



THE EFFECT OF INTERNAL AUDIT ON EXTERNAL AUDIT FEE WITH GOOD CORPORATE GOVERNANCE AS THE INTERVENING VARIABLE

Eva Patricia

Faculty of Economics of Kristen Krida Wacana University

Hendra Firmanto Santoso

Faculty of Economics of Kristen Krida Wacana University

ABSTRACT

The purpose of this study was to examine the effect of internal audit on external audit fee with good corporate governance as the intervening variable. The samples in this study are companies that listed on the Indonesia Stock Exchange and also follow the survey of corporate governance perception index in voluntary. By doing pooled data, and using SPSS v.23 for data processing, the results found that: (1) Internal audit have significant positive effect on good corporate governance; (2) Good corporate governance have significant positive effect on external audit fee; (3) Internal audit have significant positive effect on external audit fee; (4) Good corporate governance cannot be regarded as an intervening variable on the relationship between internal audit and external audit fee.

Key Words: Internal audit, external audit fee, good corporate governance

INTRODUCTION

In facing the development of economic world, including facing the era of Association of South East Asia Nations (ASEAN) Economic Community, the demand in finance statements information gets increasing since one purpose of ASEAN Economic Community (MEA) is to improve international competitiveness of ASEAN to attract foreign investments. Therefore, it is necessary for companies to improve their performance and trustworthiness on their financial statement information.

To improve a company's trustworthiness on financial statement information, they are required to have auditing. Only competent and independent party is allowed to have an auditing. The independent party consists of Public Accountant (AP) along with Engagement Team from Institute of Public Accountants (KAP).As independent auditor party, they decide whether or not a financial statement issued by an entity is arranged and provided appropriately according to the

generally accepted issuing framework. This effort aims to improve the credibility and the quality of financial reporting.

The existence of asymmetry of information and conflict of interest in a company, between managers and the owner(s), could create agency conflict in reaching the company's missions. Therefore, auditing is also needed to monitor the relationship between managers and the owner(s). Financial statement auditing by independent audit will raise the credibility of the information and lower the risk regarding information subjectivity that can give profits to either the managers or the owner(s).

In Indonesia, there are policies that manage companies which have been *go public* to provide financial statement which is audited by independent auditor. It is regulated in Acts Number 40 Year 2007 regarding Limited Companies chapter 68 point 1. It also regulated by Capital Market Supervisory Board and Financial Statements (BAPEPAM-LK) in Regulation Number IX.C.2 year 1996, in terms of the Guideline of Prospectus Format and Content in order to make a Public Offering. In addition, there is also Regulation Number X.K.2 regarding Issuers' or Public Companies' Periodically Reporting Financial Statement in the decree of BAPEPAM-LK's chairperson Number: KEP-346/BL/2011.

By presenting their professional service, AP/KAP has the right to receive service honorarium from their client, which is stated in their engagement letter. The service honorarium is also known as audit fee. The range variance of audit fee in Indonesia is an interesting phenomenon. Once, a member of Management Board of Indonesian Public Accountant Institute (IAPI) discussed this phenomenon in 2013, which stated that there are many unfair competitions regarding audit fee because of the lack of clear regulation which causes audit fee goes too low for certain purpose (Akuntan Online, 2013).

In deciding the amount of audit fee, an AP has to maintain the competency, integrity, independency and to heighten the professional image of Public Accountant. In 2008, IAPI issued a Decree Letter of IAPI's Chairperson Number: KEP.024/IAPI/VII/2008 regarding the policy of Audit Fee determination ("*SK Fee Audit 2008*"). The *SK Fee Audit 2008* is meant to assist AP/KAP in determining the proper amount of audit fee that corresponds to the service which matches SPAP. If any auditor decides an audit fee which is too much lower than the previous auditor's or the other auditor's fee, that will create doubts regarding the AP's capability and competency in following the technical standard and professional standard. *SK Fee Audit 2008* explains that the audit fee received by AP/KAP represents the responsibility and risks level of the Public Accountant. A low audit fee is very likely equivalent with a below standard service, thus it is feared that may affect the quality service of Public Accountant and cause the professional image to get bad (IAPI, 2016).

The amount of audit fee can be varied according to the risks of the duty, the complexity, the required expertise, the corresponding KAP's cost structure, and the other professional considerations (Agoes, 2012 : 46). A recommendation concerning audit fee which is offered by a member of management board of The Indonesian Institute of Audit Committee states that practically there is bargaining between KAP and the future auditee which cause audit fee lowered and somewhat influence the audit scope (Akuntan Online, 2013).

In determining audit fee, one of the factors is the time length to finish the auditing (SK *Fee Audit* 2008, Attachment 1). The time length is also considered through SPAP Section 322 regarding Auditor's Consideration on Intern Audit Function in Financial Statement Auditing, paragraph 01, which states that the auditor considers many factors to determine the characteristics, the time, and the scope of audit procedures before carrying an auditing to an entity. Another factor to determine the amount of audit fee is the internal audit function. In Indonesia, since 2009, the companies listed in Indonesian Stock Exchange (BEI) have been required to have Internal Audit Unit (UAI). It is regulated in BAPEPAM-LK Number IX.I.7 Year 2008 regarding The Formation and The Guideline of The Arrangement of Internal Audit Unit Charter. The role of internal audit in the internal mechanism control is important to ensure the reliability of financial statement.

