Article Type: Research Paper

Do others comprehensive income, profit, and equity attributable impact external audit fee?

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Abstract

Research aims: Fair value accounting, fairness, and transparency are the basis for other comprehensive income (OCI), profit, and equity attributable. This research aims to analyze the impact of adding this information on external audit fees, considering that the content of financial reports becomes more extensive with a longer format.

Design/Methodology/Approach: This study tested the influence of aggregate OCI, OCI to be reclassified, profit and equity attributable, and control variables (size, ROA, leverage, period, type of industry) on audit fees in 238 companies registered on IDX in all business sectors for the 2015-2021 period with data 1,666 observations.

Research findings: Additional information on OCI, profits, and equity attributable has been proven to influence external audit fees because the inherent properties of OCI, such as the level of management subjectivity, sensitivity to externals, high volatility and exposure, as well as the complexity of the holding company reflecting the attribution value, could increase audit work and audit risk in assessing the fairness of OCI presentation and attribution.

Theoretical contribution/ Originality: This study provides empirical evidence in Indonesia on how OCI disaggregation (reclassification), profit, and equity attributable affect external audit fees.

Practitioner/Policy implication: For management, it can be an input in predicting the amount of audit fees, and for external auditors, it can be a consideration in determining the amount of audit fees by taking into account additional audit procedures due to OCI and profit attribution.

Research limitation/Implication: The limitation of this research is that in measuring OCI reclassification, it only included the holding company, while OCI in subsidiaries and associations was not involved.

Keywords: Other Comprehensive Income (OCI); Profit and Equity Attributable; Audit Fees

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DOI: 10.18196/jai.v25i1.20470

CITATION:
Kusuma, M., & Luayyi, S. (2024). Do others comprehensive income, profit, and equity attributable impact external audit fee? *Journal of Accounting and Investment, 25*(1), 112-136.

ARTICLE HISTORY
Received:
10 Nov 2023
Revised:
24 Nov 2023
26 Jan 2024
Accepted:
06 Feb 2024

JAI Website:

Introduction

External audit fees remain a vital and interesting topic to research. This is because external audit fees reflect audit quality (Saifudin & Januarti, 2023); high audit fees are perceived by the user community as a form of high-quality audit. High-quality audits demonstrate the credibility of financial reports and become the basis for users of financial reports in making decisions (Alrashidi et al., 2021).

Audit action products that produce audit opinions are an essential basis for users to interpret the information contained in financial reports. However, in Indonesia, neither the government, the financial services authority (OJK), the Indonesian Stock Exchange (BEI), nor the Indonesian Accountants Association (IAI) through Financial Accounting Standards (SAK) require disclosure of audit fees in the presentation of financial reports. Disclosure of audit fees in Indonesia is still voluntary (Yulianti et al., 2019). It differs from the policy in Belgium (Averhals et al., 2020), China, the United States, the United Kingdom, and Australia (Ding, 2019), in which companies that go public in these countries are required to disclose external audit fees in annual financial reports expressly.

Financial reports are the object of audit practice actions. Changes in standard policies for preparing and presenting financial reports will affect audit procedures and the investment of auditor resources in audit practices. The size of the audit procedure will also affect the price offered by public accounting firms (KAPs). One of the significant changes in Indonesian Financial Accounting Standards (SAK) is the emergence of other comprehensive income (OCI) and the attribution of profits and equity to owners so that with these two pieces of information, the content and format of financial reports become longer. The nature and characteristics inherent in OCI have an impact on additional audit procedures and increased audit risk, such as a high level of volatility, full of uncertainty, and sensitivity to external changes, including macroeconomics (Kusuma & Saputra, 2022), leading to a high level of management subjectivity because it is based on fair value on certain OCI items (Kusuma, 2021b), and can bring the potential for management to carry out earnings management (Kusuma et al., 2022), income smoothing (Kusuma & Qowi, 2022; Kusuma, 2023a) and tax avoidance (Kusuma & Rahayu, 2022). Likewise, the attribution of profit and equity, which reflects the complexity and scale of the business because it is influenced by the number of subsidiaries (Kusuma & Athori, 2023), also impacts increasing the scope, audit procedures, and audit risk. Based on this, this research aims to prove whether auditors ask for compensation for increasing audit procedures and audit risks to assess the fairness of OCI presentation, profit, and equity attribution, which then becomes the basis for auditors' considerations in determining audit fees.

Furthermore, research findings concerning the variables that impact the magnitude of audit fees across different nations remain inconclusive. An example is the size of the KAP; according to Yulianti et al. (2019), in Indonesia, the size of the KAP positively affects audit fees. However, according to Ding (2019), the size of the KAP does not significantly affect China. Studies on the influence of OCI on audit fees have also been previously carried out by Ding (2019) in China and Mihaela et al. (2022) in France, Germany, Spain, and Italy, with inconsistent results. In his research, Ding (2019) concluded that in China, OCI has a significant positive effect on audit fees because the characteristics of OCI cause complexity in audit procedures and the audit risk that OCI brings. It also revealed that the auditor's practical experience factor weakens the influence of OCI on audit fees. Auditors with long practical experience can better treat OCI with its inherent properties and characteristics, thereby reducing audit procedures and fees. Nevertheless, contradictory results are presented by Mihaela et al. (2022), researchers from Romania,

who found evidence that in four large European countries, namely France, Germany, Spain, and Italy, OCI did not have a significant effect on audit fees, but when classifying the type of auditor based on Big 4 and Non-Big 4 KAPs, Big4 KAPs consider the impact of OCI volatility on audit risk and the extent of audit work in determining audit fees more than Non-Big 4 KAPs.

Ding's (2019) and Mihaela et al.'s (2022) studies have been subject to two criticisms. First, both only examined OCI in aggregate, not examining the presentation of reclassified OCI. Second, changes in the display and content of the financial statements were not only in the form of additional OCI information but also additional profit and equity attribution information, both of which had not tested the impact of additional profit and equity attribution information on audit fees, where this additional attribution information causes the emergence of the profit and loss report and the balance sheet becomes longer with more content.

For that reason, this research's position develops the research of Ding (2019) in China and Mihaela et al. (2022) in France, Germany, Spain, and Italy. Two things are developed as a novelty in this research. First, it tests not only aggregate OCI but also the effect of OCI groups that will be reclassified and not be reclassified to net profit on audit fees. Second, it examines the effects of profits and equity attributable to owners. Testing the effect of OCI reclassification, profit attribution, and equity attribution on external audit fees is the originality of this research. According to the authors' understanding, testing the effect of OCI reclassification, profit attribution, and equity attribution on external audit fees is rarely done.

The reason for testing the effect of OCI reclassification on audit fees is because it aligns with the Financial Accounting Standards policy in Indonesia regarding the presentation of OCI. It is stipulated that in the income statement, OCI is not presented in aggregate in one "OCI accumulation" account but is presented per item and grouped into two groups, namely, which will be reclassified to net profit and which will not be reclassified. Testing of these two groups is to determine the impact of disaggregation of OCI presentation on audit fees, considering that assessing the fairness of grouping OCI items into groups that will be reclassified and will not be reclassified also contains significant audit risks and increases the scope of audit work, in addition to the characteristics of OCI itself.

