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ACCOUNTING, CORPORATE GOVERNANCE & BUSINESS ETHICS | RESEARCH ARTICLE

Independent audit committee, risk management committee, and audit fees

Dyah Ayu Larasati¹, Melinda Cahyaning Ratri¹, Mohammad Nasih¹ and Iman Harymawan^{1*}

Abstract: This study aims to analyze the role of an independent audit committee on the relationship between the Risk Management Committee (RMC) and audit fees. We use 510 observations from 216 different companies indexed on the Indonesia Stock Exchange for 2014–2016. This study uses ordinary least square analysis to prove our hypotheses. We find that participation of the independent commissioner as an audit committee member will strengthen the relationship between RMC and audit fee. Consistent with the demand side of audit theory, our study shows that the existence of a stand-alone risk management committee and a more independent commissioner sitting on the audit committee will demand higher audit coverage. As a result, it will increase the audit fee. It occurs since the existence of a more independent audit committees could be able to objectively assess the risk as recommended by the RMC and respond to it by increasing the demand on audit coverage for higher audit quality, and hence increase the fees paid to the external auditor. These findings could contribute to the regulatory bodies in Indonesia in

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PUBLIC INTEREST STATEMENT

This study is essential since there is an emerging trend in non-financial companies to form Risk Management Committee (RMC) within companies. However, although RMCs do not directly purchase audit services, they may recommend greater audit services as a form of risk response to their risk monitoring responsibilities. Different from the RMC, audit committee has direct access to audit services, hence we argue that the existence of a more independent commissioner in the audit committee could be able to strengthen the relationship between the RMC and audit fee. In line with this view, this study found that RMC has a positive association with audit fees, and the existence of a more independent commissioner member as audit committee strengthens the relationship between RMC and audit fee. These findings could contribute to the regulatory bodies in Indonesia in terms of providing empirical evidence on the relationship between board governance structure and audit pricing within public companies.

terms of providing empirical evidence on the relationship between board governance structure and audit pricing within non-financial industries companies.

Subjects: Accounting; Corporate Governance; Audit

Keywords: risk management committee; board risk committee; independent audit committee; audit fees

Jel Classification: G32; G34

1. Introduction

Prior research shows that the Risk Management Committee has effectively been playing their role in the control, detection and prevention of risk especially in terms of financial risk (Abdullah, Shukor, & Rahmat, 2017; Abdullah & Said, 2019). The existence of a stand-alone risk management committee is also positively related to risk management disclosure (Abdullah et al., 2017) and the non-existence of any financial crime incidence (Abdullah & Said, 2019). However, although an audit is also related to a company's financial risk, only a few research studies show evidence on the relationship between Risk Management Committee (RMC) and audit outcomes (Ahmed & Che-Ahmad, 2016; Ali, Besar, & Mastuki, 2017; Hines, Masli, Mauldin, & Peters, 2015). Recent studies show that RMC and knowledge of the audit committee have a positive relationship with a company's financial restatement (Ali et al., 2017), but did not find any significant relationship between RMC on audit report lags (Ahmed & Che-Ahmad, 2016). Interestingly, prior research shows positive evidence on the relationship between RMC and audit fee (Hines et al., 2015). From the supply side perspective, RMC could reasonably be related with audit fees through the pricing of auditors' production costs as a result of auditors' assessments of inherent and control risks (Badertscher, Jorgensen, Katz, & Kinney, 2014). On the other side, the demand side of audit perspective contends that although RMCs do not directly purchase audit services, they may recommend greater services as a form of risk response to their risk monitoring responsibilities (Knechel & Willekens, 2006). However, to our knowledge, there is no existing evidence on how audit committee affect the relationship between RMC and audit fee. This paper fills this gap by investigating the role of an independent audit committee on the relationship between RMC and audit fees.

The increase of awareness of risk management is primarily due to many recent corporate scandals and various unexpected business failures (Walker, Shenkir, & Barton, 2002). The post-financial global crisis, as well as past accounting scandals, have changed the view on the importance of handling risk within business entity. A global survey shows that in 2010, 85% of financial institutions indicated that their board of directors had conducted regular reviews of entity asset management reports, this figure increased by 12% compared to 2008 (Deloitte, 2011). It indicates that more board members are currently active in risk management actions within the company. The increased awareness of management practices also gets positive responses from the company's shareholders. Baxter, Bedard, Hoitash, and Yezegel (2013) show that in the post-global financial crisis period, investors will offer a positive signal on proper risk management actions in related companies as shown through a positive relationship between the quality of corporate risk management and the company's market performance.

