

## **Relationship between Abnormal Audit Fees and Audit Quality Before and After the Adoption of IFRS in Automotive and Transportation are Listed in Indonesia Stock Exchange**

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**Purpose:** *This paper aims to examine how the relationship between abnormal audit fees and audit quality changed after adoption of the International Financial Reporting Standards (IFRS) in Indonesia.*

**Design/Methodology/Approach:** *Using empirical data collected over the period from 2011 to 2015, this study analyzes the association between abnormally high/low audit fee and audit quality. This study uses linear regression to test the hypothetical relation using discretionary accrual as a proxy for audit quality.*

**Findings:** *This study finds that there exists no significant relationship between abnormally high audit fees and audit quality measured by the magnitude of discretionary accruals in the pre-IFRS adoption period. However, the relationship between abnormally high audit fees and the magnitude of discretionary accruals turns to be positive in the post-IFRS adoption period. These finding suggests that the IFRS enables some clients to engage more discretion in the choice of discretionary accruals and auditors charge higher audit fees in return for allowing the discretion for such clients.*

**Practical Implications:** *This study provides insight to regulators of the need to review carefully the financial statements of firms with abnormally high audit fees, and to investors to be more cautious when using financial information about these firms.*

**Originality/Value:** *To the best of authors' knowledge, this is the first study to assess IFRS impact on audit fee-quality relation. Also, unique Indonesian audit market with intensifying competition and discounting audit fee provides interesting setting to review the impact of abnormal audit fee on audit quality.*

**Keywords:** *IFRS adoption, Audit quality, Abnormal audit fee*

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### **I. INTRODUCTION**

This study aim to identify how the relationship between abnormal audit fees and audit quality changed after the financial accounting standard adopts the International Financial Reporting Standards (IFRS). Currently in Indonesia applies Financial Accounting Standards (IFRSs) which are substantially converged with IFRS which became effective as of January 1, 2012. Some financial accounting standards with IFRS based has provided a significant change from the previous potential to create a big shock to the business world, such as the convergence of IFRS first time in 2012 last. As an example, the new standard IFRS 9 Financial Instruments offers a fundamental change in the classification, impairment and hedge accounting of financial accounting standards previously (<http://iaiglobal.or.id/v03>).

In various previous studies on audit fees and audit quality, found an association of asymmetrical between audit fees and audit quality (Larcker and Richardson, 2004; Higgs and Skantz, 2006; Hope et al., 2009; Mitra et al., 2009; Choi et al., 2010). It became one of the reasons why research on the relationship between audit fees and audit quality, specifically the abnormal signal occurring audit fees.

In a variety of literature review, there are two conflicting viewpoints about abnormally high audit fees. One point of view is that the theory of economic ties (economic bonding) which states that the independence of the audit would be undermined if there is economic engagement of the auditors on fee obtained from the client. Engagement economic will have considerable influence on audit quality. Engagement economic occurs when the client pays a higher fee to the auditor (KAP) to enable the auditors to follow the discretion of management in the financial statements or annual reports of companies (Choi et al., 2010).

The second viewpoint is based on the theory of audit effort, which states that the abnormally high audit fees is based on the efforts undertaken by auditors to improve audit quality. So there is some sort of improvement of the quality of services provided by the firm towards its clients (Eshleman and Guo, 2014). This second view provides an interesting question, that's the context in Indonesia, how many companies who understand and appreciate the efforts of the Public Accounting profession in improving audit quality for its clients. Audit services in the market competition is already there regulations that govern them. But has become common knowledge that the market share of audit services in Indonesia 81.11% are owned by the Big Four (Khakim, 2011), the rest contested by Small and Medium Firm.

Practice on audit fee is also to maintain the suitability of an increase in fees that describes audit risk assessed by the auditor (Lee et al., 2009). Indonesia in terms of audit risk include having a substantial risk as developing countries, particularly the risk of litigation which can be measured from litigation Wingate index (Wingate, 1997; Choi et al., 2008). As a consequence, the auditors lack adequate incentives to provide quality audit services were adequate. In these situations, if the client pays a higher than normal rate, usually in anticipation of profits derived from the consent of the auditor to provide services on the accounting practices that are specific, auditors and clients can form engagement economic often sacrifice quality audit (Choi et al., 2010).

On the other hand, the market of audit services local in Indonesia, rife with cutting or discount fees as a result of fierce competition among KAP Medium and Small Business, even if abnormal audit fees are high given by clients are often seen as quite adequate as compensation for the services previously provided by fee lower, which allows to improve audit quality. In the view of Jung et al. (2016) theory of economic ties is not quite straightforward to see the phenomenon of abnormal audit fees are very cheap in particular fee or unnatural.