Moreover, the rationale for examining the impact of profit attribution and equity attribution on audit fees is in accordance with the policy set forth by the Financial Accounting Standards in Indonesia concerning how attributable net profit and equity are disclosed to two categories of owners within the group of entities that present consolidated financial statements: those who own major shares in the holding company entity and those who have non-controlling interests. The presentation of profit and equity attribution reflects the complexity of the audit because it describes the complexity of the business scale between holding-subsidiary or subsidiary-to-subsidiary entities within one group of entities presenting consolidated financial statements. The purpose of testing these two attributions is to ascertain the effect of disaggregating equity and net profit on audit fees. It is essential to consider that evaluating the equity

and profit attribution to individual company owners entails substantial audit risks and expands the audit work scope. These two things have not been accommodated in the research of Ding (2019) and Mihaela et al. (2022) and have not yet been studied by many researchers in Indonesia.

Through the findings of this study, empiric evidence regarding the impact of modifications to the structure and content of profit and loss reports and balance sheets—specifically, the inclusion of details regarding OCI reclassification, profit attribution, and equity attribution—on external audit fees in Indonesia may be contributed to the academic literature in the fields of financial accounting and auditing. For management, it can be an input in predicting the amount of audit fees based on the complexity of economic transactions and the application of fair value accounting, which is reflected in the OCI value and attribution of profit and equity. For external auditors, it can be feedback in determining the amount of the audit fee by considering the audit risk and audit resource investment arising from the characteristics of OCI and the complexity of the group entity that presents consolidated financial reports with profit and equity attribution information posts. For the Financial Accounting Standards Board of the Indonesian Accountants Association (DSAK IAI), this study can also suggest regulating aggregate OCI presentation policies, particularly for subsidiaries in the presentation of consolidated financial statements.

Literature Review and Hypotheses Development

External Audit Fee

Audit fees are the price for financial report audit services provided by independent auditors. The product of audit services by this independent external party is an audited financial report containing the auditor's opinion on the fairness of the presentation of the financial report. Based on literature studies from scientific articles in and outside Indonesia, the factors that determine the amount of audit fees are broadly classified into client attributes, KAP attributes, and external environmental attributes outside the client and KAP. Factors determining the amount of audit fees from client attributes also include business complexity and scale as measured by the number of subsidiaries owned, as well as company size (Chang et al., 2021; Duan et al., 2021), weak internal control system in China (Duan et al., 2021), weak audit committees in the UK (Al-okaily & Benyoussef, 2020), quality of financial reports (negative influence) in China (Xiang & Song, 2021), companies whose shares are dominated by families in England (Al-okaily & Benyoussef, 2020), and the CEO's nationality Iran (Oradi, 2021).

Additionally, a study conducted in China by Xiang and Song (2021) showed that CEO narcissism, as measured by signature size, positively affected external audit fees. In line with Xiang and Song (2021), research in New Zealand by Bhuiyan et al. (2020) found evidence that the female main director positively affects external audit fees. Their study also concludes that the board of directors' financial scandals and the level of audit risk arising from management's actions in earnings management positively affect audit fees.

Chang et al. (2021), in their study in the United States, revealed evidence that the level of GCG implementation positively affected external audit fees and income smoothing as a signal of opportunistic behavior. Likewise, a study conducted in China by Duan et al. (2021) uncovered that the audit committee's effectiveness positively affects external audit fees.

Regarding the influence of CSR performance on external audit fees, the findings remain inconsistent. A study conducted by Sun et al. (2020) in New Zealand concluded that CSR performance had a positive effect on external audit fees; however, Du et al. (2020), in their study in the United States, deduced that CSR performance had a negative effect on external audit fees. Also, research conducted in Japan by Gu (2021) resulted in findings that the size of investment in developing countries, the geographical distance of the client from the KAP head office, and the characteristics of the client's FDI positively affect external audit fees. In their study in the United States, Cho et al. (2020) exposed that the high level of client risk, as indicated by the leverage ratio, positively affected external audit fees. Besides, an international study on labor characteristics of external audit fees in 30 countries by Sun et al. (2020) confirms that the work environment, worker welfare, and media coverage of labor controversies positively affected external audit fees.

Further, studies scrutinizing the impact of applying fair value accounting in the presentation of financial reports on external audit fees have been conducted, among others, by Ding (2019) in China, Chen et al. (2019) in Singapore, and Sujana and Mita (2019) in Indonesia. In his research, Ding (2019) found evidence that the application of fair value accounting, which gives rise to the OCI value, has a positive effect on external audit fees; this is due to the nature of OCI, which creates audit risk due to high uncertainty and the subjectivity of assessment by management. Meanwhile, Chen et al. (2019) concluded that presenting goodwill at fair value as a reflection of full disclosure and reducing information asymmetry positively affects external audit fees. Likewise, Sujana and Mita (2019) inferred that presenting fixed assets at fair value using the revaluation method and assessing the fair value of assets by internal appraisers positively affect external audit fees in Indonesia.

Many factors affect how much an auditor charges for their services. These include KAP size (Yulianti et al., 2019; Tat & Murdiawati, 2020), auditor's practice experience (Ding, 2019), KAP reputation as measured in the Top 8 (Ding, 2019) and Big 4 (Duan et al., 2021), the number of industry expertise specifications (Ding, 2019), the large number of signatures in audit reports (Ding, 2019), the origin of accounting education from abroad (Hou et al., 2020), and membership in the Public Company Accounting Oversight Board (PCAOB) (Mohapatra et al., 2022). On the other hand, the determinants of audit fees are influenced by various external factors. For instance, in Belgium, the law mandates the disclosure of audit fees in financial reports, which has a positive impact (Averhals et al., 2020). Similarly, laws concerning changes in VAT rates in China also positively influence audit fees (Duan et al., 2021). Furthermore, the economic conditions of the client company, regardless of whether it operates in a developed or developing country, also positively affect audit fees (Oradi, 2021).