There are two perspectives regarding the relationship between internal audit and external audit, which are complementary relationship and substitution relationship. An empirical finding regarding a significant negative relationship between internal audit and external audit fee (Prawitt *et al.*, 2011; Abbass and Aleqab, 2013) shows that internal audit can substitute external audit. On the other hand, another finding regarding a significant positive relationship between internal audit and external audit fee (Goodwin-Stewart and Kent, 2006; Singh and Newby, 2010; Yasin and Nelson, 2012; Hapsari and Laksito, 2013), shows that internal audit and external audit have complementary relationship, which is a mediator to improve monitoring process of an organization.

The practice of good corporate governance (GCG) is expected to handle agency conflict occurring in a company. The corporate governance program concerns on the role of audit committee, internal audit, and external audit (Yas in and Nelson, 2012). In 2014, Indonesian Financial Services Authority (OJK) issued Indonesia Corporate Governance Roadmap, in order to improve the corporate governance of the companies listed in BEI (OJK, 2014). Since Indonesia is going to be a member of MEA, each company has to improve their business practice quality and become more competitive. The GCG programis expected to make each company more transparent in terms providing information and to make the monitoring more effective so that the accountability of the management can be guaranteed.

In the relationship with audit fee, there are two different perspectives, which are demand based–perspective and audit-risk perspective. Some researches finds positive relationship between GCG and audit fee, supporting demand based–perspective, thata company having strong corporate governance wants additional audit services to maintain reputation and to prevent any litigation potency, which leads to the higher amount of audit fee (Wahab *et al.*, 2011a, 2011b; Primasari and Sudarno, 2013). Another perspective sees corporate governance to be a part of internal control mechanism of a corporate which affects the auditing process, in other words a company having strong corporate governance consistently reduce the value of auditing risks which leads to lower amount of audit fee (Wu, 2012).

Seeing the discrepancy phenomena on the previous studies, the researchers are interested to study the audit fee. While researches on audit fee are kept going on by researchers in recent studies, the authors are interested to make a research to test the effect of internal audit on external audit fee with good corporate governance as the intervening variable. It is hoped that

this research can contribute in empirical studies regarding the relationship between corporate governance characteristics and audit fee.

Literature Reviews

Agency Theory

Conflict of interest is described as different interests between the management (or the so called agency) and the owner(s) of a company where the agents are trying to maximize contract fees they received while the owner(s) try to maximize the result of the sources paid to the agents (Jones and Riahi-Belkaoui, 2010 : 364). Gitman and Zutter (2015 : 67), theorize agency issues that many financial managers seem to agree with the idea to maximize shareholders' wealth while actually they also focus on their personal wealth, job security, and other allowances that they can get. In terms of different interests, it often happens that the managers prioritize their personal interest and indirectly ignore the interest of the shareholders. Moreover, the shareholders cannot directly supervise the company's operational activities, which mean they cannot directly prevent the managers from creating manipulation in financial statement for their own profits or to cover their mistakes (Hapsari and Laksito, 2013). Gitman and Zutter (2015 : 68), mentions that agency problem is "Problems that arise when managers place personal goals ahead of the goals of shareholders". The agency problems occurred because of different goals from the two parties, the principals and the management, which then causing agency cost to appear. Furthermore, Gitman and Zutter (2015 : 68), explain that agency cost is a cost which shareholders bear because of agency problem or to prevent agency problem from appearing and both of them cause the lowering of shareholders' personal wealth. One example of agency cost is audit fee. The agency theory describes that an agent will not do any activity to maximize the profit of the principals while the principals have limitation in monitoring the company, even if the activity has been done by the management (Yasin and Nelson, 2012). Therefore, to handle agency problem, a company has to provide another independent party which is either internal or external auditor to improve the trustworthiness of a financial statement.

External Audit Fee

External audit fee is the honorarium imposed by a Public Accountant (AP) to an audit company for an auditing service done on financial statement (Primasari and Sudarno, 2013). Professional Public Accountant Standard (SPAP), in the section Professional Ethics Regulation, Section 240.1, explains that when negotiating a professional service, a Public Accountant can suggest the suitable amount of professional service honorarium or the audit fee. The amount of audit fee can be varied depend on the duty risks, the service complexity, the required expertise, the structure of Institute of Public Accountants cost, and the other consideration factors (Agoes, 2012 : 46).

The Institute of Indonesian Public Accountant (IAPI) on July 2, 2008, issued a Decree Letter Number KEP.024/IAPI/VII/2008 regarding The Policy of Determining Audit Fee ("SK Fee Audit 2008"). The *SK Fee Audit 2008* explains that audit fee received by AP/KAP represent the level of responsibility and risks of a Public Accountant. A part of Attachment 1 explains that *SK Fee*

Audit is issued as a guideline for all members of IAPI which practice as Public Accountants and deciding the proper amount of honorarium for the professional service. The Decree Letter explains that in deciding audit fee, a public accountant has to consider: a) The client's need; b) Duties and responsibilities according to the law (statutory duties); c) Independence; d) levels of expertise and the responsibility of the job, and the job's complexity level; e) Effective time length needed for a Public Accountant and the staffs to finish the job; f) Agreed fee determining base.

Internal Audit

The decree of BAPEPAM-LK's chairman Number: KEP-496/BI/2008, Regulation Number IX.I.7 regarding The Format and The Guideline of The Arrangement of Internal Audit Unit Charter, emphasizes that internal audit is an attempt to give assurance and consultation which are independent and objective, in order to improve the value and restore the company's operational, through systematic approach, by evaluating and improving the effectiveness of the risks management, controlling, and processing corporate governance. The function of internal audit is to bear responsibility in providing trust to the audit committee.

