JRAK
Jurnal Riset Akuntansi Kontemporer

OWNERSHIP STRUCTURE AND AUDIT FEES IN INDONESIA

https://journal.unpas.ac.id/index.php/jrak/index

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Article Info

History of Article
Received: 26/7/2023
Revised: 19/9/2023
Published: 15/10/2023

Jurnal Riset Akuntansi Kontemporer
Volume 15, No. 2, October 2023,
Page 174-185
ISSN 2088-5091 (Print)
ISSN 2597-6826 (Online)

https://doi.org/10.23969/jrak.v15i2.9532

Keywords: audit fees; ownership structure; non-executive director ownership; financial institution ownership; foreign ownership; family ownership

Abstract
Different types of ownership structures provide distinct corporate monitoring mechanisms, thus affecting the magnitude of company audit fees. This study aims to empirically examine the relationship between ownership structure and audit fees in Indonesia from the agency theory perspective. The sample comprises non-financial companies listed in the Indonesian capital market over 2015-2021. Based on the purposive sampling results, the final number of observations in this research is 931 company-years. This study employs pooled OLS panel data regression with robust standard error. Results indicate that non-executive director ownership, family ownership, financial institution ownership, and non-financial institution ownership are negatively related to audit fees. Additionally, managerial ownership and foreign ownership are positively related to audit fees. However, the study does not find a positive relation between government ownership and audit fees. Overall, the results of this research support the agency theory, with a focus on the assumption of convergence of interest.

INTRODUCTION

The accounting scandals or financial statement manipulations that have occurred in Indonesia, such as the cases of PT. Sunprima Nusantara Pembiayaan, PT. Hanson International, PT. Asuransi Jiwasraya, and PT. Garuda Indonesia, indicate the presence of weak corporate governance practices. The case of financial manipulation at PT. Asuransi Jiwasraya and PT. Sunprima Nusantara Pembiayaan occurred in 2018, resulting in both companies experiencing a default. The fraudulent schemes employed by the management of PT. Asuransi Jiwasraya involved profit manipulation, while the management of PT. Sunprima Nusantara Pembiayaan engaged in fictitious receivables and sales. Furthermore, the financial manipulation cases at PT. Hanson International in 2016 and PT. Garuda Indonesia in 2019 were instances of misconduct because the management practiced accounting methods that did not comply with accounting standards (PSAK). In the cases of PT. Sunprima Nusantara Pembiayaan and PT. Garuda Indonesia, auditors were also implicated in the manipulation process, as they did not adhere to professional auditing standards effectively. All of these cases demonstrate the lack of

transparency in financial reporting by these companies, thus failing to meet the principles of good corporate governance. According to Alhababsah (2019), external auditing plays a crucial role in the corporate governance system as it bridges the information gap between those who prepare financial information (management) and those who use it (stakeholders). Auditors are considered as part of the corporate monitoring mechanism, representing shareholders in auditing and examining the activities of the company's management (Nelson & Mohamed-rusdi, 2015).

The trends in corporate governance models in developed countries are insufficient to explain the process of financial statement monitoring in developing countries (Wan Abdullah et al., 2008). Ownership structure is considered one of the crucial mechanisms in the corporate governance system (Qawqzeh et al., 2021). Various types of controlling shareholders have different investment policies and motivations, which, in turn, influence how they exercise their control rights over the investee companies (Alhababsah, 2019). Yatim et al., (2006) state that ownership structure can effectively explain the relationship between corporate governance mechanisms and audit fees compared to other factors. According to Shakhatreh & Al Smadi (2021), corporate governance mechanisms are expected to influence audit fees through two avenues: (1) enhancing internal controls and reducing audit risk and material misstatement risk, thus decreasing audit efforts and audit fees, or (2) demanding higher audit quality to reduce agency costs and ensure higher monitoring effectiveness, resulting in increased audit efforts and audit fees. As a developing county, in the Indonesian context, the determination of audit fees is regulated by Regulation No. 2 of 2016 issued by the Indonesian Institute of Certified Public Accountants (IAPI). Article 4 of this regulation stipulates that auditors are entitled to receive fees for their services when conducting audits based on an agreement between the auditor and their client entity, as specified in the engagement letter. Despite this agreement-based negotiation, to avoid the occurrence of low audit fees that may lead to non-compliance with the ethical code of the public accounting profession, Annex III and IV of the regulation elaborate that auditors must assess risks to calculate the time required to fulfill all stages of the audit. One of the procedures undertaken by auditors in assessing these risks is understanding the client's internal controls to determine the audit scope. Therefore, the level of internal control becomes one of the crucial consideration in the negotiation process for determining audit fees.

Different ownership structures can lead to varying internal control mechanisms employed by shareholders to monitor the daily operational activities of the company, including the financial reporting process (Nelson & Mohamed-rusdi, 2015). According to Qawqzeh et al. (2021), the type of ownership structure can influence the risk environment and determine the level of control and monitoring, as different ownership types have varying levels of monitoring based on the objectives and voting rights of shareholders. The external auditor's reliance on internal controls of the company will vary among different ownership structures, leading to differing scopes of work and audit efforts across each type of ownership structure (Nelson & Mohamed-rusdi, 2015). Therefore, it is presumed that different types of ownership structures are likely to have distinct impacts on the level of audit fees.