Table 1 Factors Influencing External Audit Fees in Various Countries

Affecting Factors	Influence Direction	Research Countries	Researcher(s)
Client Factors			
OCI (aggregate value)	(+)	China	Ding (2019)
The level of complexity and scale of business	(+)	USA	Chang et al. (2021)
The size of the company	(+)	USA	Chao et al. (2021)
Weak SPI	(+)	China	Duan et al. (2021)
Weak role of the audit committee	(+)	United Kingdom	Al-okaily and Benyoussef (2020)
Quality of financial reports	(-)	China	Xiang and Song (2021)
Domination of family shares	(+)	United Kingdom	Al-okaily and Benyoussef (2020)
CEO's nationality	(+)	Iran	Oradi (2021)
The level of CEO narcissism	(+)	China	Xiang and Song (2021)
The gender of the principal director	(+)	New Zealand	Bhuiyan et al. (2020)
Earnings management and audit risk	(+)	New Zealand	Bhuiyan et al. (2020)
Income smoothing action	(+)	USA	Chang et al. (2021)
Low implementation of GCG principles	(+)	USA	Chang et al. (2021)
Audit committee effectiveness	(+)	China	Duan et al. (2021).
The CEO's political connections	(+)	Indonesia	Tat and Murdiawati (2020)
CSR Performance	(+)	New Zealand	Sun et al. (2020)
CSR Performance	(-)	USA	Du et al. (2020)
The size of investment in developing countries	(+)	Japan	Gu (2021)
Geographical distance	(+)	Japan	Gu (2021)
Characteristics of FDI	(+)	Japan	Gu (2021)
The risk of high-leverage	(+)	USA	Cho et al. (2020)
Characteristics of labor (labor)	(+)	30 Countries	Sun et al. (2020)
Information asymmetry	(+)	Singapore	Chen et al. (2019)
The fair value of goodwill	(+)	Singapore	Chen et al. (2019)
Revaluation of fixed assets	(+)	Indonesia	Sujana & Mita (2019)
Assessment by internal assessors	(+)	Indonesia	Sujana & Mita (2019)
External Auditor Factors			
Size of public accounting firm	(+)	Indonesia	Yulianti et al. (2019)
Experience	(+)	China	Ding (2019)
Reputation of the accounting firm	(+)	China	Ding (2019)
Industry expertise specifications	(+)	China	Ding (2019)
Number of signatures on the audit report	(+)	China	Ding (2019)
Origin of Overseas Accounting Education	(+)	China	Hou et al. (2020)
Membership in the PCAOB	(+)	Taiwan	Mohapatra et al. (2022)
Environmental Factors			
Statutory obligations	(+)	Belgium	Averhals et al. (2020)
Changes in value-added tax rates	(+)	China	Duan et al. (2021).
Economic growth of the country	(+)	Iran	Oradi (2021)

Apart from being positioned as an independent variable, as evidenced above, several studies place audit fees as a dependent and moderating variable. Empirical evidence regarding audit fees as a dependent variable demonstrates that audit fees have a positive effect on financial access for companies in India (Alrashidi et al., 2021); audit fees positively affect price competition for audit services for private clients in Belgium (Averhals et al., 2020); audit fees have a negative effect on audit quality (Barua et al., 2019); audit fees have a positive effect on audit quality in Indonesia (Yefni & Sari, 2021) and in India (Alrashidi et al., 2021); and audit fees have a negative effect on going concern audit opinion (Wati, 2020). Audit fees also act as moderation. For example, a study by Eny and Mappanyukki (2020) concluded that audit fees moderate the influence of independence on audit judgment in Indonesia. Table 1 presents a summary of the factors influencing the size of external audit fees recapitulated from research evidence in various countries.

Other Comprehensive Income

Other Comprehensive Income (OCI) is unrealized income that arises due to the application of fair value accounting in the presentation of financial statements, i.e., the difference between the carrying value or historical value of assets or liabilities and their fair value at the date of presentation of the financial statements (Athori & Kusuma, 2023; Kusuma, 2021b). In Indonesia, financial accounting standards adhere to the all-inclusive income concept in defining income, in line with the concept adopted by international accounting standards (IFRS). According to this concept, income adds to equity apart from the owner's contribution, both actual realized income (net income) and unrealized income (OCI) (Kusuma & Kusumaningarti, 2023). Based on this, even though it is in the form of unrealized profits (losses), is not related to cash flows in the recognition period (Kusuma, 2020), is not the result of management's operational performance, OCI has high uncertainty (Kusuma et al., 2021a) and depends on external conditions (Murdiyanto and Kusuma, 2022). However, with all these characteristics, studies conducted by Banks et al. (2018) in Australia, Yousefinejad et al. (2017) in Malaysia, and Kusuma et al. (2021b) in Indonesia revealed that OCI has relevant value for users and can predict future information.

OCI is presented in the income statement with net profit and in the statement of financial position on the equity side. In its presentation in the income statement, OCI is broken down per item and grouped into two groups, namely the group of OCI items that will be reclassified to net profit and the group of OCI items that will not be reclassified to net profit. Statement of Financial Accounting Standards (PSAK) No. 1 states that there are five OCI items, namely adjustments to the carrying value (historical) to the fair value of 1) financial assets included in the available-for-sale category, 2) translation of the financial statements of business segments outside the country, 3) hedging contracts cash flow value, 4) revaluation of fixed and intangible assets, and 5) post-employment defined benefit liabilities. With the addition of detailed OCI per item and presented in reclassification, the contents of the income statement display become more extended, as does the equity side of the balance sheet.

Profit and Equity Attributable

Before Indonesian SAK converged with IFRS, equity on the balance sheet was presented in aggregate in total equity consisting of share capital, additional paid-in capital, and retained earnings. Since the ratification of SAK effective as of June 1, 2012, which converges with IFRS as of January 1, 2009, total balance sheet equity has been disaggregated into equity attributable to owners of the holding company entity and equity attributable to owners with non-controlling interests. Likewise, net profit and comprehensive profit are presented in the income statement. Net profit after tax plus OCI is called comprehensive profit. In its presentation, under comprehensive profit, net profit is then disaggregated into net profit attributable to owners of the holding company entity and net profit attributable to non-controlling interests. Comprehensive profit is then disaggregated into comprehensive profit attributable to owners of the holding company entity and comprehensive profit attributable to non-controlling interests. The owner of the holding company entity is the majority and controlling shareholder in the group of entities presenting the consolidated financial statements with a share ownership percentage above 50%. At the same time, the non-controlling interest is a minority shareholder in the subsidiary entity and has no controlling rights (Kusuma, 2023b).

Studies conducted by Sotti (2018), Lopes et al. (2013) in Germany, Yan and He (2018) in China, and Yahaya et al. (2015) in Nigeria have shown that the presentation of profits attributed to both types of owners and moving the location of presentation of non-controlling interests from expenses and liabilities to profit attribution and equity attribution is a consideration for users in making decisions and has relevance value. The policy of presenting attributable profits and equity has been proven to minimize earnings management (Kusuma et al., 2022) and income smoothing because it clarifies the allocation of profits and equity to owners rather than aggregate profits and equity and exhibits more transparency and concern for minority shareholders with non-controlling interests (Kusuma & Athori, 2023; Kusuma, & Agustin, 2024).

Since the stipulation of SAK effective June 1, 2012, the display and content of the financial reports of publicly traded companies have changed. In the equity side of the financial position report, equity is presented as attributable to the owners of the holding company entity and non-controlling interest owners, and in the profit and loss statement, OCI is presented—profits attributable to owners of the holding company entity and non-controlling interests, both net profit and comprehensive profit. The OCI presented in the income statement is not only aggregate OCI collected in one "accumulated OCI" account but is detailed per item and classified into two groups, namely the group of items that will be reclassified to net profit and the group of items that will not be reclassified to clean profit.

