

**AUDIT FEE AND TIME BUDGET PRESSURE  
ON AUDIT QUALITY  
(AN EMPIRICAL STUDY IN LOCAL CPA FIRMS  
IN JAKARTA, INDONESIA)**

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***Abstract***

*Audit quality is the aim of every business entity. A high-quality audit gives a reliable information to all financial statement's users. This study aims to examine the effect of audit fee (AF), time budget pressure (TBP) on audit quality (AQ) at several CPA firms in the city of Jakarta. Research questionnaire was used to gather research data which compose of nine (9) indicators and 30 research statements. There were four (4) Local CPA firms who participated to answer the questionnaire. Data collected were processed, interpreted and concluded. The results showed that audit fees and time budget pressure have significant effect on audit quality with a significance value of 0.014 while time budget pressure has a significant effect on audit quality with a significance value of 0.000, and audit fees and time budget pressure have a simultaneous effect on audit quality with a significance value of 0.000. This study implies that audit fee and time budget pressure pay a vital role to achieve a good and credible financial statement.*

***Keywords: business entity, audit fee, time budget pressure***

## INTRODUCTION

Audited financial statements are the most awaited report by all users after the audit engagement. Audit engagement resumes when both parties (auditor & auditee) agreed to conduct such audit. Financial statements that have undergone an audit by auditors are thought to be capable of offering trustworthy information, allowing them to be utilized as a foundation for decisions in compliance with Accounting Standards (Santoso, & Achmad, 2019). Investors and other interested parties should avoid information that are detrimental to them and instead seek out reliable information.

The goal of auditing financial accounts is to decrease information risk and enhance decision-making (Arens, 2014). Due to a number of factors, high-profile businesses have failed, and concerns have been raised regarding the caliber and independence of auditors (Wilkin & Chenhall, 2010) (Crockett and Ali, 2015). The Public Accounting Firm's and auditors' roles in offering their judgments in the auditing of financial statements are where the major risk lies. A competent and impartial party conducts an audit, which entails gathering and analyzing data to reach a conclusion about the accuracy of the financial statements. There are various reasons why a client should engage an auditor to conduct the audit. Once the auditor is engaged, clients expect to receive a clean bill opinion.

The auditor can identify and report existing infractions thanks to the significance of audit quality. As a result, audit quality becomes crucial to ensuring the accuracy and timeliness of data from financial statement audits. So that the Public Accounting Company may continue to be relied upon to review the client's company's financial statements, the outcomes of audit quality and services by auditors must always be maintained. Businesses that failed or declared bankruptcy cited auditors and the caliber of the audits they performed. Such occurrences have negatively impacted the public's trust in the accuracy of business reporting (Haat, Rahman, and Mahenthiran, 2008). In contrast, through the audit of the client's (a telecommunications company's) financial statements in 2017, public

accounting firm in Indonesia KAP Purwantono, Suherman & Surja (EY Indonesia) agreed to pay a punishment to the US regulator of US \$ 1 million.

The case above mentioned one of CPA firm's failure to observe the audit quality. Audit quality can be attained if the auditor adheres to the generally accepted auditing standards (GAAS). Since auditing is crucial to all entities, auditors must perform it with excellence. Auditors should strive to guarantee that high-quality audits are consistently conducted because they are accountable for the quality of each individual audit (J. G. Sinaga & SINAGA, 2019). Audit quality is being influenced by audit fees and time budget pressure. These two factors have great impact to the result of financial statement audit.

Audit fees paid to the auditor varies. There are CPA firms that charges client into huge amount and there are clients who pays in accordance to its complexities. An audit fee affects the quality of audit. Notwithstanding the diversity of opinions, the general consensus among researchers is that decreasing audit charges and costs frequently results in a decline in audit quality. The reason for this is that by reducing expenditures, auditing expenses will also be reduced and may have an impact on the time fund. (Hai & Nang, 2019). The amount of the audit fee, according to [Jannah](#) (2018), can put the auditor in a difficult situation. On the one hand, the auditor must be impartial in offering an opinion on the client's financial statement audit, but on the other hand, the auditor must also be able to meet the needs of clients who have paid for their services feel satisfied with their work and continue to use his services in the future.

