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“The Review and Outlook of The Economy after Covid 19 Pandemic”*

**THE EFFECT OF POLITICAL CONNECTIONS, THE ROLE
OF THE INDEPENDENT AUDIT COMMITTEE, AND CEO
DUALITY ON AUDIT FEE
(Case Study on Consumer Products & Services Sector Companies
Listed on the Malaysia Stock Exchange in 2020)**

Dewita Febi Silviana, Icoh*)
STIE Sutaatmadja, Subang, Indonesia
**Email: icoh@stiesa.ac.id*

ABSTRACT

The purpose of the study was to test and analyze the influence of political connections, the role of independent audit committees, and the duality of CEOs both partially and simultaneously on audit costs. This research is quantitative research. The population used in the study was a Consumer Products & Service sector company listed on the Malaysia Stock Exchange periode 2020. The study used multiple linear regression analysis. The results showed that political relationships had a positive and significant effect on audit costs, while independent audit committees and CEO dualities had no effect on audit costs. In addition, simultaneous test results showed that political relationships, independent audit committees, and CEO dualities had a positive and significant effect on audit costs.

Keywords: Audit Fee, Political Connections, Independent Audit Committee, Duality CEO

1. INTRODUCTION

Company profit is a financial component that is used as a measurement to assess whether or not the company's performance. The company's earnings are reflected in the financial statements. Financial statements are a very important record of information, especially for companies that have gone public or offered their shares in the capital market, because the information in the financial statements becomes one of the means for the company to obtain capital for the sake of its business continuity (Daniel, 2013). Confidence in the fairness of financial statements is one of the factors that determines investors' decision to invest therefore, an audit of financial statements is needed. Auditing financial statements will result in audit fees(audit fees). According to El-Gammal (2012) audit fees or audit fees are fees charged by auditors in the audit process to audited companies. The determination of the audit fee can be based on the agreement between the auditor and the auditee based on the time required, the number of staff and the type of audit. The amount of audit costs may vary depending on assignment risk, service complexity, skill level required, public accounting firm's cost structure, and consideration. Other professionals. Audit costs will affect the quality of the audit. Therefore the cost of auditing is interesting to research.

Gul (2006) states that audit costs can be affected by political connections. This shows that companies with political connections pay higher audit fees than companies without

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political connections. According to Leuz and Gee (2006) in Armadiyanti & Iswati (2019) Political connection is a condition in which a special relationship is established between a particular party and a party that has an interest in politics, and a politically connected company is also referred to as a company in a certain way has political ties or seeks closeness with politicians or governments.

Another factor that affects audit costs is an independent audit committee. The Malaysian Code on Corporate Governance (MCCG) requires that listed companies have audit committees that meet the criteria (1) consisting of at least three members, (2) the majority of its members must be independent, (3) the Chairman of the Audit Committee must be an independent director, and (4) at least one member of the audit committee must be (a) a member of the Malaysian Institute of Accountants, or (b) have 3 years of work experience as an accountant, Passed the exam prescribed by the Accountants Act 1967. Independent audit committees always pay attention to their reputation. They tend to devote great effort in fulfilling the monitoring function and are not related to the restatement of financial statements. Independent audit committees also demand higher audit quality so that the audit costs incurred are also high because to achieve high audit quality, the audit procedures carried out are also more detailed (Abbot and Parker, 2000). Another factor that confirms audit fees is the CEO duality (Bliss et al., 2011). According to Boot et Al (2002), the CEO of Duality or duality CEO is someone who has 2 positions at once, namely as Chairman of Board (Board of Commissioners) and Chief Executive Officer (Board of Directors) in a company.