Based on agency theory, there are two conflicting assumptions that explain the relationship between ownership structure and audit fees, namely the convergence of interest assumption and the entrenchment assumption. According to Darmadi (2016), agency problem type I tends to occur in companies with widely dispersed share ownership due to the separation of ownership and management. On the other hand, agency problem type II is more likely to happen in companies with concentrated ownership structures where agency conflicts arise between controlling shareholders and minority shareholders, with the controlling shareholders potentially imposing their will at the expense of minority shareholder interests. The convergence of interest assumption explains that ownership structure plays a vital role in reducing information asymmetry and agency problems within the company. In this context, the alignment of interests between shareholders and managers leads to the absence of harmful conflicts and diminishes concerns related to takeovers (Alhababsah, 2019; Chrisman et al., 2004; Qawqzeh et al., 2021). The alignment of interests leads controlling shareholders to engage in effective monitoring, resulting in improved internal controls within the company. As a consequence, managers are more likely to present reliable accounting information to shareholders in order to achieve the objective of maximizing firm value and attract more investors. This condition is typically observed in companies facing less severe agency problem type I issues. From the demand-side perspective of audit pricing, the reduced intensity of agency problems in such companies tends to diminish the incentive to demand high-quality audits, leading to lower audit fees (Ho & Kang, 2013; Homayoun & Hakimzadeh, 2017).

On the contrary, the entrenchment assumption explains that ownership structure can increase conflicts of interest and agency costs within the company (Alhababsah, 2019; Qawqzeh et al., 2021). High ownership concentration (concentrated ownership structure) can lead to abuse of power and harm the interests of other shareholders because controlling shareholders have greater access to private company information, enabling opportunistic behavior. Consequently, the risk of material misstatement becomes elevated, resulting in increased

audit efforts due to the necessity for additional procedures to reduce audit risk to an acceptable level (Ho & Kang, 2013). This condition is commonly observed in companies facing agency problem type II issues. From the supply-side perspective of audit pricing, the escalation of agency problems in such companies tends to raise the audit efforts of auditors, resulting in higher audit fees (Ho & Kang, 2013; Homayoun & Hakimzadeh, 2017).

Aguilera & Jackson (2003) and Lim et al. (2014) are highly recommended to consider various types of owners or shareholders when studying ownership structure as they possess different investment strategies, incentives, and monitoring capabilities. This research takes into account a more diverse set of ownership identities or types of ownership structure in testing the model of the relationship between ownership structure and audit fees in Indonesia. The types of ownership structure examined in this study include managerial ownership, foreign ownership, government ownership, family ownership, and institutional ownership. Previous studies have tested the relationship between each type of ownership structure and audit fees, but the results have been inconclusive.

Managerial ownership refers to the percentage of share ownership held by top-level managers or the board of directors in a company. According to Park (2018), significant managerial ownership demands high audit quality to provide reliable accounting information to stakeholders, resulting in increased audit costs. Findings from research conducted by Anandya & Prasetyo (2019), Musah et al. (2021) and O'Sullivan (2000) indicate a negative relationship between managerial ownership and audit fees. However, these results differ from the research conducted by Nelson & Mohamed-rusdi (2015) and Qawqzeh et al. (2021) which suggest that managerial ownership is not associated with audit fees.

Foreign ownership refers to the percentage of share ownership held by foreign investors in a company. Shakhatreh & Al Smadi (2021) argue that due to cultural and institutional differences, as well as geographical separation, foreign shareholders demand higher auditor quality and more thorough audit processes to reduce information asymmetry, leading to higher audit costs. The research conducted by Pronobis & Schaeuble (2020) supports the idea that foreign ownership is positively related to audit fees. This finding is further supported by the research conducted by Musah et al. (2021) and Nelson & Mohamed-rusdi (2015). However, the study conducted by Shakhatreh & Al Smadi (2021) presents contradictory results, indicating a negative relationship between foreign ownership and audit fees. Different research findings are also demonstrated by the study conducted by Alhababsah (2019) and Anandya & Prasetyo (2019), which states that foreign ownership is not related with audit fees.

Government ownership represents the percentage of share ownership held by the government in a company. Government shareholders tend to demand high-quality audits to protect the company's assets, maintain their reputation, and enhance their stake in the company, thus being willing to bear higher audit fees (Alhababsah, 2019). Research conducted by Nelson & Mohamed-rusdi (2015) indicates a positive relationship between government ownership and audit fees. These findings are supported by Harahap & Prasetyo (2018), Anandya & Prasetyo (2019) and Alhababsah (2019). Besides, research conducted by Yatim et al. (2006), Liu & Subramaniam (2013) and Axén et al. (2019) shows a negative rellationship between government ownership and audit fees. However, the research findings of Niemi (2005) and Musah et al. (2021) suggest no relationship between government ownership and audit fees.

Family ownership represents the percentage of share ownership held by a family member in a company. According to Ho & Kang (2013), high family ownership incentivizes family shareholders to closely monitor management compared to other types of investors in the company. This leads to lower levels of material misstatement risk in financial reporting and, consequently, lower audit efforts and audit fees. However, research findings by Alhababsah (2019) suggest a positive relationship between family ownership and audit fees. These results differ from the findings of Qawqzeh et al. (2021), Homayoun & Hakimzadeh (2017), and Ho & Kang (2013), which indicate a negative relationship between family ownership and audit fees.

Institutional ownership represents the percentage of share ownership held by institutions in a company. Institutional investors are effective monitors due to the fiduciary relationship they have with their own investors. As a result, institutional investors actively engage in corporate oversight, and their presence reduces the perceived audit risk for auditors, leading to potentially lower audit fees (Khan et al., 2011). The research findings by Shakhatreh & Al Smadi (2021) indicate that institutional ownership is not related with audit fees. In contrast, the study conducted by Khan et al. (2011) suggests a negative relationship between institutional ownership and audit fees. On the other hand, the research conducted by Qawqzeh et al. (2021) shows a positive relationship between institutional ownership and audit fees.

