THE EFFECT OF COMPLEX ACCOUNTING ESTIMATES ON AUDIT FEES AND THE ROLE OF AUDIT COMMITTEES AS MODERATING VARIABLE

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Abstract: The purpose of this research is to examine the effect of complex accounting estimates on audit fees and the role of audit committee’s effectiveness as moderating variable. This research used sample of Indonesia Stock Exchange non-financial companies for the Last Five Years (2011-2015). The complex accounting estimates used in this research were non-financial assets revaluation, goodwill and goodwill-impairment. Regression results showed that revaluation of non-financial assets, goodwill and goodwill-impairment had no effect on audit fees. However, in companies with an effective audit committee, the audit fee was higher if the company took revaluation of non-financial assets. The results of this research could be considered by regulators to set auditing standards related to audit of fair value that required complex accounting estimates, so that auditors were more aware about the reliability of fair values that were difficult to be observed.

Keywords: Revaluation of non-financial assets; goodwill, goodwill-impairment; audit fees; the audit committee’s effectiveness

1. Introduction

Audit fees are one of the issues that have attracted the attention of researchers in the fields of accounting, auditing, and finance in recent years because after the Enron case the demand for quality audits has increased so that it affects the audit fees (Yuniarti, 2011). This is evidenced by a special survey conducted by the Financial Executives Research Foundation (FERF) in 2015 regarding the trend of audit fees paid by the SEC filers, whose survey results were published on the Journal of Accountancy website in 2016. The survey found that the median annual audit fees paid by 6,490 SEC filings companies increased by 3.2% in 2015 compared to the previous year.

The existence of a survey by FERF proves the importance of knowledge about audit fees, especially regarding the causes of variations in audit fees between companies from year to year because audit fees can reflect the audit quality of financial statements (Larcker and Richardson, 2004; Hoitash et al., 2007). According to the survey the increase in audit fees varied from one company to another in 2015 due to the size, type, and characteristics of the company being audited (Tysiac, 2016).

Yao, Percy, and Hu (2015) and Ghosh, Xing, and Wang (2016) research have proven that inherent risk factors are also one of the determinants of audit fees. In financial statement audits, inherent risk is most likely to occur in complex accounting estimates, or in situations that require a high level of judgment. This is because complex accounting estimates are accounting estimates that are difficult to verify and have not been clearly regulated in accounting standards. However, this estimation is often used by managers so that financial statements become vulnerable to the discretion and opportunistic behavior of management. For example, PSAK 22 "Business
Combinations" which only explains that goodwill is a bargain purchase between parties who combine their business by reassessing their fair value at the time of acquisition. In this PSAK it has not been clearly stated how much goodwill should be recognized at the time of the merger or acquisition. This of course requires management estimates that are considered by auditors as complex accounting estimates for them to assess their reasonableness. Likewise, when management determines the amount of impairment value of goodwill they have.

In addition, components of financial statements that may have to use complex accounting estimates include non-financial assets that are measured using fair value at the time of revaluation when the fair price of the asset is not available on an active market, thus requiring management or appraisal judgment that may contain a bias intentional or unintentional. Therefore the auditor must carry out the audit work more intensively and carefully so that the auditor can express his opinion accordingly on an audited financial statement.

As increasing use of complex accounting estimates in financial statements affects the quality of current financial reporting (Barth 2006), it requires a better understanding of auditors in carrying out audit work on financial statements that use these estimates. In addition, previous research found that auditors have limited valuation skills to assess the estimated fair value, in particular the fair value determined using management assumptions (Kumarasiri and Fisher, 2011; Martin et al., 2006), thus examining the fair value of non-financial assets, goodwill and goodwill-impairment lead to increased audit risk and task-difficulty from the auditor's work. With these additional risks, the additional audit fees are charged by the auditor to the client to compensate the auditor for potential losses associated with these high-risk clients (Calderon, Wang, and Klenotic, 2012).

This research has two contributions. First, this research is a replication of Yao, Percy and Hu's (2015) research in the context of a developing capital market, namely Indonesia. However, this study adds measurements from complex estimates that were previously only limited to the use of fair value when revaluating non-financial assets, with other measurements from the study of Ghosh, Xing, and Wang (2016), namely goodwill and goodwill-impairment. The reason, the revaluation of non-financial assets, goodwill and goodwill-impairment are factors that are equally related to complex accounting estimates that may contain management discretion that will cause agency problems.