For companies that have a strong bargaining power against the profession of Certified Public Accountants will tend to press to get the audit fee is cheap so impact audit quality degradation. Alternatively, when the audit risk assessed by the auditor is low, the audit fee should not be associated with audit quality, as expectation of Jung et al. (2016).

A wide variety of standard presentation of financial statements is different in each country making a cross-country investors increasingly difficult to make decisions. IFRS (International Financial Reporting Standards) answered the challenge of how the financial statements should be performed. The application of IFRS as a global standard will result in fewer choices of accounting methods that can be applied, on the other hand, the disclosure of the details and the process of professional judgment made an impact on the length of time required to present financial statements are of high quality (Wulandari and Lastanti, 2015).

Along with access to information world without borders, the global accounting standards, the complexity of business operations, and increased global competition, impact on the growing needs of investors will be financial statements that are relevant and of high quality. But barriers to the relevant financial reporting and high quality can occur due to a delay in the publication of the financial statements and earnings management action (Wulandari and Lastanti, 2015).

Some of the research that examined the relationship between abnormal audit fees to audit the quality of their work is diverse. In previous research discretionary accruals are used as a proxy to see the quality of the audit (Boone et al., 2010; Choi et al., 2010; Reichelt and Wang, 2010; Lopez and Peters, 2012; Asthana and Boone, 2012).

Jung et al. (2016) summarizes the results of previous studies as follows, first, that there is a positive and significant correlation between abnormal audit fees with discretionary accruals as a proxy to see the quality of the audit (Choi et al., 2010). Thus there is no negative relationship between abnormal audit fees and audit quality. Second, by dividing the period of the adoption of IFRS (before and after), there is a difference, in the period prior to the adoption of IFRS, did not find any association between abnormal audit fees and audit quality, but in the period after IFRS is adopted it turns out there is a positive and significant correlation between abnormal audit fees and audit quality.

Differences with research Jung et al. (2016) is the number of independent variables which became a proxy audit fee in this study only as many as 13 variables: total assets; number of employees; inventory and accounts receivable; liquidity; leverage; ROA; LOSS; growth in sales; firm of auditors; the audit opinion; and auditor changed. While independent variables that are not included in the proxy audit fee is: export, issue; ownership; and foreign ownership.

Specifically, the research problems which is the goal of this study, the first of the relationship positive and negative abnormal abnormal audit fees to audit fees audit quality. Second, the relationship between positive abnormal audit fees and negative abnormal audit fees to audit fees audit quality is affected by the IFRS-based financial akuntansi standards. In other words, focus on the relationship between audit fees and audit quality and the impact of the adoption of IFRS in the company's financial reporting. Empirically testing the relationship between audit fees and audit quality and the impact of the adoption of IFRS into the financial reporting of companies in automotive and transportation industry listed in Indonesia Stock Exchange for the period 2011-2015.

## II. LITERATURE REVIEW

### *Audit fees and audit quality*

Public accountants have a key role in preventing the occurrence of misstatements in financial reporting adverse investor. Public accountant is a profession that requires an attitude of independence, integrity, and objectivity. If the public accountants do not have that attitude may lead to a misstatement in the annual financial statements of the corporation. Engineering data on the financial statements can cause a lot of criticism for the accounting profession that result in reduced confidence in the quality of auditors (Yuvita and Darmawati, 2013). Especially when associated with the level of risk depends on the level of transparency of information and the accuracy of the information reported. The more open and precise information is reported, the lower the risk generated.

Audit good in the company is important for investors. Auditors are expected to minimize the asymmetry of information, by detecting the difference between the figures and disclosures in the financial statements submitted by management to the facts found in the field when conducting audits. In addition, the auditor's opinion is also a guarantee (assurance) to take an investor to invest or otherwise participate. Stakeholders will have more confidence to companies whose financial statements obtain an unqualified audit opinion (Yuvita and Darmawati, 2013).

Yuvita and Darmawati (2013) expressed his view that to get the results of audit quality is more valid use audit quality measures such as the Audit Quality Metric Score (AQMS). The higher the score of AQMS will represent a higher quality audit. Good audit quality is expected to reduce the asymmetry of information that occurs between the principal and the agent. Asymmetry of information may arise from the lack of control of a third party or so-called auditors provide information that enables the company financial statements are balanced between the agent and the principal. De Angelo (1981) define that audit quality as the possibility that the auditor will find and report violations of client errors, have expertise in the client information system, has a strong commitment, do not always believe in the client, and is able to take a decision to give an opinion.