The novelty of this research lies in its comprehensive examination of various ownership structures in the capital market and their relationship with audit fees, as opposed to prior studies that predominantly focused on specific ownership types. Additionally, this study distinguishes between non-executive director ownership and managerial ownership. Previous research primarily concentrated on ownership held by executive directors,

neglecting the influence of non-executive director ownership (Qawqzeh et al., 2021). According to Wan Abdullah et al. (2008), executive and non-executive director ownership are expected to have distinct impacts on audit fee levels. Non-executive directors are presumed to play a role in minimizing conflicts of interest or reducing the gap between the interests of executive directors and other shareholders in the company. Unlike many countries such as the United States, the United Kingdom, Canada, and Australia, which adhere to the one-tier board system, Indonesia follows the two-tier board system where the roles of non-executive and executive directors are clearly separated. In the Indonesian context, non-executive director responsibilities are performed by the board of commissioners, while executive or managerial roles are carried out by the board of directors. Sori & Mohamad (2008) states that merging non-executive director ownership with other ownership types into a single variable may obscure certain facts.

Furthermore, this study differentiates institutional ownership into financial institution ownership and non-financial institution ownership to generalize the research findings (Alhababsah, 2019). The primary distinction between these two groups lies in their core business, where financial institutions are primarily involved in investments, while non-financial institutions are not (Wan Abdullah et al., 2008). Financial institutions are a unique type of institutional investor as they can act as both owners and lenders simultaneously, whereas the motivation for non-financial institutional investors is to hold a block of shares in other companies as a means of vertical or horizontal business integration or as a strategy to diversify their business against market risks (Alhababsah, 2019). Examples of financial institutions include danareksa, insurance companies, pension funds, and commercial banks. Consequently, these two types of institutional ownership are expected to exert differing influences on audit fee levels.

Therefore, this research aims to examine the relationship between ownership structures and audit fees in Indonesia. The ownership structures studied in this research consist of non-executive director ownership, managerial ownership, foreign ownership, government ownership, family ownership, financial institution ownership, and non-financial institution ownership. This study provides both theoretical and practical contributions. The theoretical contribution of this research lies in expanding the literature in the fields of auditing and corporate governance concerning the phenomenon of ownership structures and audit fees in developing countries from an agency theory perspective. The findings contribute to a better understanding of how different ownership types impact the monitoring mechanisms implemented within companies. From a practical standpoint, the research's contribution is in aiding regulators to consider ownership structures when formulating regulations or corporate governance policies. Each type of controlling shareholder possesses distinct investment policies and motivations, which affect the monitoring mechanisms applied within companies. Therefore, understanding the relationship between ownership structures and audit fees can inform more effective governance practices and policies in the Indonesian context.

Indonesia provides an interesting setting because, as a developing country, its capital market is characterized by a weak legal environment and investor protection (Darmadi, 2016; Kusharyanti & Kusuma, 2020). Ownership structure becomes a crucial governance mechanism in capital markets with weak legal environments because companies are often controlled by large shareholders (Alhababsah, 2019; Qawqzeh et al., 2021). Various types of controlling shareholders have different investment motivations, which will impact how they control the company. Therefore, researching various types of ownership structures in companies to protect investor interests is an important issue in the Indonesian context and may yield different results compared to advanced economies. Furthermore, the presence of a two-tier board system in Indonesia, distinct from the one-tier board system in some other countries, may also provide a different perspective on the influence of non-executive director ownership on audit fees.

METHODS

The sample of this research comprises all non-financial companies listed on the Indonesian capital market over 2015-2021. The final sample size of non-financial companies was determined using purposive sampling with judgment sampling, resulting in 133 companies. This study utilizes panel data with a 7-year observation period, resulting in a total of 931 company-years observed in this study. Winsorization was applied to the continuous variables at the 1st and 99th percentiles to mitigate the potential influence of outliers, following the approach of (Pronobis & Schaeuble, 2020). The presence of the COVID-19 pandemic, which occurred from 2019 to 2021 and had a significant impact on companies and the audit profession in all countries, including Indonesia, led to additional analysis in this research regarding the pandemic's effects on audit fees and other variables tested in the research model. The additional analysis was conducted by examining this research model using sample from the pandemic period, specifically, the years 2019 to 2021. The data analysis in this research employs pooled ordinary least square (OLS) panel data regression conducted with STATA software.

The regression formula for the panel data analysis in this research is as follows:

$$LnFEE_{i,t} = \beta_0 + \beta_1 BDOWN_{i,t} + \beta_2 MAOWN_{i,t} + \beta_3 FRGNOWN_{i,t} + \beta_4 GOVOWN_{i,t} + \beta_5 FAMOWN_{i,t} + \beta_6 FININSTOWN_{i,t} + \beta_7 NONFININSTOWN_{i,t} + \beta_8 BIG4_{i,t} + \beta_9 FSIZE_{i,t} + \beta_{10} ROA_{i,t} + \beta_{11} LEV_{i,t} + \beta_{12} COMPLEXi,t + \beta_{13} RISK_{i,t} + \beta_{14} ROE_{i,t} + \beta_{15} LOSS_{i,t} + \beta_{16} INDUSTRY_{i,t} + \varepsilon_{it} \quad (1)$$