The emergence of OCI itself is caused by the basics used by IFRS as adopted by Indonesian SAK from 2012 until now, namely fair value accounting, which is more representative of assessing assets and liabilities according to actual conditions, and OCI is the difference between the historical value or carrying value of assets and liabilities

and fair value. Likewise, the presentation of OCI in the profit and loss statement is also because IFRS uses the concept of all-inclusive income in defining income. Even though OCI is unrealized income because it affects the equity value apart from the owner's contribution, OCI should be presented in the profit and loss statement alongside clean profit. The second significant change in the display of financial reports apart from OCI is the profit and equity information attributable to owners. The attribution of profit and equity arises because of the presentation of consolidated financial statements; the more subsidiaries owned, the more complex the presentation of the financial statements.

The existence of OCI and profits attributable to owners causes the display of financial reports to be longer and contain more content. Of course, this will affect external auditors' resources in carrying out audit procedures. Moreover, the characteristics inherent in OCI, such as fair value subjectivity, which influences the amount of OCI value, fluctuations in macroeconomic fundamentals, which cause high OCI volatility, and low OCI persistence, which, of course, causes complexity in auditing this fair value based financial statements, as well as significant audit risks in the analysis of OCI characteristics, are certainly a consideration in determining the audit fees. Therefore, this research is driven by the need to provide empirical evidence of the influence of changes in the display of financial reports, especially the addition of OCI information and profits attributable to audit fees, on external audit fees in Indonesia.

Hypotheses Development

One of the factors that external auditors consider in determining the amount of the audit fee is the breadth of the scope of the audit, which impacts the amount of audit resources invested, the audit procedures carried out, and the level of risk attached to the audit action (Ding, 2019). Changes in accounting rules in Financial Accounting Standards (SAK) will affect the content and format of the presentation of financial reports, and one of the significant changes to Indonesian SAK after converging with IFRS is the addition of other comprehensive income (OCI) information in the format for presenting profit and loss reports and statements of financial position. The characteristics inherent in OCI, such as high volatility, a considerable level of uncertainty, sensitivity to external conditions beyond management's internal control, a significant level of management subjectivity in determining value, and a low level of persistence (Kusuma & Saputra, 2022), of course, make more auditors carry out audit procedures to provide high confidence in the fairness of the OCI value presentation. This will undoubtedly be a consideration in determining audit compensation for more extensive audit work. In his study of companies listed on the Shanghai Stock Exchange, Ding (2019) proved that OCI presentation in financial reports is one-factor influencing external audit fees. The ephemeral nature of OCI, which forms the comprehensive profit value, denotes that the external auditor has more work to do in assessing the fairness of its presentation. This is the basis for external auditors to offer hefty fees for the audit work, rather than the old format where there was no OCI and only the net profit was clearly realized.

The OCI presented in the income statement is not in the form of an aggregate OCI value or combined into one OCI accumulation account but is presented clearly per item and separated into two groups: the group of items that will be reclassified to net profit and the group of items that will not be reclassified to net income. The classification of OCI items into these two groups is based on the potential value of OCI in the current period to be realized (assets will be sold or debts will be paid) in the coming period so that in the next period, it will no longer be OCI but will be real as income that has been realized and presented in net profit. This separation will undoubtedly add to the work of external auditors to ensure the fairness of the OCI classification and the fairness of recognizing OCI value itself, not to mention the flexibility in the amount and timing of realization of assets (liabilities) that are OCI items, which can be used as a medium for earnings management and tax avoidance actions (Kusuma & Rahayu, 2022), which will lead to a greater level of audit risk. Thus, the hypotheses to be proven in this research are:

***H_{1a}**: Aggregate OCI has a positive effect on external audit fees.*

***H_{1b}**: OCI reclassification has a positive effect on external audit fees.*

Concerning significant changes to Indonesian SAK after converging with IFRS, apart from the addition of OCI, there is also additional profit and equity information attributable to shareholders (holding company and non-controlling owners) in the presentation format of consolidated financial statements, especially profit and loss statements and statements of financial position. This additional profit and equity attribution information accommodates demands for transparency and fairness of information to all stakeholders, particularly shareholders in one group of entities, whether they are majority shareholders with control rights (owners of the holding company entity) or minority shareholders in subsidiaries with no control rights (non-controlling interests), to minimize information asymmetry, specifically for non-controlling interests. This profit attribution information makes it easier for users to interpret profit distribution information as a measure of financial performance, how much is allocated to holding company owners and how much is allocated to non-controlling interests (Sotti, 2018), making it easier for users to predict future investment returns according to the percentage of their share ownership (Kusuma, 2021a). Likewise, equity attribution information makes it easier for users to know the allocation of net assets to each type of owner, making it easier for users to assess their rights to the company's net assets according to their share ownership.

A study conducted by Kusuma et al. (2021a) has proven that modification of the Return on Equity (ROE) measurement by involving equity attributable to owners of the holding company entity and owners with non-controlling interests has relevant value for users and makes it easier to assess future cash flow prospects future and distribution of returns according to the type of ownership rights, whether the owner of the holding company entity or non-controlling entity—only entities with subsidiaries whose financial reports contain profit and equity attribution information. In other words, companies with profit and equity attribution information have a broad business scale and high

economic transaction complexity. The complexity of transactions between holding company-subsidiaries or between subsidiaries in one group, the number of holding company shareholdings in various subsidiary companies, as well as the types of owners in subsidiary companies, which are reflected in the attribution value to non-controlling interests, can undoubtedly increase audit work and audit risk. Additional audit procedures are needed to assess the fairness of the profit and equity distribution presentation, which is then attributed to each type of owner. This requires a comprehensive series of audit procedures and high concentration and competence.

Also, Wibowo and Ghozali's (2017) research stated that the level of complexity and sophistication of a client's business has a positive effect on audit fees. Likewise, according to Chang et al. (2021) and Duan et al. (2021), the more subsidiaries one has, the more complex and expanded the scale of the entity's business, so the higher the external audit fees. There is information on profit attribution and equity attribution in the financial statements. The entity presenting the financial statements is a subsidiary because profits and equity will be attributed to the owners of the holding company entity and non-controlling interests. External auditors need additional audit procedures to assess the fairness of the attributable profit and equity information presentation in the consolidated financial statements. Thus, the hypotheses to be proven in this research are:

***H_2**: Profit attribution has a positive effect on external audit fees.*

***H_3**: Equity attribution has a positive effect on external audit fees.*

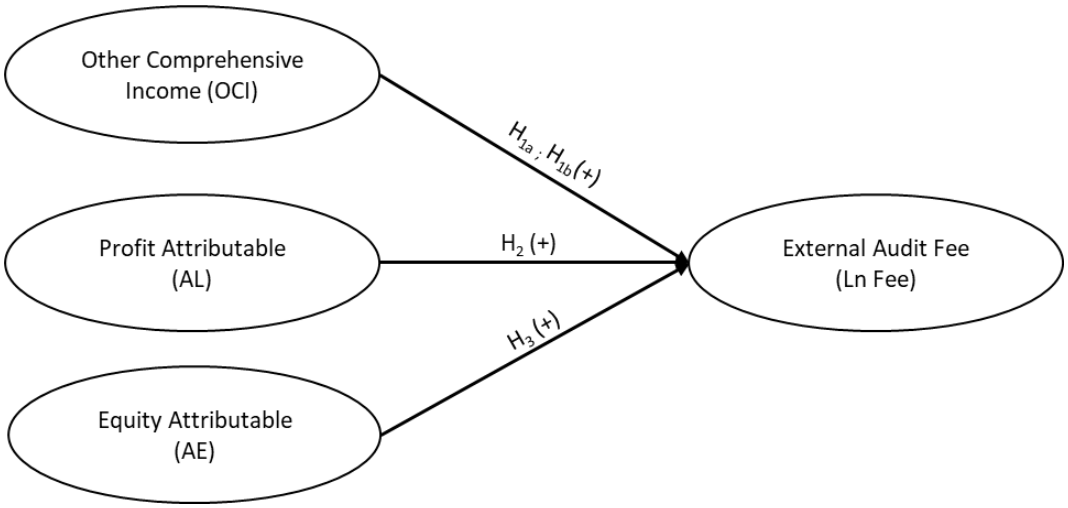

Figure 1 Research Model

External auditors need additional audit procedures to assess the fairness of OCI presentation, as it is sensitive to external changes, high volatility, and low persistence. Auditors also need additional audit procedures to assess the fairness of presenting OCI items in the appropriate groups (OCI reclassification) based on their potential to be

realized and become part of net income (to be reclassified to net profit). In addition, auditors require additional audit procedures to assess the fairness of the presentation of profits and equity attributable to owners of the holding company entity and non-controlling interests in the entity presenting the consolidated financial statements in all owned subsidiaries. These additional audit procedures and the risks inherent in the opinion provided, given the characteristics of OCI, guarantees regarding the fairness of the OCI reclassification groupings, and the complexity of the attribution of profits and equity to the two types of owners, holding company, and subsidiary entities, are also thought to be considerations for auditors in Indonesia in determining fees for financial report audit services. Thus, the research model is presented in Figure 1.

Research Method

This type of research used a quantitative approach by testing causality hypotheses. The population in this research was publicly traded companies listed on the Indonesia Stock Exchange from 2015 to 2021, a total of 682 companies. From this population, a sample of 238 companies was selected with a total of 1,666 data observations. The sample was selected by purposive sampling with the following criteria in Table 2.

Table 2 Sample Selection Criteria

Description	Amount
Population of companies registered on the IDX in 2015 – 2021	682
Reduced:	
Registered after 2015	(17)
Not presenting financial reports regularly	(14)
Presenting financial reports in USD units	(46)
Not presenting OCI in detail and was reclassified	(97)
Not including external audit fees	(270)
The number of sample companies selected	238
Research period of 2015 – 2021 (years)	7
Number of data observations (238 companies multiplied by seven years)	1,666

This research comprised dependent, independent, and control variables (See Table 3). While the dependent variable covered external audit fees, the independent variables included OCI (aggregate and disaggregation based on reclassification), net profit, and equity attributable to owners. In addition, the control variables were level of leverage, liquidity, financial performance, type of industry, and period.

Table 3 Research and Measurement Variables

Variable		Definition	Notation	Measurement	Reference
Dependent Variable					
External Audit Fee		It is the fee to the accounting firm for audit services disclosed in the financial statements of the company i in the period t.	$Ln\ Fee_{i,t}$	Log N Fee Audit	Ding (2019); Mihaela et al. (2022)
Independent Variable					
OCI	OCI aggregate	It is the total difference between the fair value of assets (liabilities) and the carrying value of company i in the period t.	$OCI_{i,t}$	$\frac{Total\ OCI}{Total\ Asset}$	Ding (2019); Mihaela et al. (2022)
	OCI to be reclassification	OCI items presented in groups will be reclassified to net income of company i in the period t.	$OCIR_{i,t}$	$\frac{OCI\ Reclassified}{Total\ Asset}$	Kusuma (2021a)
	OCI not to be reclassification	OCI items presented in groups will not be reclassified to net income of company i in the period t.	$OCITR_{i,t}$	$\frac{OCI\ Not\ be\ Reclassified}{Total\ Asset}$	Kusuma (2021b)
Earnings and Equity Attributable to Owners	Net Income Attributable	It is net income attributable to the owner of the holding company entity i in the period t.	$AL_{i,t}$	$\frac{Net\ Income\ Attributable}{Total\ Asset}$	Kusuma et al. (2021a)
	Equity Attributable	It is equity attributable to the owner of the holding company entity i in the period t.	$AE_{i,t}$	$\frac{Equity\ Attributable}{Total\ Asset}$	Kusuma et al. (2021a)
Control Variable					
Client Size		The size of the client company is proxied by the natural logarithm of total assets of the company i in the period t.	$SIZE_{i,t}$	Log nTotal Assets	Yulianti et al. (2019)
Client Risk	Level of leverage	The client company's risk is shown as a debt obligation to fund the assets of the company i in the period t.	$LEV_{i,t}$	$\frac{Total\ Liability}{Total\ Asset}$	Yulianti et al. (2019); Sujana and Mita (2019)
	Level of Liquidity	It is the client company's risk regarding the ability of current assets to meet the short-term liabilities of the company i in the period t.	$CUR_{i,t}$	$\frac{Current\ Assets}{Current\ Liability}$	Ding (2019); Sujana and Mita (2019)
	Financial Performance	The ability of assets to generate profits for the company i in the period t	$ROA_{i,t}$	$\frac{Net\ Income}{Total\ Asset}$	Ding (2019); Sujana and Mita (2019)
Period (YEAR)	Multiple dummy variables for the period 2015 – 2016	Ding (2019)			
Type of Industry (IND)	Multiple dummy variables to nine industries sectors listed in IDX	Ding (2019)			

Model 1 was used to test the effect of aggregate OCI on external audit fees:

$$Ln\ Fee_{i,t} = \alpha_0 + \beta_1 OCI_{i,t} + \beta_2 AL_{i,t} + \beta_3 AE_{i,t} + \beta_4 SIZE_{i,t} + \beta_5 LEV_{i,t} + \beta_6 CUR_{i,t} + \beta_7 ROA_{i,t} + \beta_8 YEAR + \beta_9 IND + \varepsilon \ldots (1)$$

H_{1a} is accepted if the coefficient $\beta_1 OCI_{i,t}$ in model 1 has a ρ-value below the 10% level and the beta coefficient is aligned with the hypotheses direction. Then, model 2 tested the effect of OCI disaggregation (will be reclassified to net profit and will not be reclassified to net profit) on external audit fees. Both models could test profit attribution and equity attribution to audit fees.

$$Ln\ Fee_{i,t} = \alpha_0 + \beta_1 OCIR_{i,t} + \beta_2 OCITR_{i,t} + \beta_3 AL_{i,t} + \beta_4 AE_{i,t} + \beta_5 SIZE_{i,t} + \beta_6 LEV_{i,t} + \beta_7 CUR_{i,t} + \beta_8 ROA_{i,t} + \beta_9 YEAR + \beta_{10} IND + \varepsilon \ldots (2)$$

H_{1b} is accepted if the coefficient $\beta_2 OCIR_{i,t}$ in model 2 has a ρ-value below the 10% level and the beta coefficient is aligned with the hypotheses direction. Likewise, H_2 and H_3 is accepted if the coefficients $\beta_3 AL_{i,t,}$ and $\beta_4 AE_{i,t}$ have a ρ-value below the 10% level and the beta coefficient is aligned with the hypotheses direction.