In the competition of audit services, audit fee be the determining factor costs associated with the audit effort and risk audit, these two factors are determined by the auditor (Choi et al., 2008). Many empirical studies testing the audit fee model estimation, specifically the cost is determined by the implementation of the audit work, field costs, risks litigasi, a reasonable profit (Asthana and Boone, 2012). In fact, the audit fee consists of two parts, namely the normal audit fee based on the size of the client company, the risk and complexity, and the second is abnormal audit fee based on the criteria above or below the normal audit fee (Eshleman and Guo, 2014).

Abnormal audit fee reflects the special relationship between the auditorwith the client (Choi et al., 2010). Kinney and Libby (2002) argued that the fee is not standards-compliant could be the benefits of audit services provided rather than seen as audit fee. The view that the unexpected abnormal audit fees may provide additional information on the dynamic relationship between the auditor and the client mutually beneficial relationship (mutual interests).

Many studies emphasize the relationship between abnormal audit fees and audit quality. Some researchers examined the linear relationship between abnormal audit fees and quality of the audit to determine whether the relationship is positive or negative (DeFond et al., 2002; Krishnan et al., 2005; Hoitash et al., 2007). Some studies also showed an asymmetrical relationship between the quality of the audit with abnormal audit fees (Choi et al., 2010).

When the audit fee is above normal, it could be an incentive for the auditor to make compromises in terms of independence so that the quality of the audit to be bad (Choi et al., 2010). The high abnormally audit fees can be categorized as bribery or other forms of economic rent that auditors (Kinney and Libby, 2002) as a result of the high operational costs KAP (DeAngelo, 1981; Becker et al., 1998; Magee and Tseng, 1990).

The views more neutral look that abnormally audit fees are high can be compensated in the form of additional services in audit services to retain the reputation of the accounting profession public or in case of a lawsuit against the auditors in the future (Francis and Krishnan, 1999), so keep giving positive contribution to the quality of the audit. Findings of Blankley et al. (2012) in line with the theory of audit effort which states that the audit client abnormally high fees to obtain accounting information with excellent quality. Higgs and Skantz (2006) also found evidence of a positive and significant relationship between abnormally audit fees and audit quality.

A negative relationship abnormally audit fees to audit quality in previous studies is also not very clear. The low audit fee could be interpreted as a lack of audit effort or a weak bargaining position with the client KAP (Asthana and Boone, 2012), which would give a negative contribution to the quality of the audit. It could be the possibility of that happening is too low the auditors assessing audit risk as a result of audit effort is becoming weaker. So it does not necessarily mean that the audit fee to have a relationship with audit quality (Simunic and Stein, 1996). It would be interesting to study, especially audit services in Indonesia.

### III. HYPOTHESIS DEVELOPMENT

As previously noted, there is a positive relationship between abnormally audit fees to audit quality. In this relationship has been the adoption of IFRS in accounting standards in Indonesia then be interesting to see abnormally audit fees and audit quality. Na et al. (2013) noted that the audit fee be a primary consideration KAP in South Korea in giving discounts if the client auditor assessing audit risk is low. Things are different based on the findings of Wingate's (1997) using the index litigation becomes a sort of guarantee for audit firms (Wingate, 1997; Choi et al., 2008; Choi and Wong, 2007).

On the other hand, there could be pieces audit rates and intense competition among KAP create abnormally high compensating for the additional audit fees for audit effort previously not taken into account and the high audit risk, associated would improve audit quality (Park, 2012). In these situations, abnormally high audit to the auditor is to compensate for the audit effort. So it can be formulated form of the null hypothesis that:  
*H1a*: Positive abnormal audit fees are not associated with audit quality

Third abnormal audit fees to be low, there is the possibility that an auditor does not have the ability to provide adequate resources to ensure audit quality audit awake. Audit fees were low also gives an overview of the client's strong bargaining position KAP (Asthana and Boone, 2012). It could also lower audit fees due to the auditor's assessment of the risk of an audit are low, so the auditor only requires audit resources that are not too large. In other words, the low audit fee did not have a relationship with audit quality. So it can be formulated form of the null hypothesis that:

*H1b*: Negative abnormal audit fees are not associated with audit quality

Furthermore, with the adoption of IFRS in financial accounting standards, the relationship between audit fees and audit quality is also changing. Convergence of accounting standards to IFRS (International Financial Reporting Standards), which have been prepared in advance through the end of 2011 after the adoption phase (2008-2010), which was formally per January 1, 2012 Indonesia to apply IFRS. It is hard to argue their IFRS uses the concept of fair value is very knowledgeable in financial reporting standards, which could use it as a tool for discretion in making accounting decisions in the interests of their own (Hamberg et al., 2011; Horton et al., 2013 ). As a consequence, since the implementation of IFRS, the audit must work extra hard in auditing and procedures wider according to standards IFRS, which can lower the fee, because not all clients understand the consequences of IFRS on the additional work that must be done auditor to meet the standards of financial accounting that adopt IFRS. So in light of the economic theory of bonding, IFRS implementation will give a negative correlation with the quality of the audit.