The audit fee (LnFEE) is measured using the natural logarithm of the audit fees paid by companies to their external auditors. This measurement approach is consistent with previous research conducted by Adelopo et al. (2012), Alhababsah (2019), Mitra et al. (2007), Musah et al. (2021), Nelson & Mohamed-rusdi (2015), Niemi (2005), Park (2018), Pronobis & Schaeuble (2020), Qawqzeh et al. (2021), and Shakhatreh & Al Smadi (2021). Non-executive director ownership (BDOWN) is measured as the percentage of shares owned by non-executive directors or board members in the company. This measurement approach is consistent with that used by Qawqzeh et al. (2021). Managerial ownership (MAOWN) is measured as the percentage of shares owned by executive directors or the board of directors in the company. This measurement approach is consistent with the one used in previous studies by Anandya & Prasetyo (2019), Nelson & Mohamed-rusdi (2015), Park (2018). Foreign ownership (FRGNOWN) is measured as the percentage of shares owned by foreign investors in the company. This measurement approach is consistent with previous studies by Anandya & Prasetyo (2019), Nelson & Mohamed-rusdi (2015), and Shakhatreh & Al Smadi (2021). Government ownership (GOVOWN) is measured as the percentage of shares owned by the government in the company. This measurement approach is consistent with previous studies by Alhababsah (2019), Anandya & Prasetyo (2019), and Nelson & Mohamed-rusdi (2015). Family ownership (FAMOWN) is measured as the percentage of shares owned by the family in the company. Financial institution ownership (FININSTOWN) is measured as the percentage of shares owned by financial institutions (banks or similar financial institutions) in the company. Non-financial institution ownership (NONFININSTOWN) is measured as the percentage of shares owned by non-financial institutions in the company. This measurement approach is consistent with the one used in the study by Alhababsah (2019).

This research incorporates several control variables commonly used in prior studies on audit fees. The Big 4 Audit Firm (BIG4) variable is measured as a dummy variable, taking the value of 1 if the company is audited by one of the Big 4 firms (EY, KPMG, PwC, Deloitte), and 0 otherwise. The Firm Size (FSIZE) variable is measured as the natural logarithm of total assets. Return on Assets (ROA) is calculated as after-tax profit divided by total assets. The Firm Leverage Ratio (LEV) is computed as total liabilities divided by total assets. Company Complexity (COMPLEX) is measured by the number of subsidiaries owned by the company. Company Risk (RISK) is calculated as the percentage of current assets to total assets. Return on Equity (ROE) is measured as after-tax profit as a percentage of total equity. Loss (LOSS) is represented as a dummy variable, with a value of 1 if the company reports a loss and 0 otherwise. Industry (INDUSTRY) is represented as a dummy variable, taking the value of 1 if the company is in the manufacturing industry and 0 if it belongs to any other industry.

RESULTS

Table 1 presents the descriptive statistics of the variables in this study. The average value of the LnFEE variable is 20.553, indicating that the average audit fee paid by the companies in the research sample is approximately Rp 845 million. The BDOWN and MAOWN variables have average values of 0.015 and 0.026, respectively, meaning that the average non-executive director ownership and managerial ownership in the research sample are 1.5% and 2.6%, respectively. The average value of the FRGNOWN variable is 0.279, indicating that the average foreign ownership in the research sample is 27.9%. The GOVOWN variable has an average value of 0.06, indicating that the average government ownership in the research sample is 6%. The average value of the FAMOWN variable is 0.046, indicating that the average family ownership in the research sample is 4.6%. Furthermore, the average values of the FININSTOWN and NONFININSTOWN variables are 0.143 and 0.503, respectively, implying that the average financial institution ownership and non-financial institution ownership in the research sample are 14.3% and 50.3%, respectively.

The correlation matrix analysis is used to determine the correlations among all independent variables, control variables, and the dependent variable, as well as to indicate the presence of multicollinearity (Musah et al., 2021). According to Gujarati (2003), correlation coefficients below 0.80 do not pose serious multicollinearity issues. Table 2 shows that the correlation coefficients among the variables in this study range from 0.001 to 0.707, indicating moderate correlation strength. The highest correlation is observed between FSIZE and LnFEE, with a value of 0.707. This high correlation is because firm size is considered a dominant determinant of audit fees (Alhababsah, 2019; Qawqzeh et al., 2021).

Table 1. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
LnFEE	931	20.553	1.118	18.403	23.817
BDOWN	931	.015	.053	0	.368
MAOWN	931	.026	.095	0	.615
FRGNOWN	931	.279	.296	0	.988
GOVOWN	931	.06	.188	0	.807
FAMOWN	931	.046	.146	0	.799
FININSTOWN	931	.143	.202	0	.869
NONFININSTOWN	931	.503	.31	0	.972
BIG4	931	.407	.492	0	1
COMPLEX	931	5.566	5.437	0	25
FSIZE	931	29.249	1.472	25.535	32.454
LEV	931	.499	.261	.077	1.692
ROA	931	.037	.098	-.354	.382
ROE	931	.072	.294	-1.261	1.358
RISK	931	.432	.215	.059	.892
LOSS	931	.226	.418	0	1
INDUSTRY	931	.625	.484	0	1

Multicollinearity symptoms in this study were detected using the variance inflation factor (VIF). Table 3 presents the VIF values for all independent and control variables, indicating that they are all smaller than 4, and the mean VIF is smaller than 10 (1.869 < 10). These results indicate that the regression model in this study is free from multicollinearity issues. Furthermore, this research employs the Breusch-Pagan/Cook-Weisberg test to examine heteroskedasticity in the regression model. The results of the Breusch-Pagan/Cook-Weisberg test show a significance value (prob > chi2) of 0.00 or smaller than 0.05. These results indicate the presence of heteroskedasticity symptoms in the regression model of this research. According to Law (2018), the robust standard error estimation method can be used to address heteroskedasticity issues. The robust standard error is a general model that accounts for the absence of homoskedasticity (Alhababsah, 2019).