The companies listed in Indonesian Stock Exchange (BEI) are required to provide internal audit to help their management and audit committee in internal controlling process. Internal Audit Unit (UAI) is a working unit inside an issuer or public company which carries internal audit function. The naming or nomenclature of UAI can be applied to each issuer or public company. The Professional Standard of Public Accountant (SPAP) Section 322, paragraph 04, explains that the important responsibility of internal audit function is to monitor the controlling performance of an entity. UAI determine the effectiveness of internal controlling of a company based on internal audit result.

The least duties and responsibilities of UAI meant in number 4 letter b, in the Regulation Number IX.I.7, consist of : a) Arranging and carrying annual internal audit plan; b) Testing and evaluating the performances of internal control and risk management system according to the company's policy; c) Investigating and assessing the efficiency and effectiveness of financing, accounting, operating, human resourcing, marketing, information technology, and other activities; d) Giving suggestion and objective information regarding the inspection on activities of every management level; e) Making an audit report and submitting the report to the president director and the board of commissioners; f) Monitoring, analyzing and reporting the suggested improving follow up; g) Cooperating with audit committee; h) Arranging program to evaluate the internal audit performance quality; i) Conducting specific examination if necessary.

Regulation Number IX.I.7 (number 3), also mentions that the number of internal audit in a UAI should be fit with the size and complexity level of issuer's or public company's business activities, and consists at least of one internal auditor. If a UAI consists of one internal auditor, that internal auditor will be the head of UAI.

Good Corporate Governance

The Indonesian economic crisis of 1997–1998 gave birth to a reformation and the appearance of various initiatives to strengthen national economy and regional cooperation including the

establishment of ASEAN Economic Community (MEA) in 2015. The cooperation consists of corporate governance (CG) (*Indonesia Corporate Governance Roadmap*, 2014 : 1).

The Indonesian Institute for Corporate Governance (IICG) explains CG or corporate governance concept which is viewed as a set of mechanism which bring and control a company as what stakeholders wished (IICG, 2014 : v). Good corporate governance(GCG) is defined as a structure, a system and process used by board of commissioners and directors to give their company sustainable additional value for a long term (IICG, 2014 : v).

Several GCG principles have been developed to be references by governments or business actors to arrange the relationship between stakeholders. CGC principles mentioned by National Committee on Governance(NCG) in 2006, which is almost similar with what Minister of State Owned Enterprises mentioned (in Agoes and Ardana, 2014 : 104), are: a) fairness, which is a principle to make managements treat all stakeholders fairly, whether they are primary stakeholders (suppliers, customers, employees, investors) or secondary stakeholders (governments, the people, and so on); b) Transparency, which means the obligation of the management to walk the transparency principle in the process of making a decision and conveying information; c) Accountability, which is the principle that makes the managements obliged to maintain effective accounting system to provide trustworthy financial statement. Therefore, it requires clear function, performance, and responsibility of the company's components in order to create an effective corporate governance; d) Responsibility, Which is the principle that makes the management obliged to provide accountability for all actions in governing the corporate to the stakeholders as a form of gratitude for all trust the stakeholders have given; e) Independency, which is the principle that makes the management to make decision professionally, independently, free from any conflict of interests, and free from any pressure or influence which is against the law and follow the principles of good governance.

Globally, in 2015, The Organization for Economic Co-operation and Development (OECD) emphasized several principles of corporate governance in the meeting of The Group of Twenty(G-20)Finance Ministers and Central Bank Governors, in which Indonesia was included in G-20. Those principles are:

“I) Ensuring the basis for an effective corporate governance framework; II) The rights and equitable treatment of shareholders and key ownership functions; III) Institutional investors, stock markets, and other intermediaries; IV) The role of stakeholders; V) Disclosure and transparency; and VI) The responsibilities of the board. Each chapter is headed by a single principle that appears in bold italics and is followed by a number of supporting sub-principles.” (OECD, 2015 : 11).

Many initiatives in CG field aiming to give appreciations for the companies which apply GCG principles have been voiced. For examples, there are *IICG Award - Most Trusted Award*, IICG give an award in the category of “*Most Trusted Companies*” since 2001. These appreciations are focused on go public companies, Private and State Owned Enterprises, and according to Corporate Governance Perception Index (CGPI) which is in IICG version. Conducting research programs and CGPI ranking which is carried by IICG are hoped to encourage the application of GCG principles in Indonesia to create ethical, healthy, honorable and continuous business practices. CGPI programs ask all stakeholders including governments,

business actors, business communities, and business supporting parties to practice the best GCG and various CG conceptualized dissemination activities in order to build continuous economical prosperity which especially concerns on the process creating additional values for the stakeholders(IICG, 2014 : 3).

CGPI assessment is using stakeholders' perspective, which means GCG application is not only concerning the relationship between the principle and the management, but also the relationship with the other stakeholders, in order to maintain the continuity of the company's survival. The CGPI program carried by IICG is voluntary, selective, and elective. The result of CGPI ranking program is gained using assessment norms based on score range reached by the CGPI participants in categories of the quality of GCG implementing levels which using the terms "Trustworthy". The CGPI assessment norms can be explained in Table1:

Table 1
Weights of CGPI Categories

Score	Categories
55,00 – 69,99	Moderately Trustworthy
70,00 – 84,99	Trustworthy
85,00 – 100	Very Trustworthy

(Source: IICG, Report of CGPI Result, 2014 : 20)

Hypothesis Elaboration

The Effect of Internal Audit on Good Corporate Governance

Hermawan (2010) studied by collecting data through queries and gained the result that partially internal auditor have significant positive effect on GCG implementation in State Owned Enterprises. It is interrelated with Kusmayadi (2012) who used primary data. He found that internal audit have significant positive effect on GCG implementation in State Owned Bank of Tasikmalaya District. Another research conducted by Sarens *et al.* (2012), shows that internal audit function have significant positive active role in CG regarding the application of risk based audit plan. From that explanation, a hypothesis can be formulated as:

H1 : Internal audit have positive effect on GCG.