Second, this study adds the audit committee role variable that moderates the effect of complex accounting estimates on audit fees. Baepam LK Regulation No. IX of 2004 Concerning Guidelines and Work Implementation of the Audit Committee requires every company listed on the Indonesia Stock Exchange to form an audit committee. The audit committee is formed by the board of commissioners and is responsible to the board of commissioners. One of the duties and responsibilities of the audit committee is to examine financial information that will be issued by the company (Chandra, 2011). Thus, the audit committee is expected to effectively monitor the reliability of the process of determining fair value at the time of revaluation of non-financial assets, recognition of goodwill and goodwill-impairment to improve the performance and quality of company reporting and prevent management discretion (Morck et al., 1988). One way for the audit committee to improve the oversight process, the accuracy and reliability of the fair value of the revaluation of non-financial assets, goodwill and goodwill-impairment is to select high-quality external auditors and negotiate more intensive audits with them. This causes companies that have effective audit committees to pay higher audit fees so that auditors are willing to conduct intensive audits to ensure the fairness of the estimated fair value of the revaluation of non-financial assets, goodwill
and goodwill-impairment, thereby preventing attempts at manipulation of accounting numbers (Klein, 2002) and protect the interests of shareholders (Agoglia et al., 2011). On the other hand, in companies whose audit committees are effective the financial reports produced tend to be of higher quality because the audit committee can properly monitor the reliability of the process of determining fair value at the time of revaluation of non-financial assets, recognition of goodwill and goodwill-impairments to improve the performance and quality of company reporting and prevent management discretion (Morck et al., 1988). This statement is supported by the results of Kamolsakulchai’s (2015) study which found that the effectiveness of the audit committee was positively related to the quality of financial statements. If the financial statements are of good quality, the auditor considers that audit risk is reduced, so that the auditor does not need to carry out very detailed substantive tests and reduce the task difficulties encountered, which in turn auditors will charge lower audit fees as a result of a low-cost audit process and not time-consuming.

2. Theoretical Review and Hypothesis Development

Agency theory and corporate governance theory are theories that can be used to describe agency conflicts arising from the use of complex accounting estimates in financial statements (Jensen and Meckling, 1976). Agency conflicts must be minimized so that shareholders feel protected. To minimize agency conflicts, companies must have good governance. One of them is by involving independent and competent third parties, namely auditors and audit committees.

The auditor must examine the reasonableness of the report so that he can give his opinion on the audited financial statements correctly. Therefore, auditors must consider various factors, one of which is inherent risk arising from the use of complex estimates by management. If the client uses complex estimates in his financial statements, the auditor must make an audit plan and conduct a very detailed substantive test to ensure the reasonableness of the estimate.

a. Complex Accounting Estimates

The uncertainty of estimates and the inherent complexity in financial statements have increased in the last few decades (Christensen et al 2012). This is a consequence of the development of more principle-based accounting standards and the increased use of fair value measurements.

However, standard setters certainly do not intend to introduce unnecessary uncertainty. But rather to increase the relevance of financial statement items. In IFRS 13, the standard-setter advocates a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs (IASB, 2011 paragraph 67). Although standard setters intend to limit the uncertainty of estimates, contemporary standards still tolerate considerable uncertainty in the financial statements. Therefore, auditors need to conduct quality audits so that the complexity and uncertainty of the accounting estimates do not contain a high degree of subjectivity which will be detrimental to shareholders.

b. Hypothesis Development

1) Revaluation of Non-Financial Assets and Audit Fees

Fair value accounting will increase audit fees as a result of increased agency costs related to estimated fair value. The main cause is that capital markets are not always perfect or
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complete, and often require management assumptions or models to determine fair value rather than getting it from a liquid market. The most important thing is whether the fair value has been measured reliably.