Table 2. Correlation Matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
(1) LnFEE	1.000																
(2) BDOWN	-0.128*	1.000															
	(0.000)																
(3) MAOWN	0.023	0.065*	1.000														
	(0.478)	(0.049)															
(4) FRGNOWN	0.367*	-0.110*	-0.057	1.000													
	(0.000)	(0.001)	(0.081)														
(5) GOVOWN	0.172*	-0.081*	-0.088*	-0.183*	1.000												
	(0.000)	(0.014)	(0.007)	(0.000)													
(6) FAMOWN	-0.142*	0.335*	0.654*	-0.137*	-0.101*	1.000											
	(0.000)	(0.000)	(0.000)	(0.000)	(0.002)												
(7) FININSTOWN	0.074*	0.040	-0.064	0.134*	-0.071*	-0.083*	1.000										
	(0.023)	(0.222)	(0.051)	(0.000)	(0.029)	(0.011)											
(8) NONFININSTOWN	-0.142*	-0.184*	-0.242*	0.145*	-0.447*	-0.313*	-0.533*	1.000									
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)										
(9) BIG4	0.541*	-0.008	-0.065*	0.248*	-0.030	-0.119*	-0.021	0.109*	1.000								
	(0.000)	(0.809)	(0.046)	(0.000)	(0.368)	(0.000)	(0.518)	(0.001)									
(10) COMPLEX	0.311*	0.102*	0.058	-0.009	0.055	0.007	0.033	-0.158*	0.073*	1.000							
	(0.000)	(0.002)	(0.074)	(0.779)	(0.096)	(0.820)	(0.316)	(0.000)	(0.025)								
(11) FSIZE	0.707*	-0.077*	-0.069*	0.216*	0.285*	-0.176*	0.107*	-0.225*	0.315*	0.480*	1.000						
	(0.000)	(0.018)	(0.035)	(0.000)	(0.000)	(0.000)	(0.001)	(0.000)	(0.000)	(0.000)							
(12) LEV	0.170*	-0.029	-0.013	-0.034	0.094*	-0.086*	0.178*	-0.242*	-0.127*	0.078*	0.202*	1.000					
	(0.000)	(0.372)	(0.685)	(0.300)	(0.004)	(0.009)	(0.000)	(0.000)	(0.000)	(0.017)	(0.000)						
(13) ROA	0.173*	-0.026	0.077*	0.101*	-0.035	0.010	-0.090*	0.056	0.230*	-0.006	0.131*	-0.332*	1.000				
	(0.000)	(0.433)	(0.019)	(0.002)	(0.285)	(0.764)	(0.006)	(0.086)	(0.000)	(0.861)	(0.000)	(0.000)					
(14) ROE	0.144*	-0.040	0.022	0.082*	-0.037	0.007	-0.009	-0.026	0.107*	0.001	0.133*	-0.012	0.572*	1.000			
	(0.000)	(0.220)	(0.511)	(0.012)	(0.254)	(0.822)	(0.792)	(0.426)	(0.001)	(0.987)	(0.000)	(0.718)	(0.000)				
(15) RISK	-0.236*	-0.001	0.045	-0.179*	-0.001	0.039	-0.035	-0.006	-0.072*	-0.153*	-0.227*	-0.060	0.206*	0.134*	1.000		
	(0.000)	(0.981)	(0.167)	(0.000)	(0.984)	(0.239)	(0.285)	(0.863)	(0.028)	(0.000)	(0.000)	(0.067)	(0.000)	(0.000)			
(16) LOSS	-0.105*	0.075*	-0.041	-0.023	-0.016	0.044	-0.010	-0.003	-0.097*	-0.033	-0.195*	0.232*	-0.622*	-0.414*	-0.247*	1.000	
	(0.001)	(0.022)	(0.215)	(0.483)	(0.627)	(0.180)	(0.761)	(0.923)	(0.003)	(0.314)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)		
(17) INDUSTRY	0.028	-0.033	-0.041	0.174*	0.012	0.024	0.002	-0.011	0.068*	-0.091*	0.092*	0.058	0.020	0.027	0.069*	0.009	1.000
	(0.397)	(0.312)	(0.212)	(0.000)	(0.723)	(0.464)	(0.954)	(0.747)	(0.038)	(0.005)	(0.005)	(0.075)	(0.546)	(0.409)	(0.034)	(0.781)	

*** p<0.01, ** p<0.05, * p<0.1

Table 3. Variance inflation factor

	VIF	1/VIF
BDOWN	1.257	.796
MAOWN	1.952	.512
FRGNOWN	1.313	.762
GOVOWN	2.147	.466
FAMOWN	2.591	.386
FININSTOWN	2.389	.419
NONFININSTOWN	3.789	.264
BIG4	1.272	.786
COMPLEX	1.451	.689
FSIZE	2.158	.463
LEV	1.417	.706
ROA	2.409	.415
ROE	1.609	.621
RISK	1.232	.812
LOSS	1.836	.545
INDUSTRY	1.091	.916
Mean VIF	1.869	.

The panel data regression analysis in this study was performed using several models, as presented in Table 4. Model 1 regresses all control variables against the audit fee variable (LnFEE). Model 2 is a pooled OLS regression with robust standard error of all ownership structure variables and control variables against the audit fee. Model 3 is a pooled OLS regression with robust standard error for the research model using sample during the pandemic period. The hypothesis testing in this research is conducted by interpreting Model 2. Based on Model 2 in Table 4, the adjusted R-squared value is 0.683, indicating that all ownership structure variables and control variables in this research model can collectively explain 68.3% of the variance in the audit fee variable.