Research conducted by Widyawati and Anggraita (2013) demonstrate that, in general IFRS is a complex financial accounting standards, where the complexity lies not only in the inherent difficulties of reporting and disclosure of detailed and complete. Thus, there is more effort in several areas of work related to the implementation of IFRS, the auditor consequently require more time to verify our assessment of financial statements. Auditors also need time to explore the audit evidence so that it will extend the time for issuing an audit report. And in the end because the audit report need an extension of time, the publication of financial statements can also be delayed (Wulandari and Lastanti, 2015).

Rohaeni and Aryati (2012) examined the effect of smoothing incomes convergence with IFRS to audit quality as a moderating variable. This study used a sample of manufacturing companies listed in Indonesia, Singapore, and China. The test results of this study states that the convergence of IFRS negative effect on income smoothing. The negative relationship is thought to occur because of the application of IFRS will result in fewer choices of accounting methods that can be applied so that will minimize fraudulent accounting practices (Wulandari and Lastanti, 2015).

Thus, in the process of implementing the new financial akuntansi standards and define an agreement that must be understood by every client regarding the "true and fair value" which requires the auditor to confirm the details of the application of new standards. This gives rise to additional resources in the audit (Yuen et al., 2013) that inevitably will increase the cost of the audit. Two things that are opposite each other is the basis for the formulation of the null hypothesis that:

*H2a*: The association between positive abnormal audit fees and audit quality is not affected by IFRS adoption

With the complexity of IFRS audit work be increased (Liu, 2011) and require more professional judgment of the auditor (Barth et al., 2008) which requires a job with accounting principles and oriented on fair value. IFRS adoption could degrade the quality of the audit with abnormally low audit fees cause KAP does not have an allocation of adequate resources to maintain the quality of audits are minimal. Though it should be understood that the low audit fee affect the quality of the audit where there are KAP is able to allocate resources to the minimum level that can be tolerated, particularly after the adoption of IFRS. There are a number of empirical facts that support that the relationship between the cost of equity capital is low (Daske et al., 2008; Daske et al., 2013; Li, 2010) and high liquidity in the capital markets (Leuz and Verrecchia, 2000). Indonesian capital market more attractive to foreign investors to invest in Indonesia. In this situation letigasi risks that will face greater auditor. Thus the quality of auditing the more sensitive after the adoption of IFRS in audit risk into

account more than the audit fee. In such cases, a negative abnormal audit fees have no significant relationship with audit quality. So that the formulation of the null hypothesis becomes:

*H2b.* The association between negative abnormal audit fees and audit quality is not affected by IFRS adoption.

#### IV. RESEARCH DESIGN

The research design uses hypothetical testing, which refers to a previous study conducted by Jung et al. (2016) about the empirical relationship between audit fees and audit quality and the impact of the adoption of IFRS into the financial reporting of companies in South Korea. In this study, the unit of analysis is the issuer listed on IDX sub-automotive and transport sub-sectors. The variables used in this study are positive abnormal audit fees, negative abnormal audit fees, audit quality and the adoption of IFRS. To estimate the normal audit fees to use a formula that had been used by a variety of researchers previously (DeFond et al., 2002; Choi et al., 2010; Jung et al. 2016), and to compute abnormal audit fees based on the difference between the actual audit fees and predicted (normal) audit fees of formula (1) as follows:

$$LPFEE = LNTA + EMPLOY + INVREC + LIQ + LEV + ROA + LOSS + GRW + BIG4 + FIRST + \Sigma IND + \Sigma YD + \varepsilon \quad 1$$

Where:

LFEE	= natural log of audit fees;
LNTA	= natural log of total assets;
EMPLOY	= square root of number of employees;
INVREC	= percentile rank of inventory and accounts receivable divided by lagged total assets;
LIQ	= current assets divided by current liability;
LEV	= long-term and short-term bonds and debt deflated by assets;
ROA	= net income deflated by lagged total assets;
LOSS	= 1 if the firm reports loss, and 0 otherwise;
GRW	= growth in sales;
BIG4	= 1 if the firm is audited by a Big 4 auditor, and 0 otherwise;
FIRST	= 1 if the auditor changed in year t, and 0 otherwise;
□	= error

Increased audit fee is also influenced by the client company's operations (Choi et al., 2008), so that LNTA and employ variables used to measure client companies. In addition to increasing the amount of the fee to the auditor takes into account the client's legal claims at a later date as a form of litigation risk, including LEV. Similarly, the variable INVERC, FOR EXPORT and to determine the operational complexity of client companies that are positively related to the audit fee (Choi et al., 2008).