The high expectations of various parties for risk management actions within the company create demand for senior corporate executives to increase their involvement in the risk monitoring practice. To deal with this issue, the company's board members begin to form new structures within the organization to assist the company's risk monitoring process (Beasley, 2010). As the dual tier system is adopted in Indonesia, the Board of Commissioners is part of the governance structure that has responsibility in monitoring a company's risk management process (KNKG, 2012). The Board of Commissioners can form a Risk Management Committee (RMC) to ensure that the implementation of risk management runs well. However, if the establishment of the Risk

Management Committee is felt to be unnecessary, then this oversight task can be handed to the Audit Committee (KNKG, 2012).

In most countries, including Indonesia, the formation of RMC mandated for companies in the banking sector since this sector has more complex risks compared with other sectors¹. Most of the academic literature on RMC is also carried out in the banking sector (Aebi, Sabato, & Schmid, 2012; Hines & Peters, 2015). Risk Management seems to be an essential process within the financial industry, Ssekiziyivu, Mwesigwa, Joseph, and Nkote Nabeta (2017) shows that risk management is the most important determinant on performance of a loan portfolio. For other sectors, the formation of RMC is still voluntary. However, non-financial sector companies appear to have RMC to improve their quality of risk management. Brown, Steen, and Foreman (2009) shows that due to the increase in business risk complexity that also occurs in the non-financial industry, the need arises for corporate governance that specifically focuses on risk management practices, such as through the establishment of RMC. The establishment of a specific committee such as RMC that specifically focuses on risk management are expected to be filled with more skillful members that have in-depth knowledge of risk management (Choi, 2013; Fraser & Henry, 2007). The formation of RMC could increase board risk monitoring, since RMC can dedicate its resources to evaluate the company's risk appetite, risk profile, and validate the company's internal controls (Moore & Brauneis, 2008). Subramaniam, McManus, and Zhang (2009) shows that RMC is mostly formed in companies with a high level of financial reporting risk to assist in mitigating the existing risk within the company

On the other hand, a lot of criticism comes from business stakeholders, as they claimed that the existence of a stand-alone RMC will cause overlapping responsibilities between the RMC and the audit committee (Abdullah & Shukor, 2017; FRC, 2011). In Indonesia the establishment of an audit committee is mandatory for all public companies². The responsibility of the audit committee is not only for financial reporting, external auditing, and internal controlling³, in many cases, the Audit Committee is also expected to carry out a supervisory function regarding potential risks that can be identified through the financial reporting process, company internal processes, and external factors of the company (Beasley, Carcello, Hermanson, & Neal, 2009). Therefore, it is fair to say that there are overlapping responsibilities between the audit committee and the RMC. However, risk monitoring from two different perspectives is expected to enrich the company's risk knowledge and improve the effectiveness of corporate risk management (Beasley et al., 2009). As the role of the audit committee is critical, audit committee members are expected to work independently from management. An independent audit committee is considered essential to be able to avoid pressure from management so they can perform better supervisory support, especially in terms of the corporate financial issue to the board (Siagian & Tresnaningsih, 2011). The RMC and the audit committee are often considered to have similar roles, but there is one crucial role of the audit committee that cannot be carried out by the RMC, which is related to their access to external audit engagements. The audit committee is directly involved in the process of negotiating the scope of the audit work and also determines the amount of the audit fee, while the RMC does not have similar direct access to the external auditor. Therefore, it is interesting to see how an independent audit committee could affect the relationship between the RMC and the audit fee. The purpose of this study is to examine whether the participation of the independent commissioner member as an audit committee will strengthen or weaken the relationship between the RMC and audit fee.

This study uses a sample of 510 observations from 216 different companies indexed on the Indonesia Stock Exchange from 2014–2016. This study uses ordinary least square analysis to prove our hypotheses. From the demand side of audit view, we find that the formation of a stand-alone risk management committee and a more independent commissioner sitting on the audit committee will demand more audit coverage and hence increase the audit fee. It occurs since the existence of more independent audit committees could be able to objectively assess the risk as recommended by the RMC and respond to it by increasing the demand on audit coverage and hence increase the fees paid to the external auditor.