Table 4. Regression Analysis Results

Variables	Model 1 (LnFEE)		Model 2 (LnFEE)		Model 3 (LnFEE)	
	Coefficient	P-Value	Coefficient	P-Value	Coefficient	P-Value
BDOWN			-1.527	0.001***	-2.046	0.000***
MAOWN			1.174	0.000***	1.174	0.001***
FRGNOWN			0.720	0.000***	0.684	0.000***
GOVOWN			0.119	0.435	0.273	0.287
FAMOWN			-0.411	0.047**	-0.535	0.082*
FININSTOWN			-0.325	0.063*	-0.210	0.449
NONFININSTOWN			-0.368	0.006***	-0.376	0.093*
BIG4	0.819	0.000***	0.796	0.000***	0.803	0.000***
COMPLEX	-0.001	0.812	0.00376	0.477	-0.00436	0.601
FSIZE	0.420	0.000***	0.367	0.000***	0.394	0.000***
LEV	0.539	0.000***	0.504	0.000***	0.385	0.006***
ROA	1.258	0.000***	0.980	0.003***	1.389	0.002***
ROE	0.027	0.779	0.0115	0.889	0.0165	0.868
RISK	-0.435***	0.000***	-0.326	0.005***	-0.149	0.432
LOSS	0.160	0.025**	0.140	0.045**	0.153	0.135
INDUSTRY	-0.121***	0.010***	-0.173	0.000***	-0.273	0.001***
Constant	7.856***	0.000***	9.431	0.000***	8.763	0.000***
Observations	931		931		399	
Adjusted R-squared	0.634		0.683		0.680	

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

The results of the regression analysis in Model 2 of Table 4 also show that the coefficient value for BDOWN is -1.527 with a significance value below 0.01, indicating that non-executive director ownership is negatively related to audit fees. The coefficient value for MAOWN is 1.174 with a significance value below 0.01, indicating that managerial ownership is positively related to audit fees. The coefficient value for FRGNOWN is 0.720 with a significance value below 0.01, indicating that foreign ownership is positively related to audit fees. The coefficient value for FAMOWN is -0.411 with a significance value below 0.05, indicating that family ownership is negatively related to audit fees. The coefficient value for FININSTOWN is -0.325 with a significance value below 0.1, suggesting that financial institution ownership is negatively related to audit fees. Furthermore, the coefficient value for NONFININSTOWN is -0.368 with a significance value below 0.01, indicating that non-financial institution ownership is negatively related to audit fees. However, the results of this research indicate that the coefficient value for GOVOWN is 0.119 with a significance value above 0.1. This result indicates that government ownership is not related to audit fees.

The results of regression analysis for both Model 1 and Model 2 show consistent findings regarding the relationship between control variables and audit fees. The variables, such as the size of the public accounting firm (BIG4), firm size (FSIZE), leverage ratio (LEV), return on assets (ROA), and company losses (LOSS), are positively related to audit fees. Additionally, company risk (RISK) and the industry type (INDUSTRY) are negatively related to audit fees. However, company complexity (COMPLEX) and return on equity (ROE) are not significantly related to audit fees.

DISCUSSION

The regression analysis results indicate that non-executive director ownership is negatively related to audit fees. According to agency theory, one way to minimize information asymmetry in the conflict of interest between shareholders and management is through the utilization of internal control mechanisms in the form of monitoring. Non-executive directors can serve as a form of monitoring (O'Sullivan, 2000). Wan Abdullah et al. (2008) state that non-executive director ownership is expected to reduce the divergence between management's interests and shareholders' interests, thus promoting alignment. Non-executive director ownership can serve as an incentive for an effective monitoring process of management activities and financial reporting processes, enabling them to demand more disclosure and transparency in financial reports (Qawqzeh et al., 2021). These research findings are consistent with the results obtained by O'Sullivan (2000), indicating that non-executive director ownership has a negative influence on audit quality, as proxied by audit fees. However, the results of this study are in contrast to the findings of research by Qawqzeh et al. (2021), which indicate a positive relationship, and the research by Wan Abdullah et al. (2008), which shows no relationship. Both of these studies were also conducted in the context of developing countries, specifically Jordanian and Malaysia. One logical explanation for the differing research results could be the variance in the structure of the company board system. Jordanian and Malaysia utilize a one-tier board system, whereas Indonesia employs a two-tier board system, adding complexity to corporate governance dynamics. This structural difference may indeed lead to distinct outcomes regarding how non-executive director ownership influences audit fees.

When examining the average percentage of non-executive director ownership in this research sample, it is notably low. This suggests that there is a limited presence of non-executive director ownership in Indonesian companies. However, it is essential to note that non-executive directors in Indonesian companies play a significant role in the implementation of effective corporate governance processes. In the context of companies in Indonesia, a non-executive director is a member of the Board of Commissioners who functions separately from the Board of Directors or executive directors. Regulation No. 33/POJK.04/2014 issued by the Financial Services Authority (Otoritas Jasa Keuangan) explains that the Board of Commissioners is responsible for overseeing the company's policies and management and providing advice to the Board of Directors. In carrying out their duties, the Board of Commissioners is assisted by the company's audit committee. The appointment of an external auditor for the company is made based on recommendations from the Board of Commissioners and the Audit Committee. Therefore, the presence of non-executive directors is expected to enhance the internal control of the company through the supervision process, thereby reducing conflicts of interest between shareholders and management. Effective oversight by non-executive directors will result in lower audit fees since external auditors will assess lower control risks due to narrower audit efforts and scope. These outcomes support the assumption of the convergence of interest.