Companies that has the advantage of very little or even loss potential risks normally associated with higher audit fee; so variable LOSS, LIQ and ROA is used as a control against the risk karakteristik clients (DeFond et al., 2000; Choi et al., 2008; Craswell et al., 1995; Francis, 1984) and variables to measure variables Opin audit opinion.

Companies with high growth requires more intensive audit Efforts compared with companies that growthnya low boosted the audit fee (Choi and Wong, 2007).

Variable first represents lowballing ie a rebate of audit services is given first to attract clients (Lee and Liu, 2011; Lee et al., 2011). Finally, consideration is also a difference a year and the industry as a control variable. Audit quality is measured by using a proxy of discretionary accruals. Myers et al. (2003) found a proxy for discretionary accruals are generally used to assess the quality of accounting information in addition to other known variables such as accounting fraud audit opinion that is usually associated with a particular situation. Park and Kwak (2007) also states that managers use discretionary accruals to earnings management because of the empirical evidence is not easy to admit or to differences in the financial statements.

The high discretionary accruals may be due to opportunistic behaviors manager (Kothari et al., 2005). Discretionary accruals can be calculated as a residual model in equation (2) below, based -adjusted modified Jones model (Jones, 1991; Kothari et al., 2005):

$$TA_t / A_{t-1} = \beta_0 + \beta_1 (1 / A_{t-1}) + \beta_2 ((\Delta REV_t - \Delta REC_t) / A_{t-1}) + \beta_3 (PPE_t / A_{t-1}) + \beta_4 ROA + \varepsilon_t \quad 2$$

Where:

$TA_t$	=	Total accruals calculated as net income minus cash flows from operations;
$A_{t-1}$	=	Beginning balance of total assets;
□ $REV_t$	=	Changes in sales;
□ $REC_t$	=	Changes in accounts receivable; and
$PPE_t$	=	Gross property, plant and equipment minus land and assets under construction.

To examine the relationship between abnormal audit fees and audit quality using a formula developed by Jung et al. 2016, by regressing discretionary accruals (DA) against abnormal audit fees (ABAFEE) as shown in Equation 3:

$$\begin{aligned} |DA| = & \beta_0 + \beta_1 ABAFEE + \beta_2 LNTA + \beta_3 BIG4 + \beta_4 BTM + \beta_5 CHGSALE \\ & + \beta_6 LOSS + \beta_7 LEV + \beta_8 ISSUE + \beta_9 FIRST + \beta_{10} CFO \\ & + \beta_{11} ADJ\_TACC + industries/year dummies + \varepsilon \end{aligned} \quad (3)$$

Where:

- |DA| = Absolute value of discretionary accruals;  
BTM = Book-to-market ratio;  
CHGSALE = Sales change divided by lagged total assets;  
CFO = Cash flows from operations divided by lagged total assets; and  
ADJ\_TACC = Total accruals divided by lagged total assets

If the quality of the audit (which is calculated from the absolute value of discretionary accruals) is the increase (decrease) which determines abnormal audit fees, the coefficient ABAFEE,  $\beta_1$  will be a significant and positive (negative). In previous research, the characteristics of the company related to audit quality. First Varabel, including LNTA variables can be used as the opinion of Dechow and Dichev (2002) that large / size of the company described the low level of discretionary accruals compared with small companies because it is more stable and predictable accuracy of its accounting. BIG4 variables used for their excellence in previous studies of BIG4 audit quality (Becker et al., 1998; Francis et al., 1999).

Variable profitability and growth are also used (BTM, CHGSALE and LOSS) by the company's operations due to the poor would be an incentive to "tamper" earnings. Becker et al. (1998) argues that the high leverage of companies with earnings management can avoid debt covenants; the research is variable LEV.

