outside of its control under the provisions of the Articles of Association (Surya and Yustiavandana, 2006).

The board of directors is responsible for managing the company. The board of directors is elected by shareholders in a general meeting of shareholders (RPUS) which represents the interests of these shareholders. The role of the board of directors is very important and quite decisive for the successful implementation of GCG. Full of commitment from the board of directors is required so that GCG implementation can run smoothly as expected (Effendi, 2009).

Every public company based on this rule is required to have at least 1 (one) person from the board of directors who are elected in advance through the GMS prior to listing and begin to become impactive as an unaffiliated director after the company's shares are listed. Based on the recommendations of the Code for Good Corporate Governance, it shows that at least 20% of the members of the board of commissioners and board of directors are independent members (Surya and Yustiavandana, 2006). In this study, the size of the board is measured by looking at the number of members who are in the board's structure.

In a study conducted by (H. Chung and P. Wynn, 2014), it found a positive relationship between director premiums and officer premiums with audit fees, it indicates that auditors impose higher costs on companies with low governance quality. In addition, the positive relationship between director & officer premiums with audit fees persists even after controlling the structural governance quality, suggesting that non-structural governance features are gradually associated with auditors' personal information about audit risk and litigation risk. Based on the explanation above, the hypothesis considered in this study is as follows:

H2: The size of the board of directors has a positive impact on audit fees.

The Size of Audit Committees and External Audit Fees

According to Jensen and Meckling (1976) in a study written by (Usman Miko and Kamarudin, 2015), it is stated that agency problems exist between company owners and agents because of differences in goals to be achieved. In the case of this study, audit committee (financial expert, audit committee independency and the size of audit committee) and audit quality (top 4, audit tenure and audit fees) are used to test their impact on minimizing agency costs between investors (owners) and managers.

An impactive audit committee plays an important role on enforcing good corporate governance practices. Audit committee members in the company are appointed by management and the Board of Directors (BOD) to oversee the company's financial activities also have a function as a liaison between the board of directors, internal, and external auditors. It is a common practice that an audit committee consists of majority of external directors. The main responsibilities of the audit committee include assisting the Board of Directors in matters of financial reporting and internal control also communicating with the financial management of the Board of Directors, independent auditors, and internal auditors. The important role of the audit committee illustrates the importance of the audit committee's function to ensure the corporate governance on to shareholders. The role of the audit committee is to liaise with external auditors, to appoint and dismiss the head of the internal audit department, to monitor the reliability of financial reports and company performance also to review the impactiveness of the company's internal control and risk management (A. Rahim, Johari, and Takril, 2015).

MCCG (2012) stated that an audit committee must consist of at least three directors. According to Lin, Xiao and Tang, (2008), Steiner, (1972), and Hackman, (1990) in a study written by Othman et al. (2014) showed that a larger size of the audit committee will cause debate and unnecessary delays on decision making, as well as poorer communication and decision-making processes. Other than that, according to A. Rahim, Johari, and Takril (2015) in their study showed that the size of the audit committee must be adequate and appropriate to carry significant weight in board decisions. However, certain figures are not suitable to be determined because they depend on the size of the company. In this study, the size of the audit committee determined by looking at the number of members who are on the audit committee.

In a study conducted by O'Sullivan and Diacon (2002) found that the existence of an audit committee has a positive impact on the audit fees which paid by firms in the sample, but they found no evidence that audit fees are sensitive to the composition of the audit committee. This is also supported by R. Wibowo and Rohman (2013) that the size of the audit committee has a significant impact on external audit fees with a significance level of 0.01 below 0.05. Based on the information above, the hypothesis developed in this study is as follows:

H3: The size of the audit committee has a positive impact on the audit fee

The Size of Internal Audit and External Audit Fees

Internal Audit is an assessment function developed independently by professional people who have a deep understanding of the organization's operational systems and activities, ensure that the organization's operational activities are running impactively and efficiently also ensure that the goals and objectives of the organization have been achieved (Susilawati and Atmawinata 2014).

The role of the internal auditor as a mere supervisor (watchdog) consist of inspection, observation, calculation, transaction testing which aimed to ensure the compliance of sharia financial institutions' business processes on stipulated provisions, regulations or policies. The audit method chosen is a compliance audit and if deviations are found, corrections can be made to the Internal Control System (SPI) (Syahril, 2013). In this study, the size of internal audit is measured by the number of members in the internal audit structure.

According to R. Wibowo and Rohman (2013) in their study, internal audit has no impact on audit fee due to almost all of the companies listed in The Indonesia Stock Exchange already have an internal audit function as a consequence of regulations for companies listed on The Indonesia Stock Exchange, so there is no variation about it. This is also found by Widiasari and Wahyu Prabowo (2008) in their study that showed about Internal Audit variable which has no influence on the audit fee as evidenced by the issuance of the Internal Audit variable in the regression analysis. Based on the information above, the hypothesis adopted in this study is as follows:

H4: The size of Internal audit has a negative impact on audit fees.