For policymakers, these findings suggest that implementation of stand-alone RMC on public companies could increase the audit fees charged by the auditors. In addition, having more independent audit committee could strengthen the relationship between RMC and audit fees. For practitioners, these findings indicate that RMC will increase their cost on audit since the RMC demand for higher quality of audit result. Furthermore, having more independent audit committee could strengthen the relationship between RMC and audit fees, since their independency is seen as an important attribute to enhance their responsibilities.

The next section of this paper has the following structure: Section 2 will explain the development of the hypothesis; Section 3 will explain the sample and variables used in the study; Section 4 will explain the result and Section 5 will provide conclusions of the study.

2. Independent audit committee, risk management committee and audit fees in Indonesia

In Indonesia, the Risk Management Committee (RMC) is only mandated for companies on the financial/banking sector as they have higher inherent risk on their business activity. Along with the dual tier board system adopted in Indonesia, referring to Bank Indonesia Regulation 8/4/PBI/2006 Risk Management Committee is a committee formed by and held responsible to the board of commissioners (BoC) for supporting BoC's duties on monitoring companies' risk management. As risk management awareness increases, RMC begins to be voluntarily formed on non-Banking sector companies. Based on general guidelines of good corporate governance issued by Indonesia's national committee of corporate governance, the BoC can form a supporting committee such as RMC to support their duties. Following this guideline, the ministry of state-owned enterprise issued PER/12/MBU/2012 as a guideline for Stated Owned Enterprise to establish a supporting committee for BoC such as RMC on their organization structure, but yet the RMC formation is still voluntary. If the establishment of RMC seems excessive for the company, the risk monitoring activities could be handed to the audit committee (KNKG, 2012).

Different from the RMC, refer to Head of BAPEPAM-LK Decree No. KEP-29/PM/2004 public companies are mandated to have an audit committee. The audit committee should at least consist of one independent commissioner. The purpose of the audit committee is to assist BoC in monitoring internal control and external audit effectivity. The audit committee has the authority to make a recommendation on selecting the external auditor, including the agreement on the audit fees (KNKG, 2006). The RMC and audit committee has a similarity in terms of their risk monitoring duties, the audit committee has responsibility on financial reporting risk, while RMC has a broader scope on monitoring the company's business risk. The Audit Committee authority directly influences the external auditor, which is one of the authorities that is not owned by the RMC.

3. Hypothesis development

3.1. Risk management committee and audit fees

The attest function performed by the auditors is a crucial part of the firm's monitoring system and can also be expected as a critical element of the governance system. Therefore, auditors principally must collaborate with other actors in the company's governance system to protect the stakeholder's interest and also assure that they receive the highest quality of information stated on the financial report (Cohen, Krishnamoorthy, & Wright, 2002). The determination of audit pricing are the consequences on the auditor assessment of clients' control environment, as well as occupying client demands on better audit quality and leading to an increase in audit fees (Jizi & Nehme, 2018). Our hypotheses development follows the demand side of audit pricing since our research scope focuses on the impact of RMC as part of the company's corporate governance mechanisms towards the audit fee. While the supply side of audit pricing mainly focuses on perspective on how auditors assess their client risk and charge them accordingly.

The company that forms a stand-alone committee for the risk monitoring process is likely to be more effective in performing internal oversight. Based on the concept of agency theory, RMC has

a role in monitoring the company's activities and provides a broader range of risk identification within the company (Aebi et al., 2012). A stand-alone RMC will conduct its role independently with audit committees and hence, could work more effectively to perform the responsibility of overseeing risk management (Buckby, Gallery, & Ma, 2015). RMC has a role as a governance mechanism for overseeing company risk and also adequately communicating those risks with various stakeholders (Nahar, Jubb, & Azim, 2016). In conducting their overseeing function, the RMC should oversee an organization's risk management framework through the process for identifying, assessing, and responding to all future and current risks that appear to threaten an organization's existence (Moore & Brauneis, 2008; Schlich & Prybylski, 2009). The formation of a risk management committee presents board commitment and awareness on the importance of internal control systems and good corporate governance (Cummins, Dionne, Gagné, & Nouria, 2009). Good corporate governance and board composition shows to be positively related with company's accountability (Bakalikwira, Bananuka, Kaawaase Kigongo, Musimenta, & Mukyala, 2017; Tumwebaze, Mukyala, Ssekiziyivu, Tirisa, & Tumwebonire, 2018)