ISSUE variable refers to the opinion of Ashbaugh et al. (2003) that companies that have internal and external sources of funds will be more aggressive in managing earnings management. Similarly, the variable CFO (Choi et al., 2010), as a control variable on the dependent variable, |DA| (Kothari et al., 2005). For variable ADJ\_TACC as control over the effect derived from the reversal of accruals, including the type of industry. Then to test the second hypothesis for the effect of the adoption, in particular the relationship between abnormal audit fees and discretionary accruals, IFRS variables measured as a dummy variable regression model equations in the equation four:

$$\begin{aligned} |DA| = & \beta_0 + \beta_1 ABAFEE + \beta_2 IFRS + \beta_3 IFRS * ABAFEE + \beta_4 ABAFEE \\ & + \beta_5 LNTA + \beta_6 BIG4 + \beta_7 CHGSALE + \beta_8 LOSS + \beta_9 LEV + \beta_{10} ISSUE \\ & + \beta_{11} FIRST + \beta_{12} CFO + \beta_{13} ADJ\_TACC + industries/year dummies + \varepsilon \end{aligned} \quad (4)$$

IFRS interaction coefficients and ABAFEE, an indication of the impact of IFRS on the relationship between abnormal audit fees and the quality of audit quality. The control variables used are the same as the model in equation (3).

The population in this study is a company listed on the Indonesia Stock Exchange. The sample used in this study is a sub-company in the automotive and infrastructure sectors listed in Indonesia Stock Exchange in 2011 to 2015. By using a non-probability methods. by purposive sampling, ie sampling method is based on the consideration of researchers wanted to elect the members of the sample was based on certain criteria (Vyonne and Kristaung, 2013).

The method of collecting secondary data from annual reports on each of the issuers listed on the Indonesia Stock Exchange during the period 2011-2015. The data in this study were obtained from the Internet by downloading the annual report of each issuer published through the website of the Indonesia Stock Exchange.

Analysis of data using regression analysis. Software used to process the data in this study include the SPSS (Statistical Package for Service Solution) for windows version, the software to t test can be seen on the coefficients and votes taken by the probability value (significance) compared to the alpha ( $\alpha$ ) 5%.

**V. RESULTS OF THE EMPIRICAL ANALYSIS**

In Table 1 it can be concluded on the mean value | DA | for a sample of companies amounted to 0.80 means that the company is doing abnormal discretionary accruals amounting to 0.80. The market value of equity shares on a sample of companies amounted to more than 2.7 percent and a standard deviation of 4, 14 percent. Leverage the value of the average in the sample of companies amounted to more than more than 1 percent and a standard deviation of 1.93 percent, it shows that more than 1 percent of the company to conduct operations financed by relatively high debt may be caused by the purchase of assets of the company credit so it can not be recognized as an asset prior to payment of the loan asset.

The liquidity ratio is an indicator of a company's ability to pay all short-term financial liabilities using current assets. At the company's sample showed that an average of 1.9 percent and a standard deviation of 5.6 per cent this case stated that the company is difficult to meet immediate financial obligations must be met. Over 25 percent of the sample companies suffered losses and a standard deviation of 43 percent. And more than 58 percent of a sample of companies audited by the Auditor Big 4 and the standard deviation of 49 percent, while FIRST is an assessment of a company that does a change in auditors in early years, which amounted to more than 4 percent of the sample companies have made changes to the auditor in the examination of financial statements.

**Table 1: Descriptive Statistics**

	Minimum	Maximum	Mean	Std. Deviation
DA	-.76457	1.99929	.8019510	.52537560
ABAFEE	-1.67	1.54	.0000	.96825
LNTA	14	24	20.03	1.793
BTM	-10.91	20.14	2.7632	4.14861
BIG 4	0	1	.58	.495
ChgSales	.05	5.32	.7599	.57096
GRW	-.93	3.05	-.0037	.40322
INVREC	.00	30.32	.7732	3.38485
LEV	.06	16.93	1.0044	1.93557
LIQ	.00	62.96	1.9599	5.65220
LOSS	.00	1.00	.2552	.43747
LFEE	-1.67	1.54	.0000	.96825
ROA	-.37	.94	.0591	.12990
First	.00000	1.00000	.0482759	.21509153
IFRS	.00	1.00	.6000	.49160
ADJ_TACC	-56.22	105.68	5.6547	22.03429
Employ	4.00	474.95	51.7122	80.91372

Table 2 presents the Pearson correlation matrix for each variable used in the regression equation of the third (3). Variable absolute discretionary accruals, | DA | correlated negatively with ABAFEE indicating a positive relationship between audit fees and audit quality. Size companies (LNTA) and a Big 4 auditor (BIG4) has a negative relationship with the | DA |, while fluctuations in sales volumes (CHGSALE), firm loss (LOSS), leverage (LEV), initial audit engagement (FIRST), operating cash flows (CFO) and increased activity of an increase in capital (ISSUE) is positively associated with [DA]. Correlation with a number of explanatory variables such as firm size (LNTA) is significant with BIG4, which gives the sense that companies that have here a large-scale operation is more likely to have included Big 4 accounting firm to conduct an audit on the company. Especially for the correlation between LNTA and BIG4, can be viewed as a requirement in the multiple regression analysis that there is no multicollinearity in the model we tested.