Not only audit fee affects audit quality but also time budget pressure. When the auditors are determined to do an audit, auditors are bound with pressure. Time is the essence of the financial statement's examinations. Audit engagement are to cease before the allotted time. Although proper planning is implemented, it is still accompanied by the time budget. Time pressure has significant components, including timeliness, attained time, restricted resources, and auditor compliance (J. T. G. Sinaga, 2021) .

This study aims to explore on how audit fee and time budget pressure affects audit quality. It also gives a contribution to the research since it highlights the uniqueness of

the respondents. The respondents are selected from local CPA firms and this was conducted during the Covid 19 virus was so alarming to all.

## **RELATED LITERATURE AND HYPOTHESIS DEVELOPMENT**

### **Audit Quality**

There is no certain definition of audit quality. As it is difficult to perceive, the concept is not clearly and properly defined. (Haddad, 2022). In the point of view of others, audit quality is a product of big firm's work. Higher audit quality is provided by larger audit firms (DeAngelo, 1981). There are several ways to measure audit quality and one of the ways to measure is conducting an audit in accordance with auditing standards. Doing an audit in accordance with generally accepted auditing standards (GAAS), offers reasonable assurance that the audited financial statements and related disclosures are a sign of a high-quality audit GAO (2003). In every audit engagement, GAAS must be strictly followed to avoid mistakes in performing audit.

When the auditor's view on the financial statements can be trusted because it was based on sufficient, relevant audit evidence acquired by an engagement team, a quality audit is likely to be accomplished (IFAC, 2015). Quality audit is the result of financial statements that were prepared by credible accountants and audited by auditors with objectivity and unbiased attitude.

### **Audit Fee**

Audit services necessitate a fee, commonly referred to as an audit fee, which refers to all fees paid and provided to the auditor by a company for the audit services performed, and the amount of the audit fee is influenced by the size of the client company, audit complexity, and audit risk (Simunic, 1980). An audit fee is a payment made by the client to the auditor as compensation for his auditing services.(Harianja & Sinaga, 2019).

As a result, such exceptional circumstances may present the auditor with a challenge that may compromise the audit's quality. Since the audit fees are a measure of

the auditors' efforts, which are a component of the audit process and directly tied to technical quality, they are used to indicate technical quality (Hai & Nang, 2019).

### **Time Budget Pressure**

As agreed, upon during the engagement, auditors are required to complete the work on time or earlier. The cost of the audit for the client is extremely high because auditors are paid according to the time allotted. Yet, placing too much of an emphasis on time management can compromise the auditor's performance (Cabrera, 2002). Due to unforeseen client situations, the time provided is occasionally not reachable; however, audit quality must not be sacrificed in order to fulfill deadlines.

### **Hypothesis**

Partially, the audit fee and audit delay have significant influence on audit quality.(Harianja & Sinaga, 2019). According to empirical findings, companies with a higher percentage of family ownership are less likely to demand extensive audit services and, as a result, pay lower audit fees. In contrast, this study discovered that companies with higher levels of active and passive institutional ownership are more likely to hire high-quality auditors and pay higher audit fees.(Guizani & Abdalkrim, 2021). We find no significant relationship between audit fee recovery and future audit quality using multiple measures of audit quality(Cho et al., 2020). According to the study's findings, Ardani (2017), audit fees have an impact on audit quality since professional auditor performance determines audit quality by looking at expenditures incurred, time spent working, location, and responsibility. In contrary to the study done by Dhimadhanu (2016), it is claimed that the audit fee has no impact on audit quality because the auditor's independence is still upheld. In contrast, abnormal audit fees are negatively associated with audit quality for observations (Ratnasari, 2021). As a result, lower quality auditors are chosen and audit fees are paid. From the previous statement, the hypothesis is as follows:

**Ha<sub>1</sub>: Audit fee has significant influence on audit quality.**

Time pressure has significant components, including timeliness, attained time, restricted resources, and auditor compliance.(J. T. G. Sinaga, 2021). The findings are consistent with the claim that, when faced with a time budget constraint, the chance of RAQ decreases while the risk of misstatement increases. The auditor should consider the appropriate time for assessing the company's risk and how much effort the auditor will put forth in the future to carry out the audit process (Lobo & Zhao, 2013). Clients are obligated to pay the audit services rendered by auditors. Audit fee may either be big or small amount, it all depends on the agreed fee between the engagement partner and the client. From the previous statements, the hypothesis developed is as follows:

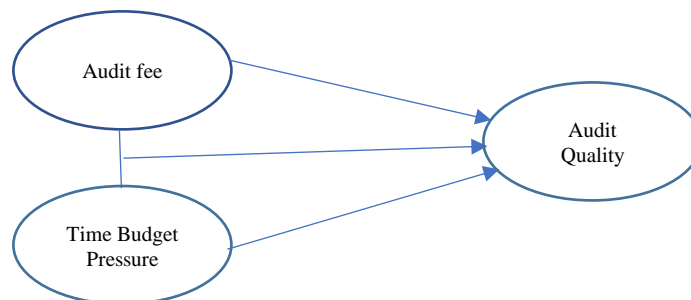
**Ha2: Time budget pressure have significant influence on audit quality.**

As stated above, both audit fee and time budget pressure affect audit quality. In this study, the researcher combined to prove if these two variables have significant effect on audit quality. Thus, the hypothesis developed was:

**Ha3: Audit fee and time budget have significant influence on audit quality.**

### Research Model

Audit fee and time budget pressure affects audit quality The research model was developed as follows:



**Figure 1 – Research Model**

Figure 1 depicts the variables involved in this study, which is the effect of audit fee on audit quality, the effect of time budget pressure on audit quality, and the effect of both audit fee and time budget pressure on audit.

## METHODOLOGY

The authors used a descriptive research method design in this study (descriptive research). The descriptive method collects, presents, and analyzes data to provide an overview of the state of the object under study. The descriptive method's goal is to test hypotheses, answer research questions, and get a clear picture of the relationship between the independent variables and the dependent variables. For sampling method, purposive was applied in collecting sampling. Questionnaire was distributed to each respondent. Audit quality was measured by the general standards, standard of fieldwork and standard of reporting. Audit fee was measured by assignment risk, complexities, auditor expertise, and cost structure. Time budget pressure was measured by level of budgetary tightness and budget achievement level. A multiple regression analysis was used to analyze the result. The equation is as follows:

$$AQ = a + AF + TBP$$

Where:

AQ = Audit quality

AF = Audit fee

TBP= Time budget pressure

## RESULT AND DISCUSSION

Audit fee, time budget pressure, and audit quality are being described in this section. There were 41 respondents from four (4) local CPA firms located in Jakarta. The following table described each variable:

**Table 1 – Descriptive Statistics**

Variables	Mean	Std. Dev.	Interpretation
Audit Fee	3.99	0.73	High
Time Budget Pressure	3.97	0.65	Tight
Audit Quality	4.22	0.56	With Quality

Audit fee is the amount paid to the auditor by the client for assurance services rendered by the auditor. Table\_ shows the result of each indicator. The respondents' responses to each audit fee indicator fall into the high category, except for cost structure. A mean of 3.99, and the standard deviation is 0.73, which in summary falls under high category. This in an indication that audit firms are paid based on its risks, complexities, expertise and cost structure.

The time budget experienced by the auditor in carrying out audit tasks aims to reduce audit costs. A mean of 3.97 and the standard deviation is 0.65. With time budget pressure, the auditor is expected to be able to comply with all audit tasks and procedures as efficiently as possible without reducing the audit assignments given. Based on Table above, it shows that the respondents' answers to each indicator of time budget pressure are included in the category of auditors experiencing very tight time budget pressure. In this case it can be said that the determination of auditor to overcome time pressure is good because when on duty the auditor pays attention to the level of budgetary tightness and the level of budget achievement.

Public trust in financial reports can be seen from the audit quality presented by the auditors. A quality audit can see and detect misstatements in the financial statements, of course, judging by how well the auditor is doing his job. A mean of 4.22 and standard deviation of 0.56 indicates that audit was done with quality. Based on Table above, it shows that the respondents' answers to each audit quality indicator are included in the category of quality auditors. It can be said that the audit quality produced by the auditors at CPA firms are good because the auditors while on duty are able to apply general standards, field work standards and reporting standards in audit assignments.



### Correlation Coefficient Analysis

Following are the results of the correlation test between audit fees and time budget pressure on audit quality.

**Table 2 – Coefficient Correlation *Audit Fee* and *Time Budget Pressure* on *Audit Quality***

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics			
						F	df1	df2	Sig. F Change
1	.669 <sup>a</sup>	.447	.418	4.26497	.447	15.356	2	38	.000

a. Predictors: (Constant), Time Budget Pressure, Audit Fee

Based on table above, it can be seen that the correlation coefficient value is 0.669 with a correlation value range of 0.60 – 0.799 which is included in the strong category and has a positive direction. The direction of a positive relationship indicates that if the audit fee and time budget pressure increase together, the quality of the audit produced by an auditor will also increase. An increase in audit fees and time budget pressure of an auditor together with an increase in the resulting audit quality.