2. LITERATURE REVIEW

This research uses grand agency theory or religious theory. Agency theory describes the relationship between shareholders as principals and management as agents. From the agency theory's view looking at the causes of the emergence of potential conflicts that affect the quality of financial statement information due to the seeding between the principal and the agent, the conflict This resulted in an information imbalance called information asymmetry (Pranoto & Widagdo, 2015). To reduce information asymmetry and minimize fraud that is often committed by management, the management's financial statements must be evaluated by independent third parties in This is an external auditor. External auditors are third parties who are considered to bridge principals and agents. The use of external auditors to conduct staffing of company management can cause agency costs, in the form of audit fees (Tat & Murdiawati, 2020).

2.1 Audit Fee

According to Sukrisno Agoes (2012) audit fees are a form of retaliatory services provided by clients to auditors on examination of financial statements, and the amount of member fees can vary depending on the risk. assignment, complexity of services provided, the level of expertise needed to conduct audit services, the higher the fee provided, the higher the quality of the audit . produced. While according to El-Gammal (2012) Audit fee is a fee charged by the auditor in the audit process to the audited company, the determination of audit fee can be based on an agreement between the auditor and the auditee. based on the time required, the number of staff and the type of audit.

According to Abdul Halim (2008: 106-107) there are several ways in determining the determination of audit costs or audit fees. This method can be explained as follows: (1) Perdiem Basis, in this way the audit fee is determined on the basis of the time used

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by the auditor team. The hourly fee is determined, then multiplied by the amount of time/hour spent by the team. Hourly fee rates for staff levels can certainly vary. (2) Flat or Basis Contract, in this way the audit fee is calculated at the same time in general regarding the audit time spent, which is important to be completed in accordance with the rules or agreement. (3) Maximum Base Fee, this method is a combination of the two ways above. First determine the hourly rate then multiplied by the amount of time specified but with a maximum limit. This is done so that the auditor does not buy time so that it increases hours / working time.

With the determination of audit costs can be used as one of the references for the determination.

2.2 Political Connections

A politically connected company can be defined as a company that has a special or special relationship with the government. According to Purwanto (2011) in Anggraeni, R. (2018) politically connected companies are companies that in certain ways have relationships or ties politically or seek closeness with politicians and governments. Political connections can also be seen from the or absence of government ownership within the company.

According to Anggraeni, R. (2018) To determine the existence of political connections in the company is seen from:

1. At least one of the directors, commissioners, board of directors, and audit committee in the company is a politician affiliated with a political party.
2. At least one of the directors, commissioners, board of directors and audit committee in the company is a government official in this period and the previous period.

If a company meets one of these two categories, it can be said that the company has political connections.

2.3 Independent Audit Committee

The audit committee is seen as the primary mechanism by which management and auditors can communicate and negotiate the terms and implementation of the audit, the main responsibility of the audit committee is to provide a review of the financial reporting process, which includes an overall assessment of the adequacy and suitability of internal controls and reporting mechanisms, therefore, the audit committee shall consist of a majority of independent members with at least one Financial expertise (Bliss et al 2011). The independence of the audit committee can serve effectively to control financial statements. Manurut Hassan (2013) effective audit committee can improve the quality of profits by fulfilling various responsibilities including, commenting and approving accounting policies, reviewing reports financial, and maintain and review the adequacy of internal control. The audit committee has the responsibility of overseeing the company's financial statements process. The Audit Committee provides formal channels of communication between the board of commissioners, internal control systems, and external auditors to improve the credibility of audited financial statements (Chandrasegaram et al. 2013 in Hassan, 2013).

2.4 CEO Duality

Duality CEO is someone who serves 2 roles, namely as CEO (board of directors) and chairman of board (board of commissioners) in a company (Booth et al. 2002). The CEO is tasked with managing all the resources of the existing organization, while the

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commissary board becomes the supervisor of the executive board including the CEO (Weir and Laing, 2001). According to Setyawan & Devie, (2017) To determine the existence of duality CEOs in the company is seen from: (1) If the CEO concurrently holds the position as chairman of the board of commissioners. (2) The existence of kinship or family relations between the board of directors and the board of commissioners.

If a company meets one of the above criteria, it can be said that the company has a duality of CEO.