RESEARCH METHODS

The approach used in this study is quantitative approach. This study is conducted on sharia stocks that are consistently listed in JII in 2013-2018 on the official website of The Financial Services Authority. Collecting data in this study using secondary data sourced from company financial reports through the official website of The Indonesia Stock Exchange and The Financial Services Authority. The object of this study is the corporate governance structure related to the size of the board of commissioners, the size of the board of directors, the size of the audit committees, the size of the internal audit and the external audit fee. The sample in this study consisted of 12 sharia stocks that are consistently listed in JII from 2013 to 2018. The data analysis techniques used in this study included descriptive statistical analysis, panel data regression, and hypothesis testing using EViews 10.

The variable controls used in this study included leverage, liquidity, and profitability. The indicator used to measure leverage is by using the ratio of total debt to total equity of the company. The indicator used to measure liquidity in accordance to the study is by using the current asset ratio. The indicator used to measure profitability is the use of return on equity (ROE) (Pitasari and Septiani 2014).

Table 1
Operational Variables

Sub Variables	**Indicators**
	Dependent Variable
External audit fee	The measurement in the external audit fee variable is by looking at the external audit fee value which given by the company for its services.
	Independen Variable
The size of board of commissioners	The measurement in this study looks at the number of commissioners in companies that are consistently listed in JII in 2013-2018.
The size of the board of directors	The measurement in this study looks at the number of members of the board of directors in companies that are consistently registered to the JII in 2013-2018.
The size of audit committee	The measurement in this study looks at the number of audit committee members in companies that are consistently listed in JII in 2013-2018.
The size of internal audit	The measurement in this study looks at the number of internal audit members in companies that are consistently registered to the JII in 2013-2018.

RESULT AND ANALYSIS

Table 2
Descriptive Analysis

Variable	N	Minimum	Maksimum	Mean	Std. Deviation
UDK	78	3.0000	12.00	6.2051	2.0216
UD	78	5.0000	11.00	7.8205	1.5352
UKA	78	2.0000	6.00	3.5384	0.9214
UAI	78	1.0000	63.00	15.2179	15.760
LEV	78	0.1900	3.01	1.0216	0.6655
PROF	78	0.0600	29.20	10.0393	8.9840
LIK	78	0.6100	465.70	63.9403	116.6402

Companies that are consistently listed on the JII (Jakarta Sharia Index) in 2013-2018 have fulfilled the requirements of the corporate governance structure, namely having a board of commissioners with an average of six to seven people, an average of seven to eight directors, an average of three to four members of the audit committee, and an average of fifteen to sixteen members of the internal audit.

Table 3
Hypothesis Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
UDK	0.378740	0.175932	2.152766	0.0348
UD	-0.165154	0.193056	-0.855470	0.3952
UKA	0.290434	0.376565	0.771272	0.4431
UAI	-0.148256	0.029142	-5.087383	0.0000

From the results of the first test, it shows that the hypothesis is accepted. This shows that the size of the board of commissioners has a positive impact on external audit fee with a probability value of 0.0348 which is smaller than t-count (0.05). This is due to the fact that the board of commissioners has an important role in determining the external audit fee as a service in helping the company's financial reports audit. These results are consistent with the results of study conducted by Hamid and Abdullah (2012) that audit fees are positively and significantly related to the size of board and Chandra (2015) that size of board of commissioners has a positive but insignificant impact on audit fee.

From the results of the second test, it shows that the hypothesis is rejected. The results of the test for the size of the board of directors has not a positive impact on external audit fee with a probability value of 0.3952 greater than the t-count value (0.05). This suggests that the size of the board of directors has not an important role in making decisions regarding audit fee. This is caused by the director's job is to supervise the company.

From the results of the third test, it shows that the hypothesis is rejected. The results of the size of audit committees variable has not positive impact on external audit fees with a probability value of 0.4431 greater than the t-count value. The results of this study contradict the results of the study conducted by R. Wibowo and Rohman (2013) which stated that the size of the audit committees has a significant impact on external audit fees with a significance level of 0.01 below 0.05.

From the results of the fourth test, it shows that the fourth hypothesis is rejected. The result of the size of internal audit variable has a positive role on the external audit fee with a probability value of 0.000 which is smaller than the t-count (0.05). This shows that it has an important role in assisting external audit on auditing financial statements. This is in contrast to study conducted by R. Wibowo and Rohman (2013) which showed that internal audit has no impact on audit fee because of almost all the companies are listed in The Indonesian Stock Exchange already has an internal audit function as a consequence of regulations for companies listed on The Indonesia Stock Exchange so that there is no variation.

CONCLUSION

The company has an average leverage of 1.02, this shows that the company uses more debt funding than its own capital. Judging from the liquidity ratio in this study of 63.94, this shows that the company is in a liquid state, which is very capable of fulfilling obligations or debts that must be immediately paid by the company. The companies in this study showed an average profitability of 10.03.

Based on the results of hypothesis testing that has been carried out in this study, it shows that the first hypothesis is accepted. It is due to the size of the board of commissioners has a positive impact on external audit fee with a probability value of 0.0348. The second hypothesis is rejected because of the result of the test of the size of the board of directors has no positive impact on external audit fee with a probability value of 0.3952. The third hypothesis is rejected. The result of the size of audit committee variable has not a positive impact on external audit fee with a probability value of 0.4431. The fourth hypothesis is also rejected, the result shows that the size of internal audit variables plays a positive role on external audit fees.

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