The Effect of Good Corporate Governance on External Audit Fee

Wahab *et al.* (2011a) analyzed the relationship between GCG and external audit *fee* in Malaysia. He used Corporate Governance Index for the research, and the result shows that Corporate Governance Index has significant positive effect on audit fee. He discovers that a company with better corporate governance (CG) demands higher quality of audit, which leads to higher amount of audit fee. Next, Wahab *et al.* (2011b) carried a research on 379 companies as sample. He tested the relationship between GCG and external audit fee with still using Corporate Governance Index. The result is similar with the previous one, which is that Corporate Governance Index has significant positive effect on audit fee. Primasari and Sudarno (2013), in their research, made a test regarding the relationship between CG and audit fee, which using

Corporate Governance Perception Index (CGPI) as the instrument for measuring corporate governance. The result shows that CGPI have significant positive effect on audit fee. It indicates that GCG implementation have the connection with the management which demand more auditing activities, thus making audit fee higher. According to those findings, a hypothesis can be made as follow:

H2 : GCG have positive effect on external audit fee.

The Effect of Internal Audit on External Audit Fee

Goodwin-Stewart and Kent (2006) measured internal audit using the number of internal audit members. The result shows that there is significant positive effect between internal audit and audit fee. This research then was continued by Singh and Newby (2010), which consistently results that internal audit brings significant positive effect on external audit fee; even the effect is stronger than the previous one. Hapsari and Laksito (2013) did similar research, which the result shows that the activities and the functions of internal audit which is measured from the number of internal audit statements have significant positive effect on external audit fee. That means that a higher external audit responsibility influence the relevance of internal audit function that relates to internal control structure of a company and influence a company's financial statements or the potency of misrepresent a financial statement, which thus heighten the amount of external audit fee. Those results show that internal and external audit have complementary relationship, which means as the medium to improve the overall monitoring process of a company. Therefore, a hypothesis can be made as:

H3 : Internal audit have positive effect on external audit fee.

The Effect of Internal Audit on External Audit Fee with GCG as The Intervening Variable

After discussing internal audit effect on external audit fee, the effect of internal audit on GCG, and the effect of GCG on external audit fee, thus the authors want to test the appearing indirect effect, which is the effect of internal audit on external audit fee using GCG as the intervening variable. Goodwin-Stewart and Kent (2006) measured internal audit using the number of internal audit member, which the result shows a significant positive relationship between internal audit and audit fee. That result shows that internal audit and external audit are complementary, which means they have function to improve the overall monitoring process of an organization. Wahab *et al.* (2011a), analyzed the relationship between GCG and external audit fee in Malaysia, where he used Corporate Governance Index, and resulting that Corporate Governance Index influences audit fee significantly positive. That reveals that a company with good corporate governance (GCG) demands higher auditing quality, which leads to higher audit fee. In other words, GCG can mediate the relationship that appears between audit internal and external audit fee. Thus, a hypothesis can be made as follow:

Research Framework

According to previous researches, this research framework can be illustrated as the Figure 1:

Information on Figure 1:

UAI = Internal audit, measured using UAI standard.

GCG = *Good corporate governance*, measured using CGPI.

FEA = external audit Fee

→ = Direct effect
---▶ = Indirect effect

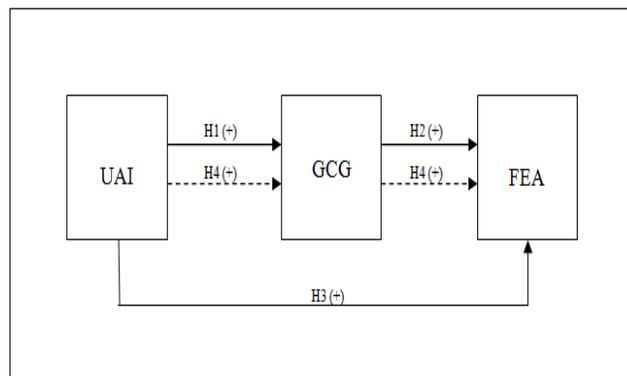


Figure 1
Research Framework

Research Methodology

Data Type and Source

Data type used in this research is quantitative data. Data used in this research are secondary data which means the data are from annual reports from 2011 until 2014, which are gained from Indonesian Stock Exchange (BEI) via www.idx.co.id, go public company website, and data of Corporate Governance Perception Index (CGPI) are gained from the report of CGPI result from The Indonesian Institute of Corporate Governance (IICG).

Population and Sample

According to Santoso (2013 : 4), population is a group of data that identify a phenomenon. The population was taken from the company which voluntarily participated in CGPI which was carried by IICG, and those listed in BEI from 2011 until 2014. Data in 2015 were not included in this research because there had not been the published CGPI data (will be published in the end of 2016). Sample is a group of data that selected from a population (Santoso, 2013 : 5). The sample of this research is taken based on purposive sampling technique. Purposive sampling is a technique to determine a group of samples based on certain purposes (Widiyanto, 2013 : 117). In this research, the procedures to determine the samples are such: a) The companies which voluntarily participated in CGPI survey carried by IICG, and those listed in BEI from 2011 until 2014; b) Those which are not considered delisted in the research period; c) The companies providing information concerning the amount of external audit fee in their annual reports from 2011 until 2014; d) The companies providing information regarding the number of internal audit unit members in their annual reports from 2011 until 2014.