3. DATA AND RESEARCH TECHNIQUE ANALISYS

The data used in this study is skunder data , which is data from Consumer Products &Service sector companies listed on Bursa Malaysia in 2020, and for sampling using purposive sampling methods. This research is quantitative research using SPSS. The tests consisted of the Classical Assumption Test (normality test, multicollinearity test, heteroskedasticity test and autocorrelation test) and Hypothesis Test.

4. RESULT AND DISCUSSION

Descriptive analysis of research is as follows:

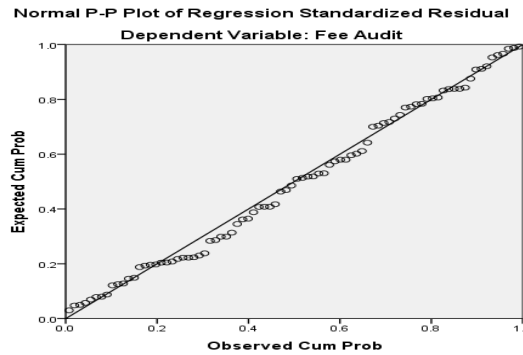
Table 4.1 : Descriptive Analysis Test Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
KP	84	.00	1.00	.5238	.50243
KAI	84	.60	1.00	.8751	.15229
CD	84	.00	1.00	.4881	.50286
Fee Audit	84	9.62	12.99	11.2170	.80804
Valid N (listwise)	84				

Source: secondary data processed, 2021

The normality test is carried out with the following results:

Figure 4. 1: Normality Results



Based on the view of the normal chart p-plot above it appears that the data is scattered around the line and follows the direction of the diagonal line, this indicates that the regression model is worth using because it has met the assumption of normality.

Furthermore, a multicollinearity test was conducted with the following results:

Table 4. 2: Multicollinearity Test Results

Coefficients^a

		Collinearity Statistics	
		Tolerance	VIF
1	KP	.965	1.037
	KAI	.976	1.025
	CD	.984	1.016

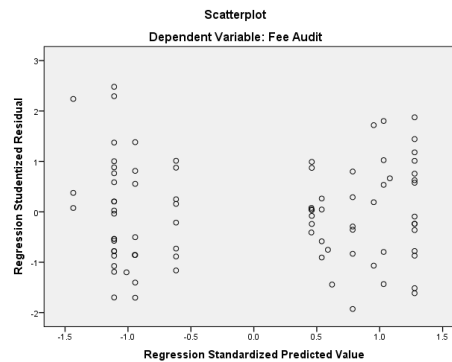
a. Dependent Variable: Audit Fee

Source: secondary data processed, 2021

Based on the results of the multicollinearity test from the table above it can be known that the tolerance value of political connections is 0.965, independent audit committee 0.976 and CEO duality 0.984. This indicates that of the three independent variables none have a value less than 0.10 and the VIF value of the independent variable is less than 10. It can then be concluded that there is no multicollinearity between independent variables in the regression model.

Further to that, heteroskedasticity tests were conducted with the following results :

Figure 4. 2: Heteroskedasticity Results



Source : secondary data processed, 2021

Based on the scatterplot graph above it can be seen that the points spread randomly both below and at 0 on the Y axis. it is concluded that there is no heteroskedasticity in regression models and is worth using in research.

The autocorrelation test is followed by the following results:

Table 4. 3: Autocorrelation Test Results

Summary Model	
Type	Durbin-Watson
1	1.424a

Source : Secondary data processed, 2021

From the table above, the durbin-watson value obtained is 1,424. The number is between -2 and 2 meaning that in the regression model there is no autocorrelation.