Many cases are related to the fair value of non-financial assets, especially when active markets are not available. Fair value based on 'mark-to-model' is measured based on management assumptions and requires appraisal considerations that cause unintentional and intentional bias (Yao, Percy, and Hu, 2015). In addition, many previous studies prove that there is management bias in estimating fair value, thereby increasing audit risk (Beaver and Venkatachalam, 2003).

Regarding audit fees, several studies have examined the determination of audit fees by auditors in relation to audit risk and found that auditors respond to high-risk clients by determining higher audit fees due to increased inherent risk which requires auditors to make higher audit efforts to reduce detection risk (Bell et al., 2001). In addition, not too many companies in Indonesia have conducted non-financial asset revaluations. This is caused by the high costs to be paid to appraisal services and the perception of managers will increase audit fees (Ramadhani, 2016). Therefore, the first hypothesis of this study is as follows:

Hypothesis 1: Audit fees for companies that revaluate non-financial assets are higher than those for companies that do not revaluate non-financial assets.

2) Goodwill, Goodwill-impairment and Audit Fees

Auditors require significant audit effort and difficult audit assessments of goodwill and goodwill-impairment due to the following reasons (Ghosh, Xing, and Wang, 2016). First, the auditor must evaluate the reasonableness of management's estimates, whether the assumptions are consistent with market conditions, management plans and strategies, past experience, other financial statement assumptions, and risks related to future cash flows based on audit guidelines (AU section 341). Second, because accounting standards require goodwill and other long-term assets to be reviewed for impairment if events or changes in circumstances indicate that the carrying value of the asset cannot be obtained, the auditor must be alert for any changes that could affect the recovery of the asset. Third, the auditor needs to consider the processes and controls used by management to develop estimates and then examine appropriate internal and external data in support of significant assumptions (AU 342). Fourth, auditors must understand the business, current strategies for utilizing assets, and the likelihood of future success. Finally, when the asset is decreased and the loss is calculated, the auditor must evaluate the reasonableness of management's determination of the amount of the cost of the reduction (AU 328). Based on several strong reasons as explained earlier, the auditor is expected to charge higher audit fees to clients who have goodwill and goodwill-impairment accounts to compensate for these things. Therefore, the second hypothesis of this study is as follows:

Hypothesis 2a: Goodwill has a positive effect on audit fees.

Hypothesis 2b: Audit fees for companies that do goodwill-impairments are higher than for companies that do not do goodwill-impairments.
3) Revaluation of Non-Financial Assets, Goodwill, Goodwill-impairment, Audit Fees and Effectiveness of the Audit Committee

Revaluation of non-financial assets becomes difficult for the auditor because it uses fair value. Accounting standards require companies to use the fair value of revalued assets that are quoted from an active market if they are available (Level 1). However, in Indonesia the active market is not yet available so standards allow to use the fair value of non-financial assets based on management judgment or appraisal. The use of fair value is vulnerable to discretion because managers who have a drive for self-interest can be motivated to engage in aggressive accounting choices to enlarge the value of assets to meet their own wealth maximization goals (Yao, Percy and Hu, 2015).

Regarding goodwill and goodwill-impairment, the auditor also feels that there are difficulties due to the use of fair value. The auditor must evaluate a lot of data related to the reliability of the fair value of these intangible assets. This requires a lot of audit time and involves senior partners. In addition, the auditor will charge higher fees to clients who have goodwill and goodwill impairment because the auditor must: (1) verify the estimated fair value, (2) involve valuation experts for independent verification of the estimated fair value, and (3) face manipulation by management regarding the timing of recognition of goodwill impairment (Ramanna and Watts 2012).