Research Model

The research model can be illustrated:

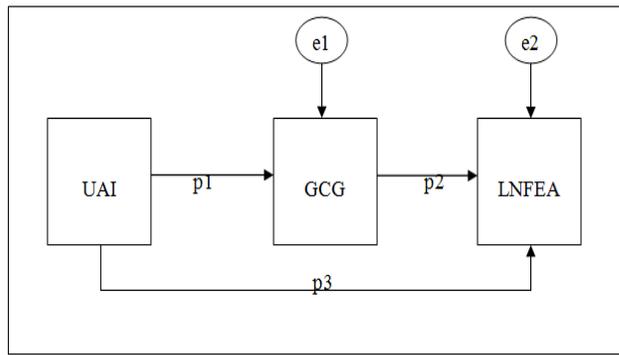


Figure 2

Path Diagram

According to figure 2, the structural equation can be broken down as follow:

$$GCG = p1.UAI + e1.....(1)$$

$$LNFEA = p3.UAI + p2.GCG + e2.....(2)$$

Information on figure 2:

p = Path coefficient

e = Unexplained variance

Operating Variables

According to Santoso (2013 : 5), variable is one or several population characteristics which have to be identified. Variables that involved in this research are:

Table 2

Operating Variables of The Research

No.	Variable	Dimension	Indicator	Measuring Scale	Reference
Dependent Variable : External Audit Fee					
1	External audit fee	The amount of fee received by external auditor (Public Accountant/Institute of Public Accountants) from auditee	The log natural of the audit fee paid to external auditor from audit fee(LNFEA).	Ratio	Fatimah Mat Yasin and Sherliza Puat Nelson (2012)
Independent Variable: Internal Audit					
2	Internal audit unit (UAI)	The working unit of the issuer or public company that carries the function of internal audit.	The size of Internal Audit Unit (Number of the members of UAI)	Ratio	Jenny Goodwin-Stewart and Pamela Kent (2006)
Intervening Variable : Good Corporate Governance(GCG)					

3	Corporate Governance Perception Index(CGPI)	The ranking made based on the implementation of GCG for companies in Indonesia.	The Ranks are Very Trustworthy, Trustworthy, and Moderately Trustworthy.	Interval	Rahmaddian Primasari and Sudarno (2013)
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Data Analysis Method

The analysis method applied in this research is path analysis. Ghozali (2016 : 237) suggests that path analysis is the elaboration of double linear regression analysis, or the application of regression analysis to estimate the causal relationship between variables or model casual that has been decided previously based on the theory. Path analysis does not only test causal relationship which characteristic is direct effect but also indirect effect via the intervening variable (Widiyanto, 2013 : 310). In order to analyze this data, the authors use IBM SPSS v.23 software.

RESULTS AND DISCUSSIONS

Description of Research Samples

This research employs pooled data gathering method since the objects of the research are companies which voluntarily involve in the research survey. There are 50 samples in this research. The brief description of sample selection is presented in table 3.

Table 3
Research Sample Selection Process

No.	Sampling Criteria	2011	2012	2013	2014
1	Companies which are listed in BEI and voluntarily involve in CGPI survey conducted by IICG.	24	25	16	12
2	Do not delisting during the research period.	24	25	16	12
3	The companies provide information regarding the fee of external audit in annual report.	18	21	16	12
4	The companies provide information regarding the number of internal audit members in annual report.	9	19	16	12
Incomplete data		16	9	1	1
Complete company data		8	16	15	11
Total of pooled data from 2011 to 2014		50			

(Source : Data by the researchers).

Then, before conducting further analysis, the researchers decide to eliminate some data which is considered interfering with the result of double linier regression. It is conducted by ZSCORE detection. If the value of ZSCORE is bigger than 2.5, then the data is considered outlier (Ghozali, 2016:41). In this research, there are 4 outlier data which is eliminated from the total sample. After the sample elimination through ZSCORE, the total samples are 46 and 19 among them become the samples of this research.

Table 4
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
FEA	46	280000000	2661900000 0	3475599340.5 2	4367395752.75 7
UAI	46	1	185	51.33	55.394
GCG	46	66.44	92.88	83.2683	5.95560
LNFEA	46	19.4503	24.0049	21.531112	.8917659
Valid N (list wise)	46				

(Source : *Output SPSS v.23*, data by the researchers).

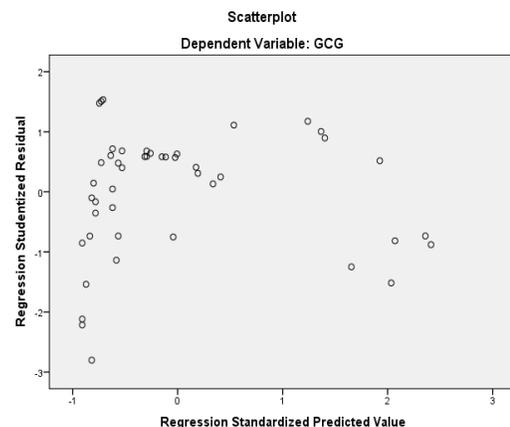
Table 4 shows that there are 46 total samples. FEA, which shows the amount of external audit fee, has minimum value of 280000000 and maximum value of 2661900000 with average 3475599340.52. It shows that the lowest amount of external audit fee paid by auditees to public accountant or public accountant office is Rp. 280,000,000 and the highest amount is Rp. 26,619,000,000 with the average of Rp. 3,520,568,214.76. Next, LNFEA, which is the value of FEA natural logarithm, shows the minimum value of 19.4503, the maximum value of 24.0049, and the average value of 21.531112.