We could see that the RMC serves as the crucial element in the risk management process and as an important factor in the corporate governance mosaic (Ishak & Nor, 2017). The existence of strong corporate governance in the company could either increase the demand for auditing (increasing fees) or reduce auditors' assessments of risk (reducing fees) (Carcello, Hermanson, Neal, & Riley, 2002). Moreover, Carcello et al. (2002) show that stronger boards are demanding higher audit effort and hence are related to higher audit fees. The existence of multiple committees that bears responsibility for risk management should be supported by clear segregation of duties and proper communication channels to ensure that the respective committees take their responsibility and consider the reports and recommendations to the other relevant committees (Deloitte, 2014). Knechel and Willekens (2006) suggest that when a firm's level of control is subject to internal demand forces aggregated from multiple stakeholders, this will result in a net increase in external assurance. Although RMCs do not directly purchase audit services, the RMC may recommend greater services as a form of risk response to their risk monitoring duties and may result in a higher demand for external assurance.

H1: Risk Management Committee is positively related with Audit Fees

3.2. Independence of audit committee and audit fee

The audit committee's primary responsibility is to monitor financial reporting quality within the organization (Mat Zain, Wahab, & Foo, 2010). Luqman, Ul Hassan, Tabasum, Khakwani, and Irshad (2018) found that the existence of an audit committee could lower the probability of financial distress within the firm. In carrying out this responsibility, the audit committee should ensure external auditor independence and also mediate the auditor disputes with the company's management (Birkett, 1986). Different from the RMC, the audit committee has direct access to purchase audit. The audit committee assists the board commissioner in recommending the appointment of the external auditor and negotiating external auditor's fees (KNKG, 2006). The audit committee also has a direct influence on the scope of external audits, they may demand broader scope from the existing external auditor to enhance audit quality and which in turn will increase the amount of audit fees (Abbott, Parker, Peters, & Raghunandan, 2003; Beasley et al., 2009; Carcello et al., 2002; Hay, Knechel, & Ling, 2008; Turley & Zaman, 2007).

Audit committee characteristics, such as its independence, are seen as essential attributes that could enhance an audit committee's ability to discharge its responsibilities. The independent board is better than the inside director in monitoring management (DeFond & Francis, 2005). They could perform better monitoring mechanisms since they are not strained by any conflict of interest with management and it makes them able to question management when they consider it necessary, thus increasing their monitoring capacity (Carcello & Neal, 2003). Previous studies show that a more independent audit committee is related to lower earnings management (Klein, 2002), less financial statement restatement (Carcello & Nagy, 2004) and demand more audit coverage to enhance audit

quality (Abbott et al., 2003; Carcello et al., 2002). On the other hand, independent audit committees also view the directorship as a means of developing their reputation as experts in decision making (Fama & Jensen, 1983) it implies that they will insist upon higher audit quality to protect their reputational capital. In summary, since audit committees are committed in the audit scope negotiation process, audit scope and plan, they consequently impact upon audit fees.

H2: Independent Audit Committee positively related with Audit Fees

3.3. Risk management committee, independent committee audit, and audit fees

RMC has the responsibility to monitor broader risk, or at least to all risks that are not monitored by the other committee. Brown et al. (2009) stated that in most companies, RMC oversight is beyond the capabilities and scope of the audit committee, as committee audit may only focus on financial reporting and other related compliance risk oversight than the other risk categories. Fraser and Henry (2007) also found that there are doubts as to whether the Audit Committee has the expertise to tackle high-level risk management duties. Besides that, Brown et al. (2009) also argue that the audit committee has already been overburdened with their internal control duties and possibly do not have enough time to appropriately manage risk. The formation of a separate committee such as the RMC admits the fact that risk management within companies is vital in forming good governance (Deloitte, 2014)

The risk committee has the responsibility to monitor enterprise-wide risk if any risk is discovered, the RMC should recommend ways to address them (Deloitte, 2014). The RMC should coordinate along with the full board regarding the risk to the various committees, especially between the audit and risk committee (Deloitte, 2014). The independent characteristic of the audit committee will increase their objectivity in responding to the risk. They could perform better monitoring mechanisms since they are not strained by any conflict of interest with management and it makes them able to question management when they consider it necessary, thus increasing their monitoring capacity (Carcello & Neal, 2003). Based on prior research, we argue that the existence of RMC and more independent audit committees will give stronger risk governance. RMC could share their risk assessment to the audit committee and define the way to address them as their part of the entity risk monitoring role. Increased cooperation between the RMC and the audit committee will give the audit committee broader risk knowledge within the entity. It suggests that the more independent the commissioner sitting on the audit committee, the more they will respond objectively and will demand more audit coverage for higher audit quality and hence are related with higher audit fees.