Result and Discussion

mean of 0.873. It indicates that during the research period, the average sample company had unrealized profits from adjustments to the fair value of assets and liabilities greater than losses, and the fair value was above the carrying value. In addition, reclassified OCI had a positive mean of 0.066, higher than the mean for non-reclassified OCI of 0.041. On the other hand, the assets and liabilities to be realized in the next period are more than those that will not be realized. Potential assets will be sold, and/or liabilities will be paid off in the next period. Adjustments to the fair value of these assets and liabilities are presented in group OCI, which will be reclassified to net profit. Table 4 presents the results of descriptive statistics. The aggregate OCI yielded a positive

Table 4 Descriptive Statistics Results

Variable	Mean	Min	Max	SD
External audit fees	21.845	17.70	23.661	1.1642
Aggregate OCI	0.873	–0.048	1.245	0.5781
OCI reclassification	0.066	–0.023	0.079	0.1174
OCI not reclassified	0.041	–0.029	0.068	0.1825
Profit attribution	0.049	–0.019	0.079	0.1709
Equity attribution	0.057	–0.026	0.098	0.1674
Company size	28.182	25.041	32.169	1.5021
Leverage level	1.004	0.004	4.231	0.8627
Liquidity level	2.630	0.262	11.4603	2.0821
Financial performance (ROA)	0.121	–0.042	0.5714	0.2471
Company size	6.871	1.643	18.277	0.8115

Table 5 Correlation Analysis Results

	Ln Fee$_{i,t}$	OCI$_{i,t}$	OCIR$_{i,t}$	OCITR$_{i,t}$	AL$_{i,t}$	AE$_{i,t}$	SIZE$_{i,t}$	LEV$_{i,t}$	CUR$_{i,t}$	ROA$_{i,t}$
Ln Fee$_{i,t}$	1.000	-	-	-	-	-	-	-	-	-
OCI$_{i,t}$	0.022*	1,000	-	-	-	-	-	-	-	-
OCIR$_{i,t}$	0.064**	0.283**	1.000	-	-	-	-	-	-	-
OCITR$_{i,t}$	0.047**	–0.182*	–0.243*	1.000	-	-	-	-	-	-
AL$_{i,t}$	0.531***	0.241**	0.1481*	0.2061*	1.000	-	-	-	-	-
AE$_{i,t}$	0.316**	0.003	0.001	0.002	0.841***	1.000	-	-	-	-
SIZE$_{i,t}$	0.481***	0.643***	0.581***	0.514***	0.622***	0.549***	1.000	-	-	-
LEV$_{i,t}$	–0.001	0.006	0.003	–0.001	0.001	0.001	0.681***	1.000	-	-
CUR$_{i,t}$	–0.002	0.001	0.001	0.002	0.114*	0.192*	0.587***	–0.162*	1.000	-
ROA$_{i,t}$	0.658***	0.011	0.114**	0.081*	0.641***	0.423*	0.784***	–0.621***	0.342***	1

Note: Ln Fee = External Audit Fee; OCI = OCI Aggregate; OCIR = OCI to be Reclassification; OCITR = OCI not to be Reclassificaton; AL = Net Income Attributable; AE = Equity Attributable; SIZE = Client Size; LEV = Leverage; CUR = Level of Liquidity; ROA = Financial Performance; Significance of Pearson correlation values *** for 1%; ** for 5%; and * for 10%.

Table 5 displays the results of the correlation analysis. Aggregate OCI (0.022*) and reclassified OCI (0.064**) correlated positively with audit fees. This aligns with the findings of Ding (2019), showing that the larger the OCI, the more diverse the items, and the more audit procedures are required to ensure the fairness of the recognition, assessment, and presentation of aggregate, detailed per item and disaggregated based on what will be reclassified to net profit and what will not be reclassified to net profit. Management's subjectivity in assessing OCI at fair value and its high sensitivity to the external environment causes the audit risk of OCI to be significant, which is the auditor's consideration in determining the audit fee. Besides, attributable profit and equity were positively correlated with audit fees. Profit and equity attribution denotes that the reporting entities had subsidiaries and associated entities. The more ownership a subsidiary and associated entity has, the more complex the transactions that occur in the company. Hence, the audit fee for the consolidated financial statements the auditor offers is also more significant because it involves more audit procedures and a higher level of risk.

Table 6 exhibits the results of multiple linear regression analysis. In model 1, the coefficient value $\beta_1 OCI_{i,t}$ of 0.0276 was significant at the 10% level; thus, H_{1a} was supported. In model 2, the coefficient value $\beta_2 OCIR_{i,t}$ was 0.0681, significant at the 5% level, accepting H_{1b}. In addition, in model column 2, the coefficient value $\beta_3 AL_{i,t}$ of 0.528 was significant at the 1% level; hence, H_2 was supported, and the coefficient $\beta_4 AE_{i,t}$ of 0.246 was significant at the 5% level; therefore, H_3 was supported.

Table 6 Results of Multiple Linear Regression Analysis

	Model 1		Model 2	
	Coefficient	t and sig t	Coefficient	t and sig t
Constanta	10.017	9.628***	9.041	8.786***
$OCI_{i.t}$	0.0276	5.103*	–	–
$OCIR_{i,t}$	–	–	0.0681	6.813**
$OCITR_{i,t}$	–	–	0.0472	5.082*
$AL_{i,t}$	0.462	8.375***	0.528	8.426***
$AE_{i,t}$	0.171	6.429**	0.246	6.715**
$SIZE_{i,t}$	0.416	8.176***	0.417	8.337***
$LEV_{i,t}$	–0.0018	–0.054	–0.0019	–0.079
$CUR_{i,t}$	–0.0002	–0.016	–0.0003	–0.038
$ROA_{i,t}$	0.6728	8.4723***	0.635	8.584***
YEAR	YES	–	YES	–
INDUSTRY	YES	–	YES	–
F-Statistic	118.211***	–	124.316	–
Adjusted R^2	0.617	–	0.682	–

Note: Ln Fee = External Audit Fee; OCI = OCI Aggregate; OCIR = OCI to be Reclassification; OCITR = OCI not to be Reclassificaton; AL = Net Income Attributable; AE = Equity Attributable; SIZE = Client Size; LEV = Leverage; CUR = Level of Liquidity; ROA = Financial Performance; Significance of regression coefficients *** for 1%; ** for 5%; and * for 10%

A summary of hypothesis testing is exposed in Table 7.