The minimum value of UAI, which stands for the members of internal audit unit, is one member. It is in accordance with regulation by BAPEPAM-LK number IX.I.7 regarding The Formation and The Guideline of The Arrangement of Internal Audit Unit Charter. In this research the highest number of audit internal members is 185 and the average is 51.33.

For GCG, which shows the application of good corporate governance measured by *corporate governance perception index*, the lowest index score is 66.44 and the highest score is 92.88. It indicates that the companies which voluntarily involve in the survey by IICG and become the sample of this research have predicate of being “moderately trustworthy” to “very trustworthy”.

Result of Classic Assumption Test

Normality Test



A normality testing is conducted in this research, where the population of various measured behaviors and characteristics (research variables) with interval and ratio scale are generally assumed as normal distribution (Widiyanto, 2013:86). In addition, samples size which is $n \geq 30$ in central limit theorem tends to be in normal distribution even though the population from which the samples are taken is not in normal distribution (Widiyanto, 2013:86). The test is conducted by using SPSS v.23. The normality test result shows that kolmogorov-smirnov significance value is not significant ($> \alpha = 5\% = 0.05$). It shows the value of 0.064. Therefore, it can be concluded that the data in this research is in normal distribution.

Multicollinearity Test

Multicollinearity testing in this research is conducted on regression equation substructure 1 and substructure 2. The results are presented in Table 5. From the two tests (table 5), the tolerance values are above 0.1 and VIF < 10 . Therefore, it can be concluded that the present research does not have multicollinearity problem.

Table 5
Multicollinearity Test

Model	Colinearity Statistics	
	Tolerance	VIF
Substruktur 1		
UAI → GCG	1,000	1,000
Substruktur 2		
UAI → LNFEA	0,760	1,316
GCG → LNFEA	0,760	1,316

Heteroskedasticity Test

Figure 3
Scatter plot of Substructure 1
(Source : *Output SPSS v.23, data by the researchers*)

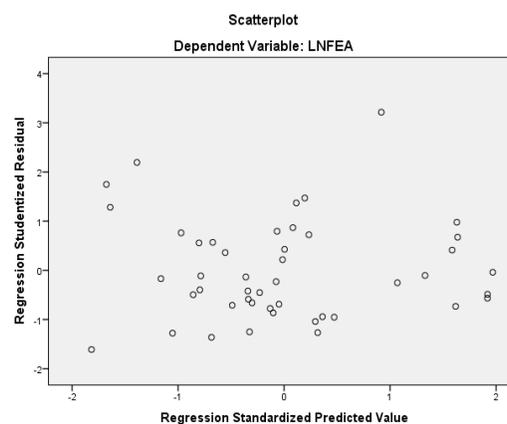


Figure 4

Scatter plot of Substructure 2

Figure 3 and 4 show that the points in scatter plot diagram is placed randomly both above and below 0. It means that there is no heteroskedasticity problem on regression model, thus the model is appropriate for the research.

Hypotheses Testing Results

Regression Analysis of Substructure 1

Sub-structural Equation 1

$$GCG = p1.UAI + e1$$

Table 6

Model Summary of Substructure 1

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,490 ^a	,240	,223	5,24934

a. Predictors: (Constant), UAI

Dependent Variable: GCG

(Source : *Output* SPSS v.23, data by the researchers).

According to the result in model summary, the value of R square is 0.240 or equal to 24%. It indicates that 24% of the variation of GCG variable can be completely explained by UAI variable. Meanwhile, the rest of GCG variable (76%) is due to other variables which are not included in this model. The formula to determine the value of unexplained variance, which is symbolized by “e”, is as follows:

$$e = \sqrt{(1 - R^2)} \dots \dots \dots (\text{Ghozali, 2016 : 239})$$

$$e1 = \sqrt{(1 - 0,240)} = 0,872$$

Appropriateness Test of Regression Model (F Test) of Substructure 1

Table 7

F Test of Substructure 1

F Count	Sig.
13,923	0,001

According to F test, the value of F count is 13.923 with significance level of 0.001. Since the F count is bigger than F table (2.83) and the significance level is smaller than α research (5% / 0.05), the regression model is appropriate to predict the effect of UAI variable on GCG.

Individual Parameter Significance Test (t Test) of Substructure 1

Table 8

t Test of Substructure 1

Model	T	Sig.
UAI → GCG	0,490	0,001

1. Analysis of the effect of internal audit on good corporate governance

In order to assess the effect of internal audit on good corporate governance, the researchers make the following hypotheses:

H0 = Internal Audit does not have effect on good corporate governance

H1 = Internal Audit has positive effect on good corporate governance

According to the result of t test, the significance level of UAI is 0.001 with standardized coefficients beta 0.490. It shows that the significance level of t test is smaller than 0.05 and the standardized coefficient beta. In other words, the H0 is rejected and H1 is accepted. It means that internal audit has significant and positive effect on good corporate governance. In the following sections, path coefficient of UAI on GCG will be symbolized as “p1” in this research model.