H3: Independent Audit Committee and Risk Management Committee positively related with Audit Fees.

4. Research design

4.1. Sample and source of data

Our sample period covers the period 2014–2016 and consists of companies listed on the Indonesian Stock Exchange (IDX). The information is collected through the company's annual report and ORBIS database. The detail of data resources is available in Table 1. We applied sample selection criteria to reach our final sample. Firstly, we exclude all companies in financial, insurance, and real estate industries (SIC 6) since they have a different nature on their financial statement. Secondly, we exclude all of the missing variables. After applying these criteria, our final sample includes 510 firm-year observation from 216 different companies.

4.2. Operational definition and variable measurement

The main variables in this study are Risk Management Committee (RMC) and the independent audit committee (ACIND). We measure RMC using a dummy variable, coded 1 if companies disclose the

existence of *stand-alone RMC*, and 0 if otherwise (Abdullah & Shukor, 2017; Yatim, 2009). We measure *ACIND* by dividing the number of independent commissioners sitting on the audit committee over the total number of the audit committee members in the company (Bliss, Gul, & Majid, 2011; Bronson, Carcello, Hollingsworth, & Neal, 2009; Chan & Sun, 2012). Our dependent variable is audit fees (*AFEE*), we measure audit fees using the natural logarithm of audit fees paid by the company to their external auditor (Hay et al., 2008; Hines et al., 2015; Keane, Elder, & Albring, 2012).

Based on previous literature, we use several control variables (Abbott et al., 2003; Duellman, Hurwitz, & Sun, 2015; Hay et al., 2008; Karim, Robin, & Suh, 2016). The control variables are the company's auditor choice (*BIG*), audit opinion (*OPIN*); firm size (*FSIZE*); leverage (*LEV*); profitability (*ROA*); the proportion of receivable and inventory on total asset (*RECINV*). Before analyzing the data, we winsorize our financial variable at 1% and 99% levels. All variables used in this article are summarized in Table 1.

4.3. Methodology

We test our hypotheses using ordinary least square regression with year-industry fixed effect and clustered standard errors (Petersen, 2009). We used STATA 14.0 to analyze our data. To test our hypotheses, we use two different research models. We use the first research model (1) to test hypothesis 1 and hypothesis 2, while our third hypothesis is tested by using the second research model (2). Based on our arguments on hypothesis 1 and hypothesis 2, we expect the coefficient of *RMC* and *ACIND* to be positive.

Table 1. Variable definition

Variable	Definition	Source
Dependent:		
<i>AFEE</i>	Natural logarithm of audit fees paid by companies to their external auditor	Annual Report
Independent:		
<i>RMC</i>	Dummy variable, coded 1 if companies disclose the existence of <i>stand-alone RMC</i> , and 0 if otherwise	Annual Report
<i>ACIND</i>	Dividing the number of independent commissioners sitting on the audit committee over the total number of audit committee members in the company	Annual Report
Controls:		
<i>BIG</i>	Dummy Variable, Coded 1 if a company is audited by BIG4 Auditor (EY, KPMG, PwC, Deloitte) and 0 if otherwise.	Annual Report
<i>FSIZE</i>	Natural logarithm of company's total asset	ORBIS
<i>LEV</i>	Total liabilities divided by total assets	ORBIS
<i>ROA</i>	Return on Asset before Tax	ORBIS
<i>OPIN</i>	Dummy Variable, coded 1 if a modified opinion is issued on last year financial report (t-1) and 0 if otherwise	ORBIS
<i>RECINV</i>	Proportion of account receivable and inventory on total assets	ORBIS

$$AFEE_{i,t} = \beta_0 + \beta_1 RMC_{i,t} + \beta_2 ACIND_{i,t} + \beta_3 BIG_{i,t} + \beta_4 FSIZE_{i,t} + \beta_5 LEV_{i,t} + \beta_6 ROA_{i,t} + \beta_7 OPIN_{i,t-1} + \beta_8 RECINV_{i,t} + \varepsilon \quad (1)$$