Table 7 Summary of Hypothesis Testing

Hypothesis		Test Results	Conclusion
H_{1a} (+)	Aggregate OCI has a positive effect on external audit fees.	Equation 1: β_1 OCI (+) 0.0276 significant at the 10% level.	Supported.
H_{1b} (+)	OCI reclassification has a positive effect on external audit fees.	Equation 2: β_1 OCIR (+) 0.0681 significant at the 5% level	Supported.
H2 (+)	Profit attribution has a positive effect on external audit fees.	Equation 2: β_3 AL (+) 0.528 significant at the 1% level	Supported.
H3 (+)	Equity attribution has a positive effect on external audit fees.	Equation 2: β_4 AE (+) 0.246 significant at the 5% level	Supported.

The Effect of Aggregate OCI on External Audit Fees

This research succeeded in proving data from Indonesia, stating that aggregate OCI had a positive effect on external audit fees. This finding corroborates with research findings for data from China (Ding, 2019) but contradicts those from Romania (Mihaela et al., 2022). Aggregate OCI yielded a positive effect on audit fees because there is more audit

work, and the audit procedures carried out become more complex due to the additional fairness assessment of the recognition and presentation of OCI in the financial statements. These additional audit procedures aim to ensure the fairness of determining the fair value and carrying value of financial assets in the available-for-sale category, as well as OCI's recognition of differences between fair value and carrying value, the fairness of determining the revaluation value of tangible fixed assets, the fairness of presenting profits (losses) from hedging contracts cash flow, translation of financial statements of overseas business units, and actuarial differences in defined benefit program liabilities.

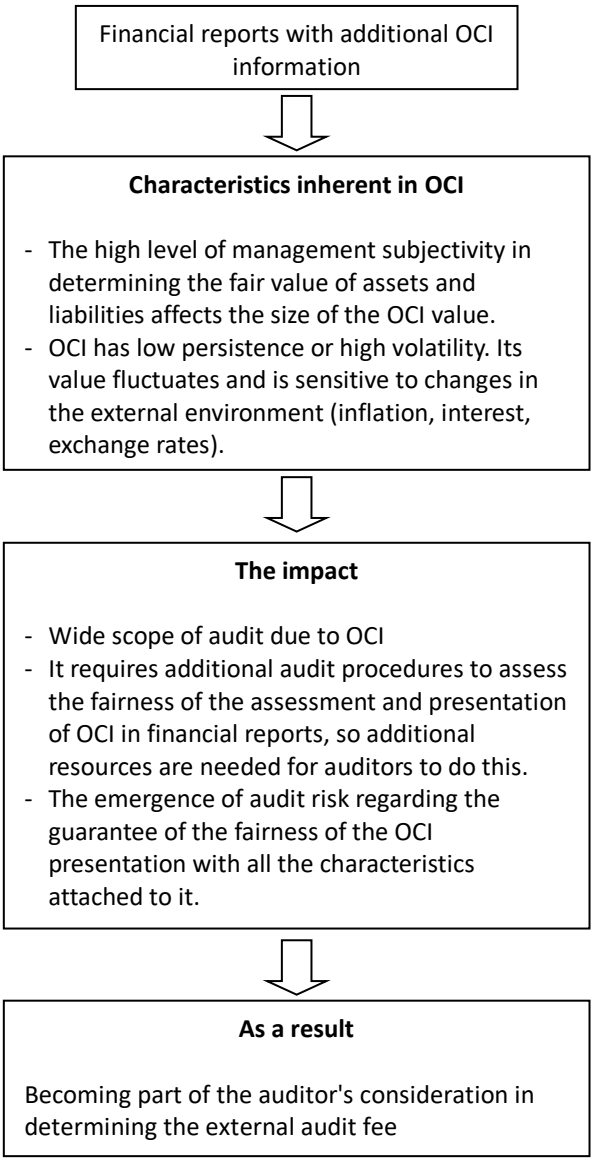

Figure 2 Relationship Between OCI and External Audit Fees

Difficulty in ensuring the fairness of determining the fair value of assets and liabilities ultimately affects the value of OCI, considering that the fair value of assets and liabilities has a very high level of management subjectivity, the value has high uncertainty, the value changes following changes in the external environment beyond management's control, such as exchange rate fluctuations, inflation, interest rates, capital market enthusiasm, and even the country's political conditions, which have an impact on low predictive power and persistence. This impacts the level of risk attached to the guarantee regarding the fairness of the OCI presentation so that it becomes the auditor's consideration in determining the amount of the audit fee. The audit risk inherent in the fairness assessment of the recognition and valuation of OCI items is errors due to high fluctuations in the fair value of OCI due to its sensitivity to fluctuations in external environmental conditions. Figure 2 summarizes the relationship between aggregate OCI and audit fees.

The Effect of OCI Reclassification on External Audit Fees

This research proved, for data from Indonesia, that the presentation of OCI items in groups to be reclassified and not be reclassified to net profit (OCI reclassification) positively affected external audit fees. OCI reclassification had a positive effect on audit fees since additional audit procedures are needed to assess the fairness of the presentation of OCI items in the two groups to be reclassified and the groups not to be reclassified to net profit, in addition to the fairness of the recognition and presentation of the value of the OCI items itself (reasonableness of recognizing, assessing and grouping when presenting). This audit procedure provides adequate assurance that OCI items are correctly grouped in the appropriate groups and not presented in the wrong group. This classification aims to inform users which OCI items (unrealized earnings) will disappear in the next period and turn into actual realized income presented in net profit (no longer as OCI) when assets or debts have been realized. If the OCI item is realized in the next period (which is currently still unrealized earnings that is not related to cash flow), in the next period when the asset or debt has actually been realized, there will be cash flow, and the realized profit (net profit) is recognized.

Aside from changes in value and future external market volatility, the audit risk inherent in OCI reclassification is that there is also no certainty about the amount and timing of assets or liabilities that will be realized in the future, so there is the possibility of differences between the planned realization and the reality. Financial accounting standards in Indonesia also do not regulate this, so this loophole has the potential to be used in profit management and tax avoidance. OCI is indeed unrealized earnings that are not related to cash. OCI arises due to adjustments to the fair value of assets and liabilities over the carrying or historical value. However, OCI reclassification information is helpful for users to predict future cash flow prospects based on the potential realization of assets and liabilities in the current period presented in the OCI group that will be reclassified to net income. The group "to be reclassified to net profit" means that potential unrealized earnings (OCI) become part of net income through the "gain (loss) on sale of assets" or asset realization account. This impacts the auditor's consideration in determining the audit fee for the OCI reclassification presentation. Additional audit

procedures are carried out to provide adequate assurance on the fairness of including OCI items in the appropriate group, whether in the group "to be reclassified to net profit" or to the group "which will not be reclassified to net profit." Figure 3 briefly depicts the relationship between reclassification of OCI items and audit fees.