Regression Analysis of Substructure 2 (The Effect of Good Corporate Governance and Internal Audit on External Audit Fee)

Sub-structural Equation 2 :
 $LNFEA = p3.UAI + p2.GCG + e2$

Table 9
Model Summary of Substructure 2

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,760 _a	,578	,558	,5926503

a. Predictors: (Constant), GCG, UAI
 Dependent Variable: LNFEA
 (Source: *Output SPSS v.23*, data by the researchers).

According to the result in model summary, the value of R square is 0.578 or equal to 57.8%. It indicates that 57.8% of LNFEA variable can be explained by GCG and UAI. Meanwhile, the rest of it is 42.2% (100% - 57,8%) due to other variables which are not included in this model. The formula to determine the value of unexplained variance, which is symbolized by “e”, is as follows:

$e = \sqrt{(1 - R^2)} \dots \dots \dots$ (Ghozali, 2016 : 239)

$$e2 = \sqrt{(1 - 0,578)} = 0,649$$

Appropriateness Test of Regression Model (F Test) of Substructure 2

The appropriateness of regression model of sub-structural 2 is represented in table 10.

Table 10
F Test of Substructure 2

F Count	Sig.
0,29443	0,000

According to F test, the value of F count is 29.443 with significance level of 0.000. Since the F count is bigger than F table (2.83) and the significance level is smaller than α research (5% / 0.05), the regression model is appropriate to predict the effect of GCG and UAI variable on LNFEA.

Individual Parameter Significance Test (t Test) of Substructure 2

Table 11
t Test of Substructure 2

Model	t	Sig.
GCG → LNFEA	0,332	0,005
UAI → LNFEA	0,540	0,000

1. Analysis of good corporate governance on external audit fee

In order to assess the effect of good corporate governance on external audit fee, the researchers make the following hypotheses:

H0 = Good corporate governance does not have effect on external audit fee

H2 = Good corporate governance has positive effect on external audit fee

According to the result of t test, the significance level of GCG is 0.005 with standardized coefficients beta 0.332. It shows that the significance level of t test is smaller than 0.05 and the standardized coefficient beta is positive. In other words, the H0 is rejected and H2 is accepted. It means that good corporate governance has significant and positive effect on external audit fee. In the following sections, path coefficient of GCG on LNFEA will be symbolized as “p2” in this research model.

2. Analysis of the effect of internal audit on external audit fee

In order to assess the effect of internal audit on external audit fee, the researchers make the following hypotheses:

H0 = Internal audit does not have effect on external audit fee

H3 = Internal audit has positive effect on external audit fee

According to the result of t test, the significance level of GCG is 0.000 with standardized coefficients beta 0.540. It shows that the significance level of t test is smaller than 0.05 and the standardized coefficient beta is positive. In other words, the H0 is rejected and H3 is accepted. It

means that internal audit has significant and positive effect on external audit fee. In the following sections, path coefficient of UAI on LNFEA will be symbolized as “p3” in this research model.

Based on the double linear regression analysis which have been conducted on sub-structural equation 1 and sub-structural equation 2, the research model and the value of direct effect which represent the value of path coefficient can be represented as seen in Figure 5.

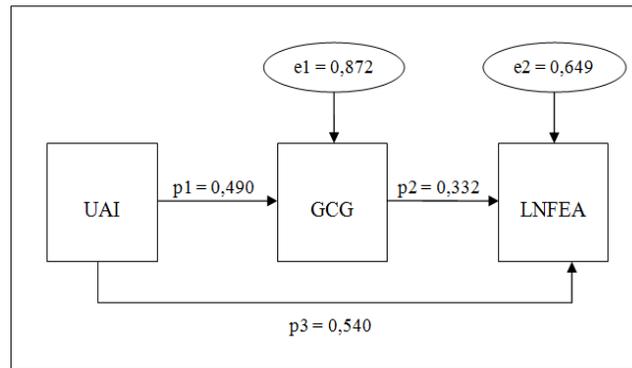


Figure 5
Research Model with Path Coefficient

Based on Figure 5, the structural equation of this research is as follows:

$$\text{GCG} = 0,490.\text{UAI} + e1.....(3)$$

$$\text{LNFEA} = 0,540.\text{UAI} + 0,332.\text{GCG} + e2....(4)$$

Direct and Indirect Effect Testing

By using path coefficient analysis, this research does not only aims to test direct causal effect but also indirect effect through intervening variable and total effect of independent variable on dependent variable. This research aims to test the effect of internal audit on external audit fee with good corporate governance as the intervening variable. The direct effect is represented by the values of path coefficient which have been discussed before and it is presented in table 12.

Next, the indirect effect is presented in table 13, where the indirect effect in this research is the effect of internal audit on external audit fee through good corporate governance as the intervening variable. This indirect effect is calculated by multiplying the direct of UAI on LNFEA by the direct effect of GCG on LNFEA. Then, to conduct a further analysis, the researchers present direct effect, indirect effect and total effect in table 14 where the total effect is the sum of direct effect and indirect effect.

