

Effects of Audit Fees on the Relationship Between Audit Risk Capital Structure and Financial Performance of Companies Listed on the Market for Alternative Investment (MAI)

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Abstract

This research aims to study the effect of audit fees in relation to audit risk, capital structure and financial performance of small to medium-sized companies with higher growth prospects listed on the Market for Alternative Investment (MAI). The objective of studying the aforementioned companies is to observe and analyze financial performance and how audit risks affect audit fees. The population and sample groups used in this study were companies listed on the MAI, and data used in the study was collected from 2018 - 2020, totaling 444 firm years. Descriptive statistical analysis and multiple regression statistical analysis were used to examine the data. The results of the study found that an increase in the unconditional opinion of the auditor results in an increase in the audit fee. Including if using the services of a large audit firm, capital structure, and the size of the business increases, resulting in an increase in examination fees and the increase in financial performance resulting in a decrease in the audit fee, it was evident that the audit risk capital structure and financial performance have a real impact on audit fees.

Keywords: Audit Fee, Audit Risk, Capital Structure, Financial Performance.

Introduction

Thailand's MAI is the country's secondary stock exchange to raise funds for small and medium-sized companies with good future growth prospects/high growth (The Stock Exchange of Thailand, 2022). Companies listed on the MAI have complied with the regulations of the Stock Exchange of Thailand (SET). This requires companies to report reliable financial information. Compliance with financial reporting standards enhances the credibility and confidence of investors. This is one of the factors that influence the economic decisions of users of financial reports.

Financial reports indicating performance and the financial base of an entity are very important documents that investors or stakeholders pay a

lot of attention to. They can be regarded as important factors when considering investments in various businesses. Performance can be used to analyze financial statements and analyze reports given to executives or investors. Furthermore, they are like tools for planning, managing, and controlling financial accounting. Therefore, the performance of a business can be viewed from the analysis of financial ratios, which are one of the tools that help in making investment decisions for investors when comparing their financial positions and performance with other companies in the same industry (The Stock Exchange of Thailand, 2013). In addition, investors also pay attention to the capital structure of the business. This is because an appropriate capital structure can create stability for shareholders. Trade-off theory explains that having debt in a financial

structure can reduce the cost of capital because the liability is lower than the cost of equity and interest and businesses can save more on taxation (Emamgholipour, M., Lotfollahpour, V., and Bagheri, MM, 2012).

Audits play a huge role in today's business. Due to the increasing complexity of business models, accounting methods have been adapted to keep pace with business. As a result, audit risk has also been adjusted. With audit risk, the opinion of the auditor can indicate the profit quality of each company that is prone to profit management (Bottares, J., Ekasingh, E. & Sarapaivanich, N., 2018). When including good corporate governance, it can be used as a tool to build confidence for stakeholders as well (Prakobsaeng, K. & Petchchhedchoo, P., 2017).

In Thailand, a large number of certified public accountants are highly competitive. Accounts that are highly competitive in price may affect the opinion of the auditor in the Certified Public Accountant's report (Piphatanakul, W., Petchchhedchoo, P. & Kumsuprom, S., 2019). In accordance with the relevant literature review and related research, the auditor's opinion is inversely related to the audit fee (Hay, Knechel & Wong, 2006). The nature of the auditor's opinion is important in determining the audit fee. This is because reports that need to be revised have negative consequences. An auditor's revised opinion usually comes after the auditor has undertaken additional audits and has gathered sufficient evidence. Therefore, the revised report signals the need to increase confidence levels. This also affects audit fees (Palrose, 1988). Audits performed by large audit firms have more resources that can help promote more effective auditing practices than smaller audit firms (Foofuengsombat, N, 2016)

Therefore, an interest in studying and analyzing the above-mentioned has led to the following research objective: To study and analyze the effects of audit risks, capital structure and financial performance on the audit fees of companies listed on the Market for Alternative Investment.