To test the third hypothesis, we use model 2. Based on hypothesis 2 we expect the coefficient of $RMC \cdot ACIND$ to be positive.

$$AFEE_{i,t} = \beta_0 + \beta_1 RMC_{i,t} * ACIND_{i,t} + \beta_2 RMC_{i,t} + \beta_3 ACIND_{i,t} + \beta_4 BIG_{i,t} + \beta_5 FSIZE_{i,t} + \beta_6 LEV_{i,t} + \beta_7 ROA_{i,t} + \beta_8 OPIN_{i,t-1} + \beta_9 RECINV_{i,t} + \varepsilon \quad (2)$$

5. Empirical result and discussion

5.1. Descriptive statistics and univariate comparison

Table 2 presents the sample distribution of our observation based on the existence of RMC within the company. As we can see the formation of RMC is still rarely done by firms in the non-financial sector. Only one observation from the wholesale and retail trade already forms RMC in their governance structure. However, almost half of the observations from the Mining and Construction sector has already formed RMC. Subramaniam et al. (2009) state that firms in high complexity industries are more likely to establish RMC as a way to show their commitment to good corporate governance.

Table 3 presents the descriptive statistics. The mean of RMC 0.18. It means 18% of the sample are having RMC in the company. The average of ACIND is 0.377; it means 37.7% of audit committee members are an independent commissioner. The average firm has a total asset of 10,760 billion rupiahs, with leverage an average of 48.3%, and the proportion of inventory and receivable vary from 0.6% to 78.5%. Company profitability, as measured by ROA ranges from -18.16 to 37.2. About 45.5% of the sample are audited by the BIG4 audit firms, and almost 99.4% of the sample have an unqualified audit opinion.

Tables 4 & 5 present the results of univariate analysis. Table 4 shows the result of an independent t-test between two groups, firms with RMC and without RMC. Firms with RMC are more likely to pay higher audit fees, appoint BIG4 auditors, have a larger firm size, and have higher leverage. On the other side, the result also indicates that firms without stand-alone RMC are more likely to have a higher proportion of independent commissioners, this result provides an early indication that the company may treat ACIND and RMC as substitutes.

Table 5 presents the result of the Pearson Correlation. The correlation between RMC, ACIND, and AFEE support our predicted direction and show significant results. OPIN and AFEE show a positive

Table 2. Sample distribution

Industries based on SIC Code	Firms with RMC	Firms Without RMC	Total
Agriculture, Forestry, and Fishing (0)	6	21	27
Mining and Construction (1)	31	48	79
Manufacturing (2)	17	143	160
Manufacturing (3)	13	80	93
Transportation, Communications, Electric, Gas and Sanitary service (4)	19	60	79
Wholesale and Retail Trade (5)	1	36	37
Services (7)	2	24	26
Services (8)	3	6	9
Total	92	418	510

Table 3. Descriptive statistics

	Mean	Median	Minimum	Maximum
AUDITFEE	1,930,000,000	793,500,000	88,935,000	31,500,000,000
RMC	0.180	0.000	0.000	1.000
ACIND	0.377	0.333	0.167	1.000
BIG	0.455	0.000	0.000	1.000
TOTASSET	10,760,000,000,000	3,508,000,000,000	109,000,000,000	141,800,000,000,000
LEV	0.483	0.477	0.069	0.953
ROA	3.743	2.810	-18.160	37.200
OPIN	0.006	0.000	0.000	1.000
RECINV	0.268	0.229	0.006	0.785

Notes: This table shows descriptive statistics for all the variables used in this study. The sample used in this study amounted to 510 companies listed on the IDX in 2014–2016.

Table 4. Independent t-test

	Firms With RMC	Firms Without RMC	Coef	t-value
AFEE	21.343	20.352	0.991***	7.488
ACIND	0.343	0.385	-0.042***	-2.976
BIG	0.641	0.414	0.227***	4.021
OPIN	0.011	0.005	0.006	0.690
FSIZE	30.158	28.679	1.479***	9.390
LEV	0.555	0.467	0.088***	3.604
ROA	2.046	4.117	-2.070**	-2.164
RECINV	0.180	0.288	-0.108***	-4.850

but insignificant result. The other correlations show significant results. The correlations between variables do not present any multicollinearity issues for our subsequent analysis. Unreported variance inflation factors (VIFs) have an average of 2.06.