The problem of manipulation or discretion done by management on the revaluation of non-financial assets, recognition of goodwill and goodwill-impairment will be minimized if the company has an effective audit committee. This is because the audit committee can effectively monitor the reliability of the process of determining fair value at the time of revaluation of non-financial assets, recognition of goodwill and goodwill-impairment to improve the performance and quality of company reporting and prevent management discretion (Morck et al., 1988). One way for the audit committee to improve the oversight process, the accuracy and reliability of the fair value of the revaluation of non-financial assets, goodwill and goodwill-impairment is to select high-quality external auditors and negotiate more intensive audits with them. This causes companies that have effective audit committees to pay higher audit fees so that auditors are willing to conduct intensive audits to ensure the fairness of the estimated fair value of the revaluation of non-financial assets, goodwill and goodwill-impairment, thereby preventing attempts at manipulation of accounting numbers (Klein, 2002) and protect the interests of shareholders (Agoglia et al., 2011). On the other hand, in companies whose audit committees are effective the financial reports produced tend to be of higher quality because the audit committee can properly monitor the reliability of the process of determining fair value at the time of revaluation of non-financial assets, recognition of goodwill and goodwill-impairments to improve the performance and quality of company reporting and prevent management discretion (Morck et al., 1988). This statement is supported by the results of Kamolsakulchais (2015) study which found that the effectiveness of the audit committee was positively related to the quality of financial statements. If the financial statements are of good quality, the auditor considers that audit risk is reduced, so that the auditor does not need to carry out very detailed substantive tests and reduce the task difficulties encountered, which in turn auditors will charge lower audit fees as a result of a low-cost audit process and not time-consuming. Therefore, the third hypothesis of this study is as follows:
Hypothesis 3a: In companies whose audit committees are effective and conduct non-financial asset revaluations tend to have higher or lower audit fees.

Hypothesis 3b: In companies whose audit committees are effective, goodwill has a positive (negative) effect on audit fees.

Hypothesis 3c: For companies whose audit committees are effective and perform goodwill-impairment audit fees tend to be higher or lower.

3. Research Methods
   a. Research Model

This research uses Model (1) and Model (2) developed from Yao, Percy & Hu (2015) and Ghosh, Xing, & Wang (2016). Model (1) is used to test hypotheses without moderation variables, while Model (2) is used to test hypotheses with moderation variables. The research model is as follows:

\[
\begin{align*}
\text{LnFee} &= \beta_0 + \beta_1 \text{REV} + \beta_2 \text{GOODWILL} + \beta_3 \text{GOODWILL-Impair} + \beta_4 \text{ACSCORE} + \beta_5 \text{BIG4} + B_6 \\
&+ \beta_7 \text{LnTA} + \beta_8 \text{LEV} + \beta_9 \text{ROA} + \beta_{10} \text{LOSS} + \beta_{12} \text{ARINV} + \epsilon \\
\end{align*}
\]

(1)

\[
\begin{align*}
\text{LnFee} &= \beta_0 + \beta_1 \text{REV} + \beta_2 \text{GOODWILL} + \beta_3 \text{GOODWILL-Impair} + \beta_4 \text{ACSCORE} \times \text{REV} + \beta_5 \\
&+ \beta_6 \text{ACSCORE} \times \text{GOODWILL} + \beta_7 \text{ACSCORE} \times \text{GOODWILL-Impair} + \beta_8 \text{BIG4} + \beta_9 \text{LnTA} + \beta_{10} \text{LEV} + \beta_{11} \text{ROA} + \beta_{12} \text{LOSS} + \beta_{14} \text{ARINV} + \epsilon \\
\end{align*}
\]

(2)

Where:

Ln FEE is the natural logarithm of audit fees, REV is 1 if the company measures non-financial assets (PPE, intangible assets and investment property) at fair value, and 0 if others; GOODWILL is the ratio of goodwill to total assets; GOODWILL-Impair is a company that carries out goodwill impairments, where 1 if the company records impairments of goodwill and 0 if others; ACSCORE is the value of the effectiveness of the audit committee referring to the list of questions contained in the 2015 Corporate Governance Scorecard about the audit committee; BIG 4 is the size of the auditor that is worth 1 if the company uses the services of Big 4 auditors, and 0 if others; LnTA is the natural logarithm of total assets; LEV is the ratio of total debt to total assets; ROA is the ratio of operating profit to total assets; LOSS is worth 1 if the company suffers a loss, and 0 if it is other; and ARINV is the ratio of receivables and inventories to total assets.

b. Population and Sample

The population used in this study are all non-financial companies listed on the Indonesia Stock Exchange (BEI) in 2011-2015 because companies in Indonesia have only begun to disclose audit fee information in their annual reports since 2011 (Fitriany, Veronica, and Anggraita, 2016) . The sample does not include financial sector companies (such as banks, insurance and investment companies) because the industry has different financial reporting structures and accounting policies related to several things, such as revenue and expense recognition, and valuation of assets (Khikia, 2015). The companies that became the sample in
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this study were selected based on certain criteria (purposive sampling) which aims to get a representative sample in accordance with specified criteria and obtained as many as 171 observations.