RESEARCH FRAMEWORK

CONCEPTUAL

A review of relevant literature found that the auditor's opinion requires an additional period of time for the auditor's reporting as required by the auditor to express a modified auditor's opinion in order to investigate irregularities in the financial statements. As a result, the time for issuing the auditor's report was increased accordingly, and the auditor was more likely to express a changed opinion when the business was of low-profit quality (Bottares, J., Ekasingh, E. & Sarapaivanich, N., 2018). Audit fees tend to be higher when shares are repurchased as they incur higher costs to the company. According to Bryan and Mason (2016), this affects auditors' risk assessments, and Muzatko S. & Teclezion M. (2016) found that auditors' compensation tends to be higher when management experiences higher profit, causing audit risk. In contrast, Thunputtadom, P. (2018) found that an increase in auditor's remuneration resulted in a decrease in profit management. Other literature found that the auditor's remuneration had no influence on the profit management of companies offering new shares to the public for the first time on the Stock Exchange of Thailand (Samakketkarnpol, S., 2019). There was no relationship in response to profit data at all (Guntsook, P., 2017)

The quality of audit work of large audit firms is of a higher quality than that of small audit firms (Foofuengsombat, N, 2016) because large audit firms can better reflect the quality of their audit work than audit firms with mini accounts. This has made it possible to limit profit management very well (Tirapongsan, P. & Srijunpetch, S., 2020). The auditing of and issuing of fewer auditor reports than small audit firms (Wangprasertkul. P., 2018), has resulted in a reduction of risk. Furthermore, the audit fee tends to be higher according to the size of the audit firm.

The following hypotheses have been developed by the researcher based on the literature review and related research. In addition, a conceptual framework has been formed for this research:

Research Hypothesis

H1 Auditing risk affects audit fees.

H2 Capital structure affects audit fees.

H3 Financial performance affects audit fees.

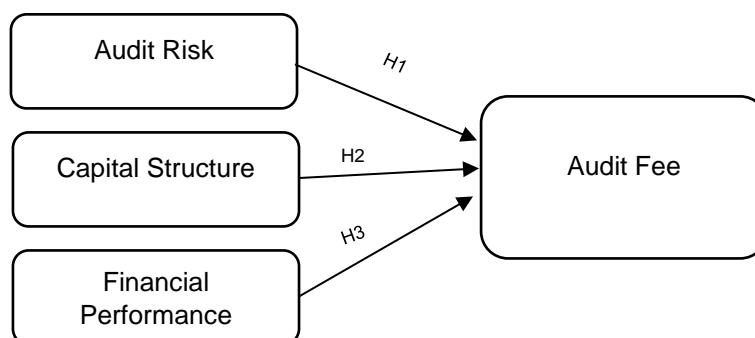


Figure 1: Research Conceptual Framework

METHODOLOGY

The researcher has identified a sample group of companies listed on the Market for Alternative Investment (MAI), with the exception of financial institutions and companies with incomplete information. Data was collected throughout the years 2018 – 2020, totaling a total period of 3 years according to the accounting period. Data collection (Secondary Data) was completed using the Stock Exchange of Thailand Online Database (SET SMART: SET Market Analysis and Reporting Tool). In particular: Form 56-1, Annual Registration Statement Form 56-2, Annual Report (Annual Report). A total of 444 firm years were sampled.

The research variables included Audit Fee, Audit Risk, Auditor's opinion, Capital Structure, Debt to Equity, Financial

Performance, Return on Asset (ROA), and Big4 accounting firms. Non Big4 values are Dummy Variables. Size is measured from Total Asset logarithm, i represents storage company and t represents storage period. The Research Model is as follows:

Research Model

$$\text{Audit Fee} = \beta_0 + \beta_1 \text{Audit Risk}_{it} + \beta_2 \text{ROA}_{it} + \beta_3 \text{DE}_{it} + \beta_4 \text{Big4}_{it} + \beta_5 \text{Size}_{it} + \epsilon_{it}$$

Result

Descriptive Statistics Analysis

The results of this study were analyzed for variables defined as puppet variables. Auditor (Audit Risk) and Table 2 shows the size of the audit firm (Big4)

Table 1 shows the opinions of the auditors who have been set as a dummy variable (N=444)

Audit Risk	Dummy	2018	2019	2020	data included.	Percentage
Unconditional	0	141	143	140	424	95.50
Conditional	1	7	4	8	19	4.28
Incorrect form of financial statements	2	-	-	-	-	-
Without opinion	3	1	-	-	1	0.23
Total		149	147	148	444	100.00

Table 2 shows the size of the audit firm that is configured as a dummy variable (N=444)

BIG4	Dummy	2018	2019	2020	Total data	%
BIG4	1	65	63	59	187	42.12
Non BIG4	0	83	84	90	257	57.88
Total		148	147	149	444	100

From Table 1, results of the auditor's opinion (Audit Risk), the analysis revealed that there were 424 unconditional opinions, representing 95.50 percent. A total of 19 data or 4.28 percent did not express an opinion on the financial statements, amounting to 1 information, representing 0.23%, and the opinions on the financial statements were incorrect.