Table 12
Direct Effect

Model	Path Coefficient	Sig.	R Square
Substructure 1			
UAI → GCG	p1 = 0,490	0,001	0,240 = 24%
Substructure 2			

GCG → LNFEA	$p2 = 0,540$	0,00 0	0,578 = 57,8%
UAI → LNFEA	$p3 = 0,332$	0,00 5	

Table 13
Indirect Effect

UAI → GCG → LNFEA		
$p1 \times p2$	$0,490 \times 0,332$	$0,16268 = 0,163$

Table 14
Total Effect

Effect on LNFEA	UAI
Direct effect	0,540
Indirect effect	0,163
Total effect	0,703

In order to assess the indirect effect of internal audit on external audit fee with good corporate governance as intervening variable, the researchers make the following hypotheses:

- H0 = Internal audit has effect on external audit fee without good corporate governance as intervening variable
- H4 = Internal audit has effect on external audit fee with good corporate governance as intervening variable

According to table 14, the indirect effect of UAI variable on LNFEA through GCG is smaller than the direct effect of UAI on LNFEA ($0.163 < 0.540$). It means that good corporate governance cannot be considered as intervening variable which mediates the relationship between audit internal and external audit fee. Therefore, H4 is rejected. The value of the effect of internal audit on external audit fee decrease through good corporate governance, even though the value is still positive.

Discussions

The Direct Effect of Internal Audit on Good Corporate Governance

The hypotheses testing shows that H1 is accepted. It means that internal audit has positive and significant effect on good corporate governance. It is line with a survey research by Hermawan (2010) which finds that the role of internal auditor partially has significant positive effect on the implementation of GCG in Indonesian State Owned Enterprises. Similarly, Kusmayadi (2012) finds that internal audit has positive effect on the implementation of GCG in State Owned Banks in Tasikmalaya. Hand in hand, Sarens et al. (2012) finds that internal audit function plays an active role in CG significantly and positively related to the use of risk-based audit plan.

The Direct Effect of Internal Audit and Good Corporate Governance on External Audit Fee

The result of t test shows that H2 is accepted. It means that GCG has positive and significant effect on external audit fee. It is in line with Wahab et al (2011a) which analyze the relationship between GCG and external audit fee in Malaysia. The research uses Corporate Governance Index and the result shows that Corporate Governance Index has significant positive effect on audit fee. It indicates that companies with better corporate governance require higher quality of audit which leads to higher audit fee. Next, Wahab et al. (2011b) conduct a research on 379 companies as the samples. They test the relationship between GCG and external audit fee by using Corporate Governance Index. The result is similar to previous study. It is found that Corporate Governance Index has a significant positive effect on audit fee. It indicates that implementation of GCG relates to management which requires more audit activities, thus increase audit fee.

Next, the present research finds that H3 is accepted. It means that internal audit has positive and significant effect on external audit fee. This result is in line with Goodwin-Stewart and Kent (2006) who measure internal audit by the number of internal audit member. The result shows that there is a significant positive relationship between internal audit and audit fee. Similarly, Singh and Newby (2010) find that internal audit function has significant positive effect on external audit fee; the effect is even stronger. Similar research is also conducted by Hapsari and Laksito (2013) which find that the activities of internal audit function, which is measured by the number of internal audit report, influence external audit fee significantly and positively. It means that higher responsibility of external auditor determine the relevance of internal audit function which relates to company internal control structure and its effect on financial statement or misrepresentation of financial statement, so the audit fee increases. Those results indicate that internal audit and external audit are considered complementary i.e. the means of increasing general supervision in an organization.

Indirect Effect of Internal Audit on External Audit Fee with Good Corporate Governance as Intervening Variable

The path analysis which has been discussed in the previous section shows that the indirect effect of UAI on LNFEA through GCG is less than the direct effect of UAI on LNFEA ($0.163 < 0.540$). It indicates that good corporate governance cannot be considered as the intervening variable which mediates the relationship between internal audit and external audit fee (H4 is rejected). The value of the effect of internal audit on external audit fee through good corporate governance decreases, even though it still shows a positive value. In other words, internal audit, which is complementary with external audit, gives bigger direct effect on external audit fee without GCG as intervening variable.

Conclusion

According to the research results, there are several conclusions which can be presented:1) Internal audit have significant and positive effect on good corporate governance. It shows that

the functions of internal audit have active roles on good corporate governance implementation significantly and positively; 2) Good corporate governance give positive and significant effect on external audit fee. It reveals that a company with good corporate governance (GCG) demand higher audit quality, which leads to higher audit fee. It also indicates that GCG implication relates to management's demand in requiring more audit activity effects, thus heighten audit fee; 3) Internal audit bring positive and significant effect on external audit fee. It reveals that internal audit and external audit are complementary to each other, which is a mediator to improve the overall monitoring process of an organization. Therefore, If the internal audit get better, that will influence external audit fee which means become higher; 4) Good corporate governance cannot be categorized as the intervening variable which mediates the relationship between internal audit and external audit fee. In other words, the magnitude of internal audit effect on external audit fee will be lowered even if it is positively good corporate governance.

According to this research results and several conclusions presented, the authors suggest that:

- 1) This research is expected to be able to help Public Accountant/ Institute of Public Accountants in indicating internal audit and good corporate governance factors as consideration in determining the proper audit fee which is offered to auditee's company;
- 2) This research is expected to help go public companies which participate in CGPI survey voluntarily, so that they can mind the implementation of good corporate governance principles, which also will contribute in audit activities improvement, thus companies will be willing to pay higher audit fee;
- 3) Since there are limitations in this research, such are:
 - a) The number of companies as the samples is categorized small, only 19 companies, because this research uses good corporate governance implementation variable measured in index in the form of CGPI, which the samples are the companies participating voluntarily in CGPI survey carried by IICG;
 - b) The internal audit variable only measured from the number of internal audit unit members, as consequence these results are not enough to depict internal audit in general. Therefore, the authors suggest the future researchers to:
 - a) Count GCG index using alternate measuring instruments (besides CGPI, since it is voluntary), in order to be able to collect more samples;
 - b) Add other proxies which describe the effectiveness of internal audit (in terms of internal audit variable).

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