4. Analysis and Discussion of Research Results

This study aims to examine the effect of moderating the role of the audit committee on complex accounting estimates and audit fees. The results of hypothesis testing are shown in Table 1.

a. Analysis of the Results of Regression of Main Variables

Model regression results (1) show that companies that do revaluation of non-financial assets do not have higher audit fees than companies that do not revalue non-financial assets, so the results of this study reject Hypothesis 1 (H1). This is due to the conditions in Indonesia where only a few companies listed on the Indonesia Stock Exchange are conducting revaluation of non-financial assets. Despite having high relevance, revaluation of non-financial assets in practice is more complicated because companies have to incur large costs to pay for appraisal services (Ramadhani, 2016). In addition, the average sample company is a large company. Large companies tend to apply upward revaluation to their non-financial assets, which means that the difference between book value and revaluation value will result in an increase in the company's comprehensive income balance. This causes large companies can not avoid tax regulations. PMK Tax Regulation No. 79 / PMK.03 / 2008 which sets a final tax of 10% on the asset revaluation difference allowing companies to choose a cost model to avoid the risk of being exposed to tax regulations that cause an increase in tax payments.

This condition causes the auditor not to pay too much attention to the impact of non-financial asset revaluation on the audit testing that he will do so that it does not affect the audit fees. The results of this study are not consistent either with the results of Yao, Percy, and Hu (2015) and with the results of research by Goncharov, Riedl *, and Sellhorn (2011).

The results of the regression model (1) show that goodwill has no effect on audit fees, so the results of this study reject Hypothesis 2a (H2a). This is caused by the amount of goodwill in Indonesia which is still very low compared to developed countries like the United States. That is, companies in Indonesia still rarely do business combinations. Because the amount is not significant, the auditor does not consider goodwill as an asset that requires significant audit testing, so it has no effect on audit fees. The results of this study contradict the results of research by Ghosh, Xing, and Wang (2016).
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Table 1
Hypothesis Testing Results

<table>
<thead>
<tr>
<th>Ln Fee</th>
<th>Hypothesis</th>
<th>Expected Sign</th>
<th>Model 1</th>
<th>Model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Coef.</td>
<td>Prob</td>
</tr>
<tr>
<td>Main Variable</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>REV</td>
<td>H1</td>
<td>(+)</td>
<td>.002</td>
<td>.495</td>
</tr>
<tr>
<td>GOODWILL</td>
<td>H2</td>
<td>(+)</td>
<td>.000</td>
<td>.450</td>
</tr>
<tr>
<td>GOODWILL-Impair</td>
<td>H2</td>
<td>(+)</td>
<td>.023</td>
<td>.447</td>
</tr>
<tr>
<td>ASCORE</td>
<td></td>
<td>(-)</td>
<td>-.317</td>
<td>.255</td>
</tr>
<tr>
<td>ASCORE*REV</td>
<td>H3</td>
<td>(-)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ASCORE*GOODWILL</td>
<td>H3</td>
<td>(-)</td>
<td>.005</td>
<td>.490</td>
</tr>
<tr>
<td>ASCORE*GOODWILL-Impair</td>
<td>H3</td>
<td>(-)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Control Variable</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BIG 4</td>
<td></td>
<td>(+)</td>
<td>.340</td>
<td>.042**</td>
</tr>
<tr>
<td>LnTA</td>
<td></td>
<td>(+)</td>
<td>.495</td>
<td>.000***</td>
</tr>
<tr>
<td>LEV</td>
<td></td>
<td>(+)</td>
<td>.437</td>
<td>.091*</td>
</tr>
<tr>
<td>ROA</td>
<td></td>
<td>(+)</td>
<td>.825</td>
<td>.221</td>
</tr>
<tr>
<td>LOSS</td>
<td></td>
<td>(+)</td>
<td>.260</td>
<td>.131</td>
</tr>
<tr>
<td>ARINV</td>
<td></td>
<td>(+)</td>
<td>.441</td>
<td>.173</td>
</tr>
</tbody>
</table>

N 171  171
R-square (overall) 0.4906  0.5186
Wald Chi2 (11) 64.80  73.39
Wald Chi2 (17)  0.000  0.000

* Two-tailed probabilities.
* significant at the 10% level (two-tailed test).
** significant at the 5% level (two-tailed test).
*** significant at the 1% level (two-tailed test).