Furthermore, a double regression analysis is carried out with the following results:

Table 4. 4: Multiple Linear Regression Test Results

Coefficients ^a					
Type	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	10.612	.526		20.156	.000
KP	.548	.171	.341	3.203	.002
KAI	.284	.561	.054	.507	.613
CD	.142	.169	.088	.840	.403

a. Dependent Variable: Audit Fee

Source : Secondary data processed, 2021

$$Y = 10,612 + 0.548X_1 + 0.284X_2 + 0.142X_3 + e$$

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The coefficient of determination of this study is as follows:

Table 4. 5: Results of the Coefficient of Determination Test

Summary Model				
Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.358a	.128	.095	.76864

Source : Secondary data processed, 2021

Based on the table above it can be known that the value of Adjusted R Square is 0.095 or 9.5%, meaning that the audit fee is influenced by political connections, the audit committee and duality CEO by 9.5%. The remaining 90.5% were affected by other variables not included in the study.

The results of the partial test (test t) are as follows:

Table 4. 6: Test Results t (Partial Test)

Type	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	10.612	.526		20.156	.000
KP	.548	.171	.341	3.203	.002
KAI	.284	.561	.054	.507	.613
CD	.142	.169	.088	.840	.403

a. Dependent Variable: Audit Fee

Source: Secondary data processed, 2021

Tabel above shows that the variable political connections have a positive and significant effect on audit fees. A large share of the research data (52%) showed political interests. This political collapse resulted in high political costs borne by the company. High political costs will affect transparency so that audit risk becomes high. The high risk of auditing results in high audit costs so the first hypothesis that political connections have a positive effect on audit fees is accepted. This Hal is in accordance with research conducted by Ariningrum & Vera Diyanty (2017) which shows that political relationships can have a positive impact on audit costs due to connections. Politics can increase the inherent risk of the company resulting in high audit fees being issued.

Tabel above shows that the independent audit committee has no effect on audit fees. Most of the companies studied have independent audit committees, this shows that the company has met the provisions of mccg (Malaysian Code on Corporate Governance) as a condition of listed on the Malaysian exchange. High proportion of independent audit committees resulted in audit committees being able to supervise the company more

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effectively, resulting in reliance on the quality of external auditor audits. Become less significant. Based on this, the independent audit committee has no effect on audit fees. The results of this study are in line with research conducted by Hazmi & Sudarno (2013) which states that independent audit committees have no effect on audit fees. But, it is not in accordance with research conducted by Ariningrum & Vera Diyanty (2017) which states that independent audit committees have a positive effect on audit fees.

Tabel above shows that the CEO duality has no effect on audit fees. This is because Malaysia adheres to a one-tier board system, namely the role of the board of directors (executive / implementing) and the role of the board of commissioners (supervisors) made in one board or it is commonly called the Board of Directors (BOD). One person has two roles at once in the company that sama, namely as a CEO who is responsible for running the company and also doubles as a board of commissioners who It is responsible for overseeing and evaluating the company's performance. This condition is called the CEO of Duality (Gul & Leung, 2004; Boot et al., 2002). The existence of a duality CEO poses a high audit risk due to the trap of two conflicting positions. Akibat from high audit risk then audit fees are also expected to be high. In this study the amount of data that has a duality CEO is less than 50% so it does not affect audit fees. This is not in accordance with research conducted by Bliss et al (2011) which states that duality CEOs have a positive effect on audit fees.

Simultaneous tests can be shown as follows:

Table 4. 7: Test Results F (Simultaneous Test)

ANOVAa						
Type		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6.928	3	2.309	3.909	.012b
	Residual	47.264	80	.591		
	Total	54.192	83			

a. Dependent Variable: Audit Fee

Source: Secondary data processed, 2021

Based on the results of simultaneous hypothesis testing shows that political connection variables, independent audit committees, and duality CEOs influence audit fee variables. Although the independent audit committee and duality CEO do not affect the audit fee, the influence of political connections on audit fees is greater than other variables so that the hypothesis simultaneously acceptable.

5. CONCLUSION

Based on the above discussion can be concluded as follows:

- a. Political consequences have a positive and significant effect on audit fees.
- b. An independent audit committee has no effect on audit fees.
- c. Duality CEO has no effect on audit fees.

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- d. Political interconnection, independent audit committees and duality CEOs influence simultaneously on audit fees.

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