In the Market for Alternative Investment (MAI), most financial statements are prepared to the extent that they are materially in accordance

with generally accepted auditing standards. From Table 2, the size of the audit firm (BIG4) shows that The Market for Alternative Investment (MAI) contains differing sizes of audit firms that most will choose to use. It was also found that auditors outside the BIG4 group had 257 data or 57.88%, and in the BIG4 group, there were 187 data, or 42.12%.

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Table 3 Analysis results: Audit Risk, capital structure, and financial performance affecting the audit fees of companies listed on the Market for Alternative Investment (MAI)

Variable	Unstandardized Coefficients B	Standardized Coefficients Beta	t	p-value
(Constant)	-10142764.282		-7.841	0.000**
Audit Risk	573084.152	0.113	2.588	0.010*
BIG4	451806.210	0.179	4.139	0.000**
ROA	-10266.984	-0.123	-2.293	0.022*
LEV	7214.924	0.157	3.249	0.001**
SIZE	1308135.873	0.401	8.936	0.000**

R² 0.264 Adj. R² 0.256 F 31.480 p-value 0.000**

Note. * It was statistically significant at the 0.05 level ** It was statistically significant at the 0.01 level.

The Adjusted R² value is 0.256, indicating that the audit fee can be explained. Audit Risk capital structure and financial performance was 25.60% and the p-value was 0.000 which was statistically significant at the 0.01 level indicating that there was at least one variable affecting audit fees with statistical significance. From Table 3, the results of the analysis revealed that Audit Risk Positive affects audit fees (p-value = 0.010), audit firm size positively affects

audit fees (p-value = 0.000), capital structure has a positive effect on audit fees (p-value = 0.001), the size of the entity has a positive effect on audit fees (p-value = 0.000) and financial performance has a negative effect on audit fees (p-value = 0.022).

CONCLUSION

Firstly, Audit risk has a positive effect on audit fees, meaning that the auditor's opinion is unconditionally increased. A growing number of companies listed on the Market for Alternative Investment (MAI) tend to have more audit fees (Accepting the assumption H1). This is consistent with Piyawiboon, C. (2005), in which the auditor's unqualified opinion, but adding a paragraph emphasizing continuing operations, tends to reduce the company's profit quality. This lowers the profit quality of the company, which means higher audit risk.

Secondly, the capital structure has a positive effect on audit fees, meaning the entity has higher liabilities. Increased likelihood of having audit fees (Accepting the assumption H2), is consistent with Kunalakkul, S., Sae-Tang, K. & Tamsirichai, P. (2004) that consolidated liabilities affect the determination of the audit fee. Further total liabilities may arise from more contracts or obligations that will be payable in the future. As a result, the audit of the collection of audit evidence increased as well and was consistent with research by Naser & Nuseibeh, (2008) which found that companies that reported high-profit margins must undertake an intense audit of related items such as income and expenses, as well as additional scrutiny leading to an increase in audit fees. Thirdly, financial performance has a negative effect on audit fees, meaning that financial performance experiences increased profits. Companies listed on the Market for Alternative Investment (MAI) are likely to have more audit fees. (Accepting H3 hypothesis) In line with Sripetch, P. (2020), it was found that audit fees were also positively correlated with earnings per share. In addition, the size of the audit firm has a positive effect on the audit fees, meaning that companies listed on the Market for Alternative Investment (MAI) are increasingly using large audit firms. There is also a tendency for higher audit fees. Large audit firms require special quality control. This leads to higher staff costs and higher audit fees (Niem L. (2004)). It can be seen that large audit firms can reflect the quality of audit work well, and undertake especially complicated work, causing the audit fee to be higher according to the quantity and quality of work

RECOMMENDATIONS

Further research should study the segmentation of samples by industry group and study other information such as the CLMV Stock Exchange, etc., and study additional variables on audit risk. The retention period may be increased to increase the sample volume. This could make the results of research more diverse, and useful for other related areas of research. Given recommendations could potentially cause the research results to differ.

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