The results of the regression model (1) show that audit fees for companies that do goodwill-impairments are not higher than those that do not do goodwill-impairments, so the results of this study reject Hypothesis 2b (H2b). This is because goodwill-impairments occur irregularly each year with varying amounts, and allow for a large amount of decline which will result in increased reported volatility of earnings. Impairment losses on goodwill may also indicate that the company will experience a loss in future economic value and have an effect on the company's assets and income (Nuryani & Samsudiono, 2013). These reasons might cause most managers to be reluctant to do impairment to goodwill. Because the amount is not significant, the auditor does not consider goodwill-impairment as requiring significant audit testing, so it has no effect on audit fees. The results of this study contradict the results of research by Ghosh, Xing, and Wang (2016).
b. Analysis of the Results of Moderation Variable Regression

The results of the regression model (2) show that companies that conduct revaluation of non-financial assets have lower (negative) audit fees than companies that do not revaluate non-financial assets. This is because the majority of companies that conduct revaluation of non-financial assets in Indonesia use the services of an appraisal (independent appraiser) to determine fair value. Auditing standards recognize the role of the expert. International Standard on Auditing 500: Audit Evidence (International Federation of Accountants, 2010) states that auditors can accept the assessment of specialists employed by management as appropriate audit evidence. This shows the role of substitution between appraisal and auditor, namely that appraisal can provide expertise and insight regarding the estimated fair value of non-financial assets that have the potential to reduce the effort needed by the auditor to achieve a certain level of audit risk (Goncharov, Riedl *, and Sellhorn, 2011). In addition, previous research found that information asymmetry decreases in property companies that use appraisal services (versus management) because in general the use of fair value on non-financial assets will increase the exposure of various parties so that it will reduce monitoring costs (Goncharov, Riedl *, and Sellhorn, 2011; Cotter and Richardson, 2002; Muller and Riedl, 2002). Based on the statement, the auditor charges lower audit fees for companies that are revaluating nonfinancial assets.

The results of the regression model (2) show that for companies whose audit committees are effective and conduct non-financial asset revaluation, audit fees are higher (or less negative), so the results of this study accept Hypothesis 3a (H3a). This is because an effective audit committee will better monitor the behavior of managers who carry out revaluation of non-financial assets to improve the performance and quality of company reporting (Morck et al., 1988). One way for audit committees to improve the process of supervision, accuracy, reliability and quality of financial statements is to select high-quality external auditors and negotiate more intensive audits with them. In addition, there are several other reasons an effective audit committee requires high-quality audits to carry out its supervisory function on manager behavior that has the potential to harm the company (Carcello et al., 2002). First, audit committees demand higher quality audits to protect their reputation. Second, they demand higher audit efforts to avoid legal liability (Gilson, 1990). Third, they prioritize the interests of shareholders by demanding higher quality audits than those normally given by auditors. Thus, companies that have effective audit committees pay higher audit fees so that auditors are willing to conduct intensive and higher quality audits to ensure the fairness of the estimated fair value of revaluation of non-financial assets.

The results of the regression model (2) show that in companies whose audit committees are effective, goodwill and goodwill impairment have no effect on audit fees, so the results of this study reject Hypothesis 3b (H3b) and Hypothesis 3c (H3c). This is because the amount of goodwill in the company's financial statements in Indonesia is still small (Walingitan in Ketaren, 2017), which is an average of only 4.1% of total assets. While companies that recognize goodwill impairment are also relatively few. Because of the small amount, audit risk tends to be small so it does not require an intensive audit process. This causes the existence of the audit committee indirectly does not affect the audit fees.