5.2. Risk management committee, independent audit committee, and audit fee

Table 6 shows the results of model 1. Column 1 shows the regression of all control variables with the audit fee without our interested variable. Company auditor choice (*BIG*), size (*FSIZE*), and leverage (*LEV*) show a positive and significant result toward audit fees, while the other control variable shows insignificant results. Our control variable has 61,3% adjusted r^2 squared. Column 2 shows the result of our research model 1. After adding our interested variable, the adjusted r^2 in column 2 is 1% higher than the adjusted r^2 result in column 1. It implies that after adding the interested variable, our model could better predict the audit fee. We hypothesize a positive coefficient on *RMC* and *ACIND*. In column 2, we find that the coefficient on *RMC* is 0.202 ($t = 1.75$) significant at 10%, this result provides support for hypothesis 1 and indicates that the existence of a stand-alone risk management committee is related with a higher audit fee. We also find that the coefficient of *ACIND* is 0.973 ($t = 3.27$) significant at 1%. This result supports hypothesis 2 and indicates that the independent audit committee is related to a higher audit fee.

Table 7 shows the result of model 2. We hypothesize a positive coefficient on *RMC*ACIND*. On Table 7, we find that the coefficient of *RMC*ACIND* is 1.636 ($t = 2.01$) significant at 5%. This result provides support for hypothesis 3 and indicates that the existence of a stand-alone risk management committee and more independent commissioner on audit committees are related to higher audit fees.

Table 5. Pearson correlation

	AFEE	RMC	ACIND	BIG	OPIN	FSIZE	LEV	ROA	RECINV
AFEE	1.000								
RMC	0.315*** (0.000)	1.000							
ACIND	0.216*** (0.000)	-0.131*** (0.003)	1.000						
BIG	0.541*** (0.000)	0.176*** (0.000)	0.099** (0.026)	1.000					
OPIN	0.013 (0.766)	0.031 (0.491)	-0.027 (0.541)	-0.070 (0.113)	1.000				
FSIZE	0.729*** (0.000)	0.385*** (0.000)	0.175*** (0.000)	0.407*** (0.000)	0.029 (0.515)	1.000			
LEV	0.135*** (0.002)	0.158*** (0.000)	0.048 (0.277)	-0.067 (0.129)	0.039 (0.376)	0.193*** (0.000)	1.000		
ROA	0.141*** (0.001)	-0.096** (0.031)	-0.000 (1.000)	0.255*** (0.000)	-0.109** (0.014)	0.074* (0.094)	-0.323*** (0.000)	1.000	
RECINV	-0.228*** (0.000)	-0.210*** (0.000)	-0.065 (0.144)	-0.064 (0.151)	-0.067 (0.129)	-0.376*** (0.000)	-0.012 (0.792)	0.193*** (0.000)	1.000

P-values in parentheses
 * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 6. OLS regression—Risk management committee, independent audit committee, and audit fee

	Sign Prediction	AFEE	AFEE
Variable		(1)	(2)
RMC	+		0.202*
			(1.75)
ACIND	+		0.973***
			(3.27)
BIG	+	0.719***	0.698***
		(9.51)	(9.34)
OPIN	+	0.380	0.423
		(0.92)	(0.99)
FSIZE	+	0.486***	0.455***
		(15.62)	(14.45)
LEV	+	0.319*	0.302*
		(1.84)	(1.76)
ROA	+	0.007	0.008*
		(1.53)	(1.83)
RECINV	+	0.044	0.059
		(0.24)	(0.31)
CONSTANT		6.142***	6.657***
		(6.82)	(7.33)
Industry Dummies		Included	Included
Year Dummies		Included	Included
Adjusted r^2		0.613	0.623
N		510	510

t statistics in parentheses
 * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

This result provides a higher level of significance than the relationship between RMC and AFEE, as shown in Table 6. It implies that ACIND has strengthened the relationship between RMC and Audit Pricing within the companies. The result of Table 7 also shows that RMC has a negative coefficient with an insignificant result. It implies that companies with RMC have a negative relationship on audit fee, although it shows an insignificant impact. ACIND has a positive coefficient with significant results. Although ACIND still has a positive coefficient on audit fees, the significance is lower than the result on Model 1. The adjusted r^2 on model 2 is 1.3% higher than the result of adjusted r^2 in model 1. It implies that the addition of RMC*ACIND could better predict the audit fee.