The results of this study reveal a positive relationship between managerial ownership and audit fees. These findings are consistent with the research conducted by Park (2018) and Shan et al. (2019). Managerial ownership is considered a crucial factor in resolving agency conflicts and reducing agency costs (Jensen & Meckling, 1976; Mitra et al., 2007; Nelson & Mohamed-rusdi, 2015; Qawqzeh et al., 2021; Shan et al., 2019). Agency theory suggests that managerial ownership can serve as a mechanism to align managerial interests with

the interests of shareholders in the same company (Qawqzeh et al., 2021; Shan et al., 2019). The higher the proportion of shares owned by executive managers, the more accountable they are to enhance the performance, value, and quality of the company's financial reporting because they stand to receive higher incentives (Nelson & Mohamed-rusdi, 2015). According to Jensen & Meckling (1976), managers with significant ownership tend to avoid opportunistic actions for short-term gains and are more inclined to produce financial reports with relevant and valuable information. Besides, they may choose to invest in high-quality and comprehensive audit coverage to create a favorable impression within the investment community regarding the quality of the audit and financial reporting (Mitra et al., 2007). This approach can add value to the company, ultimately increasing incentives for managerial owners as well. From the perspective of agency theory, this aligns with the assumption of convergence of interest.

High managerial ownership in a company leads managers to be less tempted by actions aimed at maximizing personal gains because they have greater incentives when the company's market value is high. Managers are inclined to expand the scope of the audit and demand higher audit quality from external auditors, resulting in increased audit fees. This is done to provide positive signals regarding the quality of financial reporting. Positive perceptions about the financial statements will enhance the company's performance and value in the form of improved credit ratings, reduced cost of capital, less scrutiny from creditors, and greater managerial flexibility.

The findings of this study also indicate a positive relationship between foreign ownership and audit fees. These results are consistent with the research conducted by Musah et al. (2021), Nelson & Mohamed-rusdi (2015) and Pronobis & Schaeuble (2020). Based on agency theory, it is expected that information asymmetry and agency conflicts would increase with foreign ownership (Musah et al., 2021; Nelson & Mohamed-rusdi, 2015; Niemi, 2005; Pronobis & Schaeuble, 2020; Shakhatreh & Al Smadi, 2021). This is due to the considerable geographic distance, cultural differences, and unfamiliarity with institutional conditions in the company, making it challenging for foreign owners to gather information and monitor the company's management (Pronobis & Schaeuble, 2020; Shakhatreh & Al Smadi, 2021). Furthermore, foreign ownership also influences the complexity level within a company. Financial reporting complexity tends to be higher when the parent company is located in another country, particularly when there are differences in accounting and reporting standards (Musah et al., 2021; Nelson & Mohamed-rusdi, 2015; Niemi, 2005). These various conditions make foreign owners highly reliant on external audits to obtain more reliable and transparent information. Foreign investors with substantial ownership in a company demand high audit quality to reduce information asymmetry and obtain reliable financial reports (Jiang & Kim, 2004). On the other hand, managers may also be interested in demanding high audit quality to signal their integrity positively and attract more capital from foreign investors (Alhababsah, 2019). The demand for high audit quality, both from foreign shareholders and managers, requires auditors to spend more time conducting thorough audits, resulting in higher audit fees. This aligns with the assumption of convergence of interest.

Furthermore, the regression analysis in this study failed to find a positive relationship between government ownership and audit fees. These findings are consistent with the research conducted by Musah et al. (2021). Government ownership is a unique form of ownership compared to other types of ownership in companies (Alhababsah, 2019; Musah et al., 2021; Nelson & Mohamed-rusdi, 2015; Niemi, 2005). Such companies are owned and funded by the state through taxpayer money, theoretically indicating a widely dispersed ownership (Musah et al., 2021). In practice, the control rights over government ownership lie with individuals within the government, and these government representatives are not the actual owners (Nelson & Mohamed-rusdi, 2015; Niemi, 2005). Government representatives serving as directors in government-controlled companies have incentives to monitor management as they would bear the cost of reputational damage if the company fails, even though they do not personally hold the rights to cash flows in the form of dividends from the company (Musah et al., 2021; Nelson & Mohamed-rusdi, 2015). However, these government representatives also do not bear any costs on behalf of the company, including control costs. This creates a clear free-rider problem and leads to the government representatives being less likely to fulfill their roles effectively. As a result, the presence of government ownership in the company is not related with audit fees. This also indicates the absence of the assumptions of convergence of interest and entrenchment.

Regarding family ownership, the results of this study show a negative relationship between family ownership and audit fees. These findings are consistent with the research conducted by Qawqzeh et al. (2021), Ho & Kang (2013) and Homayoun & Hakimzadeh (2017). Increased internal control and reduced conflicts of interest between managers and owners can be achieved through family ownership (Homayoun & Hakimzadeh, 2017). Active monitoring by family owners can reduce information asymmetry and the risk of material misstatement in financial reports, thus reducing the demand for stricter audit procedures and ultimately lowering audit fees (Ho & Kang, 2013). Based on agency theory, this is consistent with the assumption of convergence of interest, indicating alignment between the interests of family owners, other shareholders, and managers in the company,

leading to a decrease in conflicts of interest and agency costs. Companies with high family ownership tend to have strong incentives to actively monitor management, aligning the interests of family owners with those of other shareholders. The family owners' incentives include a commitment to maintaining the reputation and long-term value of the family business. This situation results in lower audit efforts, leading to a decrease in audit fees.