**Table 2: Pearson correlation matrix**

	[DA]	ABAFEE	LNTA	BTM	BIG 4	ChgSales	EMPLOY	GRW	INVREC	LOS S	LFEE	ADJ_TACC
[DA]	1											
ABAFEE	-0.036	1										
LNTA	0.041	0	1									
BTM	-0.119	.182*	0.141	1								
BIG 4	0.003	.868**	.351**	.235**	1							
ChgSales	-0.062	0.12	0.127	.390**	.186*	1						
INVREC	0.093	-0.156	0.147	-0.057	-0.09	0.052	-0.038	0.078	1			
LEV	0.091	0	-.322**	-.312**	-0.068	0.052	-0.063	-.288**	-0.035			
LOSS	0.115	0	-.188*	-.171*	-0.078	-.348**	-0.121	-.220**	-0.086	-0.14	1	
LFEE	-0.036	1.000**	0	.182*	.868**	0.12	0	-.184*	-0.156	0.000	0.000	
First	-0.009	0	-0.121	-0.04	-.199*	0.093	-0.052	-0.122	0.038	-0.045	0.016	1
IFRS	-.223**	0.043	0.018	0.015	0.046	-0.151	0.027	-0.007	-0.004	0.06	0.123	-0.079
ADJ_TACC	-0.146	-0.084	0.048	-0.046	-0.076	0.093	-0.05	0.009	-0.042	0.017	-.292**	-0.062

The first results of testing the null hypothesis for the overall sample (a) that the positive Abnormal audit fees have no relation to audit quality by using multiple regression equation shows ABAFEE beta coefficient of -0.021, acceptable, because it gets to the value thitung -0.294 insignificant in confidence level  $\alpha < 0.005$  (Table 3). This means that the increase in discretionary accruals will increase the magnitude of the absolute value of abnormal audit fees are not proven. Similarly, if the sample is divided into positive and negative categories absolute abnormal audit fees, then for positive samples showed abnormal audit fees are not much different from the results of the acceptance of the null hypothesis that abnormal audit fees have no relation with the quality of the audit. The empirical results of this Indonesia showed different results with the findings of Choi et al. (2010) and Jung et al. (2016). In other words, with the increase in the absolute value of discretionary accruals will increase audit effort for the auditor to perform the examination of corporate financial statements.

Companies that are included in the category of positive abnormal audit fees, it is happening is the magnitude of the absolute value of discretionary accruals is not significant and negative. The opposite occurs in the sample group of companies category of negative abnormal audit fees which showed a positive relationship with the magnitude of the absolute value of discretionary accruals. It could be interpreted that the abnormally high audit fee audit refers to the effort rather than on economic theory bonding for audit services market in Indonesia. But it could mean also that no significant association between abnormally low audit fees and audit quality is an indication that the auditors accept fee payments are low because based on risk assessment audit of the client that is also low and with the assurance of audit effort is minimal audit quality remains guaranteed.

**Table 3:** Discretionary accruals and abnormal audit fees

	Entire Sample		Positive abnormal audit fees		Negative abnormal audit fees	
	Coefficient	tstatistic	Coefficient	tstatistic	Coefficient	tstatistic
(Constant)		1.014	10.252	1.362	0.359	0.506
ABAFEE	-0.021	-0.294	-0.908	-1.184	0.052	0.569
LNTA	0.066	0.841	-1.083	-1.338	0.143	1.39
BTM	-0.142**	-2.143	-0.376	-1.841*	-0.168	-2.213**
BIG 4	-0.101	-1.529	0.405	1.45	0.036	0.335
ChgSales	0.049	0.6	0.156	0.947	-0.021	-0.238
LEV	0.016	0.262	-0.153	-0.683	-0.21	-2.843**
LOSS	0.052	0.747	0.814	0.966	0.138	1.632
First	-0.051	-0.818	-0.02	-0.076	0.062	0.764
CFO	0.048	0.611	-0.386	-2.243**	0.061	0.711
ADJ_TACC	-0.245***	-3.633	-0.072	-0.195	-0.258	-3.179**
Industri	-0.119	-1.381	0.261	1.582	-0.022	-0.227
Year	0.075	1.186			0.02	0.273
n	286		88		196	
R2	0.096		0.287		0.139	

\*Significant on a  $\alpha < 0.10$

\*\* Significant on a  $\alpha < 0.05$

\*\*\* Significant on a  $\alpha < 0.001$

Table 4 presents the results of testing the relationship between abnormal audit fees and audit quality after IFRS adoption in financial accounting standards. IFRS variable in this equation is a dummy variable. The test results for the overall sample included interaction coefficient between IFRS\*ABAFEE obtained tcount of 0.944, which showed an increase in abnormal payment of audit fees and the adoption of IFRS are positive and significant at a confidence level of  $\alpha < 0.05$ .