### Coefficient of Determination

Analysis of the coefficient of determination is used to measure the contribution of audit fees and time budget pressure in influencing changes in audit quality. The value of the coefficient of determination can be seen from the R square value in the following table:

**Table 3 – Coefficient of Determination**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.669 <sup>a</sup>	.447	.418	4.26497

a. Predictors: (Constant), Time Budget Pressure, Audit Fee

Table above shows that the R square value is 0.367 which indicates that the contribution of audit fees and time budget pressure together to audit quality is 44.7%, while the remaining 55.3% is determined by other factors outside the model regression in this study.

The results of multiple linear regression calculations from audit fees and time budget pressure on audit quality are as follows:

**Table 4 - Regression Analysis**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	11.473	4.348		2.638	.012
	Audit fee	.067	.149	.063	.450	.656
	Time Budget Pressure	.816	.179	.635	4.563	.000

a. Dependent Variable: Audit Quality

Based on the results of table above, it is obtained a constant value of 11.473, a value of audit fee ( $b_1$ ) of 0.067 and time budget pressure ( $b_2$ ) of 0.816 so that it can be concluded that the multiple linear regression equation is as follows:

$$\text{Audit Quality} = 11.473 + 0.067(\text{Audit Fee}) + 0.816(\text{Time Budget Pressure}) + e$$

The regression equation above can be explained as the value (constant) shows a value of 11.473, meaning that if the value of the independent variables, namely audit fees and time budget pressure is 0, then the value of audit quality, is 11.473. The value of the audit fee shows a value of 0.067, which means that if each increase in value on the audit fee variable increases by 1, audit quality will increase by 0.067. The time budget pressure value shows a value of 0.816, which means that if each increase in the value of the time budget pressure variable is 1, it will increase the value of audit quality, by 0.816.

**Table 5 – t-test Audit Fee on Audit Quality**

		<b>Coefficients<sup>a</sup></b>				
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	17.509	5.087		3.442	.001
	Audit fee	.4.06	.159	.379	2.5610	.014

a. Dependent Variable: Audit Quality

Based on the above result with a significance level of 0.05, it showed a significance result of 0.001, which audit fee has significant effect on audit quality. This is an indication that auditor does have to consider determinants of audit cost to produce quality audit. Audit quality is still the main goal of the auditor despite of so complexities, risks and other indicators. This finding is supported by the research by Dharma Dhatu (2019) & (Yanti & Wijaya, 2020).

These positive relationships lend support to the notion that large local offices provide higher-quality audits than small local offices, and that such quality differences are priced in the audit services market.

**Table 6 – t test Time Budget Pressure on Audit Quality**

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	12.769	3.221		3.964	.000
	Time Budget Pressure	.857	.153	.666	5.581	.000

a. Dependent Variable: Audit Quality

Also, at a significance level of 0.05, time budget pressure has significant effect on audit quality of 0.000. Time budget pressure makes the auditor to perform well in the audit. This findings has connection with the personality of auditor, which pressures must be handled properly to produce a quality audit (Christensen et al., 2016).

For simultaneous testing, (F Test), at the significance level of 0.05, the results of the significance test can be seen from the following table:

**Table 7 - ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	558.654	2	279.327	15.356	.000
	Residual	691.219	38	18.190		
	Total	1249.873	40			

a. Dependent Variable: Audit Quality

b. Predictors: (Constant), Time Budget Pressure, Audit Fee

## CONCLUSION

Although audit quality has no certain definition, audit is very important aspect to be done to assure that financial statements are credible and trusted. Standards are to be followed as it is to maintain the quality. Audit must be done with due professional care, objectivity and impartiality. Since the auditor are committed to perform the audit engagement, auditor must receive a so-called audit fee. Auditor must have to exercise professionalism as they are being paid with the services rendered. Paying high audit fees or low audit fees by the client depends on the factors such as complexities, the size of the CPA firm, the size of the company, and so on. Time budget pressure affects audit quality in a way that once an auditor can handle the pressures and be able to finish the engagement on or before the deadline.

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