The study also shows that financial institutional ownership is negatively related to audit fees. These results are inconsistent with the findings of Alhababsah (2019), which indicated a positive relationship. Financial institutional investors must adhere to strict rules and regulations due to their fiduciary responsibilities. They also tend to hold substantial voting blocks, possess better business experience, and expertise in analyzing financial information (Alhababsah, 2019; Lim et al., 2014). Financial institutional ownership can enhance monitoring mechanisms over management, making it more effective. These investors can reduce information asymmetry by pressuring companies to disclose information timely and accurately (Lim et al., 2014). The presence of financial institutional investors can also reduce the perceived risk of auditors regarding any potential audit client ties, leading to a decrease in audit efforts and audit fees (Khan et al., 2011). Based on agency theory, this is consistent with the assumption of convergence of interest. The active role of financial institutional investors in monitoring and pressing for transparency helps in reducing audit costs and contributes to the overall effectiveness of the audit process.

Finally, the study's results demonstrate a negative relationship between non-financial institutional ownership and audit fees. These findings are consistent with the research by Khan et al. (2011). If a company experiences any wrongdoing, institutional shareholders may suffer significant losses due to their large shareholdings (Shakhatreh & Al Smadi, 2021). Therefore, they have a strong incentive to monitor management to ensure that they act in the best interests of shareholders. High institutional ownership leads to increased engagement of institutional investors in the oversight of the company (Khan et al., 2011). Sarkar et al. (2008) show that domestic institutional owners mitigate earnings management and actively engage in monitoring processes. Institutional investors are more efficient in detecting and constraining earnings management since they can distinguish between discretionary and nondiscretionary accruals more rapidly (Balsam et al., 2002; Mitra & Cready, 2005). Based on agency theory, this is consistent with the assumption of convergence of interest. Thus, institutional investors can be seen as effective governance tools. The presence of institutional investors reduces the perceived audit client engagement risk for auditors, resulting in lighter audit efforts and lower audit fees.

Model 3 in Table 4 presents additional analysis results, consisting of regression analysis of this research model using a sample from the pandemic period. The multicollinearity test results for Model 3 indicate that the model is free from multicollinearity issues. However, the model shows indications of heteroskedasticity, which were addressed using the robust standard error estimation method. The regression analysis results of pooled OLS with robust standard error for Model 3 during the COVID-19 pandemic period show that non-executive director ownership, family ownership, and non-financial institutional ownership are negatively related to audit fees. Meanwhile, managerial ownership and foreign ownership are positively related to audit fees, but financial institutional ownership and government ownership are not related to audit fees. Most of these results align with the findings from the regression analysis in Model 2, except for the financial institutional ownership variable. This indicates that the COVID-19 pandemic did not significantly impact the relationship between non-executive director ownership, managerial ownership, foreign ownership, government ownership, family ownership, and non-financial institutional ownership with audit fees. Furthermore, the differing results regarding the relationship between financial institutional ownership and audit fees, where it becomes unrelated in the sample during the pandemic period, suggest a significant impact of the COVID-19 pandemic. This aligns with the weakened performance of the financial services sector during the COVID-19 period in Indonesia.

CONCLUSIONS

This study argues that different types of ownership structures can have varying influences on the magnitude of audit fees paid by companies. It examines the relationship between ownership structure and audit fees in developing countries, particularly in Indonesia. Most of the ownership structures present in the capital market are considered in this research, including non-executive director ownership, managerial ownership, foreign ownership, government ownership, family ownership, financial institutional ownership, and non-financial institutional ownership. The results of this study show that non-executive director ownership, family ownership, financial institutional ownership, and non-financial institutional ownership are negatively related to audit fees. This indicates that companies pay lower audit fees when the ownership of non-executive directors, family, financial institutions, or non-financial institutions increases. Non-executive director ownership, family ownership, financial institutional ownership, and non-financial institutional ownership can serve as effective monitoring mechanisms in companies, aligning their interests with those of other shareholders. This reduces the external auditor's role in mitigating conflicts of interest and agency costs, leading to lower audit fees.

Furthermore, this research also demonstrates that managerial ownership and foreign ownership are positively associated with audit fees. This indicates that the higher the level of managerial or foreign ownership, the greater the demand for audit quality, leading to an increase in audit fees. Managers with a significant ownership stake will avoid opportunistic behavior for short-term interests and strive to uphold the company's value in the market for greater and long-term incentives. On the other hand, foreign shareholders face limitations in directly monitoring the company's operations, leading them to choose to pay higher audit fees for quality audit results. In contrast, this study does not reveal any significant relationship between government ownership and audit fees. This suggests the potential presence of free-riders among individuals representing the government in corporate ownership, resulting in their reluctance to engage in monitoring processes.

The theoretical implications of this research involve expanding the literature on audit fees and supporting agency theory, particularly the assumption of convergence of interests, in explaining the relationship between ownership structure and audit fees in Indonesia. On the other hand, the practical implications of this research provide a clear understanding to policymakers regarding how different ownership structures result in various forms of monitoring. Policymakers are encouraged to continually promote and motivate diverse types of investors (non-executive directors, executive/managerial directors, foreign investors, government, family, financial institutions, and non-financial institutions) to provide effective monitoring of the companies in which they invest. This will lead to the alignment of interests among various shareholders and managers, resulting in transparency and reliability of financial reporting. Such practices can influence the behavior of other investors to make better investment decisions and reduce concerns that large shareholders may exploit company assets or engage in opportunistic behavior.

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