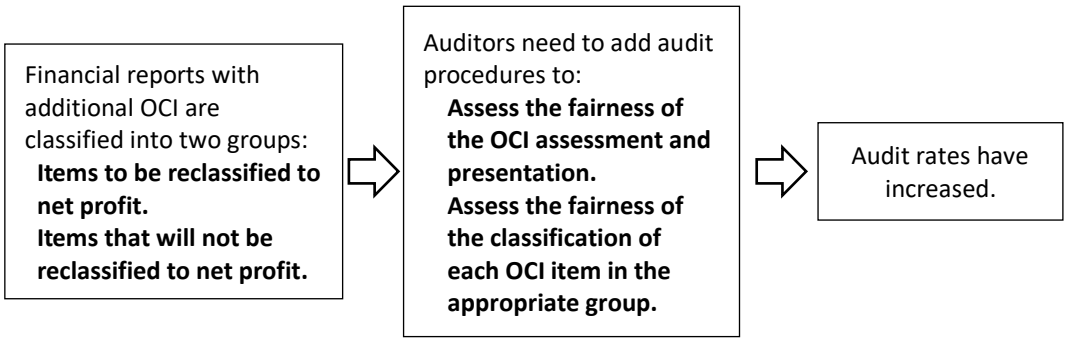

Figure 3 Relationship Between OCI Reclassification and External Audit Fees

Flexibility in the amount and timing of realization of assets and liabilities, which in the current period are presented as OCI items to be reclassified to net profit, can be a medium for earnings management and tax avoidance because companies can delay the realization time and/or reduce the amount of realized assets and liabilities in the next period, to obtain net profit and tax burden according to interest, which is planned to be realized in the current period. The auditor needs to ensure an assessment of the reclassification presentation, as well as the inherent risks of potential misclassification and earnings management on the reclassification presentation, so that the grouping of OCI items is also a consideration in determining the audit fees, in addition to presenting at the appropriate value.

The Effect of Profit and Equity Attribution on External Audit Fees

For data from Indonesia, this research verified that profit and equity attribution positively affected external audit fees. A company that presents profit and equity attribution in its financial statements means that the presenting company is an entity that has subsidiaries. Attributable profit and equity is the distribution of aggregate profit (net profit and comprehensive profit) and aggregate equity to the owners of companies presenting financial statements in the holding company and subsidiaries in one consolidated financial report, which consists of owners of the holding company entity and owners with non-controlling interests. The owner of the holding company entity is the controlling shareholder in one group of companies, i.e., the presenter of the consolidated financial statements, while the non-controlling interest is the minority shareholder in the subsidiary entity. In this case, auditors need additional audit procedures to assess the fairness of the presentation of the value of net profit and comprehensive profit (in the profit and loss statement) and equity (in the statement of financial position), which are disaggregated or attributed to owners of the holding company entity and non-controlling interests, in addition to assessing the fairness of the items in each consolidated financial statement item arising from business transactions between the holding company and its subsidiaries or fellow subsidiaries. The more

subsidiaries there are, the more complex the business transactions and scale of business carried out by the entity's management presenting the consolidated financial statements. Hence, the auditors are required to mobilize more resources to carry out additional audit procedures, as well as the risk factors posed by the assertions provided. This aligns with evidence provided by Wibowo and Ghozali (2017), which proves that the complexity and breadth of the client's business scale positively affect external audit fees.

Conclusion

This research aims to examine the influence of aggregate OCI, disaggregated OCI (reclassification), profit attribution, and equity attribution on external audit fees in Indonesia. This research develops research by Ding (2019) in China and Mihaela et al. (2022) in France, Germany, Spain, and Italy, which examined the effect of aggregate OCI on external audit fees. The originality of this research lies in testing the effect of OCI disaggregation (reclassification), profit attribution, and equity attribution on external audit fees.

The research results demonstrated that aggregate OCI, disaggregation (reclassification) OCI, profit attribution, and equity attribution positively affected external audit fees. This indicates that the characteristics of OCI, which are full of uncertainty, sensitivity to changes in external conditions, and management subjectivity in determining value, make auditors need additional resources to determine the fairness of presenting OCI in financial statements, including determining the fairness of classifying OCI items in groups that will and will not be reclassified. Likewise, the complexity and breadth of the business scale of the group entity presenting the consolidated financial statements is reflected in the disaggregation of net profit and equity into each type of owner, which is realized in the presentation of net profit and equity attributable to the two types of group entity owners (controlling and non-controlling). The addition of OCI information per item and reclassification, as well as the addition of information on net income and equity attributable to owners, makes the financial report content more extensive and the format longer, both of which make the auditor perform more audit procedures, accompanied by audit risks inherent in the assertions above. The fairness of the presentation of OCI and attribution makes auditors use these two things as considerations in determining the fees for consolidated financial statement audit activities.

The results of this research have succeeded in proving the influence of OCI, profit attribution, and equity on audit fees. The theoretical meaning of the findings of this research is that the application of fair value accounting, all-inclusive income recognition, and entity theory in the preparation and presentation of financial reports, which underlies the emergence of OCI, profit attribution, and equity attribution, has been proven to add to audit procedures, increase the allocation of audit resources, and lead to increasing external audit rates. Hence, auditors need to test the reasonableness of the OCI values, profit attribution, and equity attribution presented in the financial

statements to minimize risks due to the nature and characteristics of these three figures.

These findings can be used by KAPs to determine the amount of audit fees by considering the audit risk and audit resource investment arising from the characteristics of OCI and the complexity of group entities that present consolidated financial reports with profit and equity attribution information items. For management, it can be an input in predicting the audit fees based on the complexity and risk of presenting fair value-based financial statements as reflected in the OCI and attribution posts.

The limitation of this research is that it measured OCI with the absolute value of OCI presented in financial reports, which was then simplified with natural logarithms to meet the classic assumptions of regression testing, especially data normality requirements. This measurement best represents the characteristics or traits inherent in OCI. Thus, further research is recommended to explore other alternative OCI measurements that can represent the volatility of OCI values, perhaps with the value of the OCI persistence level or its sensitivity to macroeconomics. Another limitation of this research is that it measured OCI reclassification only for the holding company because this information was unavailable on the OCI of subsidiary companies. OCI information on subsidiary companies is presented in aggregate, not detailed per item, or grouped in a reclassified manner. This research also did not involve OCI items in associated entities because the consolidated financial statements of entities in Indonesia do not detail and reclassify OCI items in associated entities. Based on the limitations of this research, it is recommended that future research enter this area by involving OCI in subsidiaries and associated entities in depth. In addition, DSAK IAI is advised to ratify standards that require group entities to present details of OCI items and OCI reclassifications in subsidiaries and associated entities in presenting consolidated financial statements to make it easier for external auditors to audit them and, of course, increase the relevance value of presenting consolidated financial statements.

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Conflicts of Interest

The authors declare no conflict of interest. The funders had no role in the design of the study; in the collection, analyses, or interpretation of data; in the writing of the manuscript, or in the decision to publish the results.