UNVEILING FACTORS AFFECTING AUDIT FEES: CHARACTERISTICS OF FIRMS AND PUBLIC ACCOUNTING FIRMS

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ABSTRACT

This study examines the effect of leverage, firm size, profitability, audit firm size, and audit tenure on audit fees. Using quantitative analysis, cross-sectional data from 281 companies listed on the IDX in 2022 were analyzed through purposive sampling and multiple linear regressions. The results show that firm size and audit firm size positively impact audit fees. Due to their operational complexity and higher audit risks, more prominent firms tend to incur higher fees as they require more detailed audit procedures. Similarly, firms audited by more prominent audit firms pay higher fees, as they are known for their strong reputation and ability to provide comprehensive, high-quality audit services, enhancing the credibility of the financial statements. However, leverage, profitability, and audit tenure do not affect audit fees. Theoretically, this study contributes to the audit fee literature by confirming the significant role of firm characteristics and audit firm size in determining audit costs. Practically, the findings offer insights for companies to strategically manage their audit fees by considering these factors, allowing them to maintain financial statement reliability while potentially optimizing audit costs. This balance is critical for firms seeking to manage resources efficiently without compromising the quality of their financial reporting.

Keywords: audit fees, audit firm size, audit tenure, leverage, profitability.

INTRODUCTION

There is an international era of globalization and tighter competition in business, where businesses need more transparency and accountability in financial presentation (Salehi, Ajel, and Zimon 2023). In this globalized environment, an audit is an examination carried out by an independent, outside party not involved in the operations of the firms whose records are audited so that on published financial reports, that information is accurate, complete and fairly presented in conformity with generally accepted accounting principles or legal requirements (Arens et al. 2019). An examination conducted by an independent public accounting firm is the main instrument to maintain the reliability and fairness of the financial statement issued by the firm.

The process of evaluating the financial statements by an auditor is conducted to maintain the reliability of the information contained in the firm financial statement; the more complex a firm business transaction, the more the size of the honorarium received by the public accounting firm. This is supported by studies by Mohapatra et al. (2022) that audit fees are costs incurred by the firm to hire a public accounting firm to check the accuracy and compliance with accounting standards and laws in the firm's financial statements. Audit fees are

essential to corporate financial management, as the firm needs correct and transparent financial statements to gain investor confidence and comply with the law. The amount of the audit fee not only reflects the cost of using audit services but also reflects the complexity and risk of the firm's business (Kammoun and Khoufi 2023).

The amount of audit fees will be influenced by one of them, namely the level of leverage, which reflects the level of financial risk the firm faces. Companies with high leverage usually show the risks the firm faces so that auditors carry out more detailed audit procedures to see the risks the firm faces. The higher the risk the firm faces, the greater the auditor's attention in collecting audit evidence. Investors and creditors will pay attention to the level of leverage in making investments or providing financing (Poursoleiman, Mansourfar, and Abidin 2020). Companies with high leverage tend to pay higher audit fees, which is also shown by Triani and Yanthi (2020), that costs increase with the complexity of transactions in the audit evidence collection process. Research conducted by Kajola et al. (2022); Agustina, Puspitosarie, and Hasan (2023) found that leverage positively affects audit fees. However, this differs from the research of Abbas et al. (2022), which found that leverage did not affect audit fees.

Firm size also plays a significant role in determining audit fees. Companies with larger sizes generally have more complex operating structures, thus requiring more time and effort for audits; companies with larger sizes will tend to have tighter supervision from regulators and investors, which will increase the need for audits as an effort to reduce the complexity of interests between agents and principals so that the audit fees charged will also be higher (Lyubimov 2019; Triani and Yanthi 2020). In contrast to the research of Rusmin and Evans (2017); Xu et al. (2022) found that firm size did not affect audit fees. The level of profitability is also a factor in determining the fees received by public accounting firms for the assurance services provided. Companies with high profitability require more excellent supervision to ensure that their financial statements are accurate and not manipulated. Therefore, high profitability can affect the audit fees that must be paid. This is in keeping with Chang et al. (2021) that the higher the organization's profitability level, the higher the audit charges charged. Businesses with a high stage of profitability will increase the audit expenses charged because groups with an excessive level of profitability imply a high stage of danger, requiring a more complex audit process (He et al. 2020; Zhou et al. 2022). This differs from research by Naser and Nuseibeh (2008); Kikhia (2014) found that profitability does not affect audit fees.