If we look at the columns (2) and (3) of Table 4 clearer. In the period prior to IFRS adoption ABFEE coefficient is not significant because the value obtained for -0.082 thitung yang more  $\alpha < 0.05$ . Opposite results in the period after the adoption of IFRS, tcount ABFEE amounted to 4,789 which significant and positive confidence level  $\alpha < 0.001$ . These results indicate that abnormal payment of audit fees to the auditors is positively related to the absolute magnitude of discretionary accruals that are often deemed difficult to improve audit quality. Empirical findings for audit services market in Indonesia is supporting the relevance of economic theory bonding after the adoption of IFRS as an era which has been investigated by Dye (1991), Choi et al. (2010) and Jung et al. (2016).

Thus, the test results prove that the null hypothesis that the two states there is no correlation between abnormal audit fees and audit quality differs systematically between audits performed in the pre- and post-IFRS periods is rejected. It explained that before IFRS was adopted there was no significant association between abnormal audit fees and audit quality. Instead that after IFRS is adopted it showed positive and significant correlation between abnormal audit fees with unsigned magnitude of discretionary accruals. This means that after the adoption of IFRS had a positive impact on audit fees and audit quality, as determined by the audit



effort. In regression analysis for a significant number of variables is much more on the regression equation companies entering the category after the adoption of IFRS as compared to the overall sample and before the adoption of IFRS.

**Table 4:** Impact of the IFRS on the relation between discretionary accruals and abnormal audit fees: IFRS impact in the entire sample

	Entire Sample		After IFRS		Before IFRS	
	Coefficient	tstatistic	Coefficient	tstatistic	Coefficient	tstatistic
(Constant)	2.738	1.500	-26.616	-4.44***	9.703	5.501***
ABAFEE	-0.223	-1.545	3.231	4.789***	-0.008	-0.082
IFRS	-0.089	-1.140	0.014	0.22	-0.04	-0.635
IFRS*ABAFEE	0.126	0.944	0.001	0.012	-0.063	-0.659
LNTA	0.092	0.867	3.18	4.426***	0.085	1.191
BIG 4	-0.003	-0.028			0.111	1.461
BTM	-0.078	-0.820	0.22	2.242**	-0.112	-1.75*
ChgSales	-0.205	-1.723*	-0.989	-6.055***	-0.361	-5.127***
LOSS	0.231	2.351	-0.108	-1.108	0.065	1.081
LEV	-0.051	-0.571	-0.38	-3.431***	-0.21	-3.651***
First	-0.132	-1.618	-3.438	-4.45***	-0.063	-1.04
CFO	-0.16	-1.502	0.825	6.351***	-0.099	-1.523
ADJ_TACC	-0.25	-2.580**	0.742	5.733***	-0.387	-5.588***
Industry	-0.22	-1.690	-0.997	-5.118***	-0.265	-3.687***
Year	-0.217	-1.658*	0.998	15.222***	-0.699	-12.64***
n	147		62		81	
R2	0.294		0.933		0.831	

\*Signifikan pada  $\alpha < 0.10$

\*\* Signifikan pada  $\alpha < 0.05$

\*\*\* Signifikan pada  $\alpha < 0.001$

## VI. CONCLUSION

The results of an empirical test of the relationship between abnormal audit fees and audit quality audit carried out on the market in Indonesia based on data of companies listed on the Indonesia Stock Exchange automotive and transportation sector for the period 2011-2015. Its results prove that the abnormally high audit fees related to audit quality negatively by economic bonding theory. The result of the division of the sample into two groups: before and after the adoption of IFRS, found no significant association between abnormally high audit fees and audit quality prior to the period of the adoption of IFRS. Positive and significant relationship actually proved in the period after the adoption of IFRS the company with positive abnormal audit fees. These findings could have seen that with the IFRS it provides opportunities for companies taking action based on discretionary accruals earnings management by collusion with auditors.

Limitations of this study can not be circumvented. First, the observation year, the number of industry and a much smaller sample, for example, when compared with studies Jung et al. (2016), which became one of the main reference of this study. Moreover, some of the variables used is the result of a proxy of other variables that could have been a controversy and merely referring to previous studies.

This research is useful for regulators and investors the empirical fact that abnormally high audit fees related to audit quality negative before the adoption of IFRS should be more careful to interpret the company's financial statements indicate the presence of abnormally high audit fees.

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