The results of the regression model (2) show that the effectiveness of the audit committee does not cause lower audit fees in companies that do goodwill impairment, so the results of this study reject Hypothesis 3c (H3c). This is due to the fact that there are still very few companies that carry out goodwill impairments and there is still a lack of understanding of new standards
related to goodwill-impairments (Walingitan in Ketaren (2017)). significant, so it has no effect on audit fees.

c. Analysis of Results of Control Variable Regression

Based on the test results of the control variables shown in Table 4.3, it can be seen that KAP size, company size, and company risk have a positive effect on audit fees. However, profitability, loss, and complexity of the company have no effect on audit fees.

The regression results of Model (1) and Model (2) show that the KAP size has a positive effect on audit fees in accordance with the initial prediction. This means that Big 4 auditors will charge higher audit fees because they have a high reputation and credibility so they are able to conduct higher quality audits. The results of this study are consistent with the results of previous studies (Khikia, 2015; Walid, 2012).

The regression results of Model (1) and Model (2) show that firm size has a positive effect on audit fees that are in accordance with the initial prediction. This is because the larger the size of the company, the longer the audit process, and consequently the higher audit fees. In other words, large clients will have more transactions. Therefore, the auditor must carry out more detailed audit processes and procedures. This results in higher audit fees. The results of this study are consistent with the results of previous studies (Khikia, 2015; Simunic, 1980; Taylor & Simon, 1999; Meshari, 2008).

The regression results of Model (1) and Model (2) show that company risk has a positive effect on audit fees that are consistent with the initial prediction. This means that the higher the leverage ratio, the greater the auditor's responsibility in audit work, so that the auditor deserves a higher reward for offsetting the risk. The results of this study are consistent with the results of Khikia's (2015) research.

The regression results of Model (1) and Model (2) show that profitability has no effect on audit fees. This means that companies in Indonesia do not pay auditors with higher audit fees even though the company is making a profit. The results of this study are not consistent with the research of Khikia (2015) and Simunic (1980).

The regression results of Model (1) and Model (2) show that loss has no effect on audit fees. That is, even though the company is experiencing losses, auditors will not increase or reduce the audit fees they should receive to audit the company's financial statements. In addition, this might be caused by the number of companies that experienced a loss of only 10% of the total sample companies so that the effect is not significant.

Regression results show Model (1) and Model (2) that company complexity does not affect audit fees. The results of this study are consistent with the results of Paramita's (2016) study which found that audit complexity does not affect audit fees.

5. Conclusions

This study aims to examine the effect of moderating the role of the audit committee on complex accounting estimates and audit fees. The object of this research is non-financial companies listed on the Indonesia Stock Exchange in 2011-2015 as many as 171 observations. The independent variables used in this study are the revaluation of non-financial assets, goodwill and goodwill-impairment. Regression results show that the revaluation of non-financial assets,
goodwill and goodwill-impairment has no effect on audit fees. However, in companies with effective audit committees, audit fees are higher if the company revalues non-financial assets.

The implications of the results of this study include encouraging regulators (1) to stipulate regulations related to the maximum amount of depreciation that is allowed to shrink revaluated non-financial assets so that they are not used to avoid income tax; (2) socializing accounting standards regarding goodwill and goodwill impairment, so that the company realizes the importance of information regarding the reliability of goodwill value for stakeholders in the process of making business decisions. As such, goodwill reporting and disclosure of goodwill impairments in financial statements can be improved; (3) establish auditing standards related to fair value audit procedures that require complex accounting estimates so that auditors are more aware of fair value reliability that is difficult to observe.

6. Limitations and Suggestions

Limitations of this study include: (1) not using non-financial asset revaluation attributes related to audit fees such as the use of appraisal services, upward revaluation, and frequency of upward revaluation according to Yao, Percy's research, and Hu (2015). Future studies are expected to include these factors according to Yao, Percy, and Hu's (2015) research; (2) this research is based on the assumption that the use of fair value of non-financial assets, goodwill, and goodwill impairment can affect audit fees. Whereas on the other hand, there is a possibility that audit fees charged by the auditor affect the use of fair value on non-financial assets, goodwill, and goodwill impairment. It is recommended for further research in order to explore the possibility of the endogeneity issue.

7. References