6. Conclusion

This study investigates the role of independent audit committee on the relationship between Risk Management Committee and audit fees. This is an important issue as the formation of risk management committees in Indonesia are still voluntary. We expect that our study could provide input on making policies regarding the formation of RMC, especially in Indonesia.

Our results support all of our hypotheses. We find that the formation of a stand-alone risk management committee is related to a higher audit fee and the existence of more independent commissioners sitting on audit committee will strengthen the relationship between RMC and company audit pricing. However, RMC do not have any authority to purchase audit services, but since they have responsibility to monitor the risk they could recommend a greater service to the external auditor as a form of risk response to their risk monitoring responsibility. In contrast to

Table 7. OLS regression—Interaction of risk management committee, independent audit committee, toward audit fee

Variables	Sign Prediction	AFEE
RMC*ACIND		1.636**
	+	(2.01)
RMC		-0.380
	+	(-1.25)
ACIND		0.744**
	+	(2.35)
BIG		0.705***
	+	(9.42)
OPIN		0.413
	+	(0.97)
FSIZE		0.457***
	+	(14.54)
LEV		0.307*
	+	(1.78)
ROA		0.008*
	+	(1.80)
RECINV		0.073
		(0.38)
CONSTANT		6.672***
		(7.41)
Industry Dummies		Included
Year Dummies		Included
Adjusted r ²		0.626
N		510

t statistics in parentheses
 *p < 0.1, **p < 0.05, ***p < 0.01

RMC, the audit committee has direct authority for overseeing the effectiveness on the external audit engagement. Our result implies that audit committee independency is seen as an important attribute to enhance their responsibilities. An independent audit committee could improve the firms' reporting system and the quality of reported earnings because they are not subject to potential conflicts of interest that reduce their monitoring capacity. As audit committees are involved in the audit scope negotiation process, their governance quality affects the audit scope and plan, and consequently audit fees. This result implies that there will be a net increase in external assurance when a firm's level of control results from various demand forces across multiple stakeholders in the company (Knechel & Willekens, 2006).

The formation of a stand-alone RMC and the independent audit committee in a company provides a better division of tasks and enables them to focus on their work. As the RMC's main duties are to discover risk and also recommend ways to address them, RMC should coordinate with the full board including the audit committee to recommend ways to address them. The appearance of independent audit committees that are independent from management could improve the firms' monitoring activities as they are not constrained in their relationship with the management and provide more objectivity. This separation of duties would necessarily have a beneficial effect on the audit committee's objectivity in carrying out their responsibility for considering the risk. Completely independent audit committees are positively related with audit fees as they demand a higher audit coverage to address the risk and enhance accounting

quality (Abbott et al., 2003). A high audit price indicates a good quality audit, this is due to the fact that extended audit hours and expert audit staff conduct more comprehensive investigation, which results in higher audit fees (Khan & Subhan, 2019).

Together, the more independent commissioners sitting on the audit committee membership will strengthen the relationship between RMC and Audit Pricing within the companies. These results indicate that the formation of a stand-alone risk management committee and more independent commissioners sitting on audit committee will demand more audit coverage and hence increase the audit fee. It occurs since the existence of a more independent audit committee could be able to objectively assess the risk as recommended by the RMC and respond to it by increasing the demand on audit coverage for a better audit quality and hence increase the fees paid to the external auditor. These findings inform the practitioners and regulatory bodies in Indonesia of the importance of having a stand-alone RMC and more independent audit committee within non-financial industries company's governance structure.

This study is subject to some limitations. First, our sample in this study is relatively small due to the lack of audit fee data in the company's annual report. Second, our findings suggest that the existence of stand-alone RMC and independent audit committee are related to higher audit pricing, however we only document an association and not a causation. As this study only analyzes the association for the existence of stand-alone RMC towards the audit outcomes, we suggest future research considers the deeper characteristics of risk management committee members, such as (education background, expertise, etc.) towards financial or audit outcomes within the company.

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Notes

1. Head of Financial Services Authority (OJK) Decree No.18/2016 about the implementation of risk management in commercial bank.
2. Head of Capital Market Oversight Bodies (BAPEPAM) Decree KEP-29/PM/2004 .
3. Ministry of Stated owned Enterprise Regulation—PER 12/MBU/2012.

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