Audit firm size is the size or scale of a public accounting office or audit firm. Audit firm size has a significant relationship with audit fees. This is in line with research by Francis (1984); Bae and Lee (2013); Kikhia (2014) who found that audit firm size has a positive effect on audit fees. However, it differs from Gist's research (1994), where the effect of audit firm size on audit fees depends on the complexity of client regulations. Then, audit tenure indicates the period in which the public accounting firm has been engaged with the consumer, wherein audit tenure is one of the elements determining the quantity of audit costs. Longer audit tenure can boost audit performance because the auditor is more familiar with the patron's business and industry than with a shorter tenure. Alternatively, long audit tenure raises concerns about auditor independence. Studies carried out Hsieh

et al. (2020) observed that the longer the outside auditor audits the equal employer, the higher the audit fees charged to the audited employer. That is one-of-a-kind from the consequences of research carried out using Nasuci, Sari, and Sari (2020); Aly, Diab, and Abdelazim (2023) which display that the longer the auditor is an external auditor of a business enterprise, the lower the audit fees charged.

Previous research has shown inconsistencies in the results of various factors influencing audit fees globally, thus opening a research gap. This examination tries to bridge the differences in preceding studies' consequences by focusing on essential variables, which include leverage, firm size, profitability, audit firm size, and audit tenure, wherein each variable indicates different results in numerous preceding research. However, previous research has yet to be found that discusses these five factors together in influencing audit fees, especially with different data and observation periods. This study's novelty lies in integrating those variables within the context of sustainable practices and the converting dynamics of audit charges because of monetary uncertainty. In addition, this observation offers a new perspective on how those elements interact with the put-up-pandemic generation. Due to the research gap and novelty, this research urgently needs to be carried out with data and observation time different from previous research.

This study is pushed by using the growing strain on corporations to demonstrate financial transparency and accountability amid intensifying worldwide commercial enterprise opposition and regulatory scrutiny. With the rapid evolution of the global economy, understanding the factors that shape audit fees has become increasingly critical for sound financial management and informed decision-making. As more corporations incorporate sustainability into their strategies, this study becomes especially relevant and timely, highlighting the need to assess how such practices influence the cost of audits. In a post-pandemic world, where financial risk and compliance challenges have taken on greater significance, up-to-date insights are essential for companies, auditors, regulators, and investors grappling with this complex relationship. This research provides valuable guidance for corporate governance and audit practices in today's fast-changing economic landscape by analyzing how firm characteristics such as leverage, profitability, and firm size and audit firm attributes like audit firm size and audit tenure affect audit fees. By exploring these elements, the study aims to shed light on the relationship between firm risk and performance profiles and the costs associated with audit services, which is especially important as business practices evolve in response to global economic shifts.

LITERATURE REVIEW

Signaling Theory

Signaling theory, initially introduced by Spence (1973), explains how parties with more information (encoders) send signals to those with less information (receivers) to address information asymmetry. In accounting and finance, these signals often take the form of audited financial statements, the standing of auditors, and audit fees (Biswas 2021). This concept explains how the level of audit fees incurred by a company can provide signals or clues to external

parties regarding the quality of the company's financial statements and management (Liu and Subramaniam 2013). Companies can use audit fees as a signal to the market to indicate the level of transparency, compliance, or quality of the information provided, thereby creating trust and credibility in the eyes of the public (Mohapatra et al. 2022).

Agency Theory

Agency theory is a concept in economics and management that describes the relationship between two parties: the principal (owner or shareholder) and the agent (manager or party appointed to manage the principal's interests) (Jensen and Meckling 1976; Ross 1973; Chow 1982). The principal entrusts the agent to make decisions and run the business or assets owned by the principal, but there is a risk that the agent will act in his rather than the principal's interests. The agency problem is usually caused by information asymmetry, where the agent has more information about the operational situation or business opportunities than the principal (Kraakman 1986). In auditing, to reduce the principal's concerns, the principal hires an outside auditor to examine the financial statements at a cost known as an audit fee (Gimbar, Hansen, and Ozlanski 2016).

Audit Fee

An audit fee means the amount of money that an organisation pays to an audit firm or, in the case of internal auditing, pays to the external auditor for conducting the necessary audit on the organisation’s financial statements (Calabrese 2023; Kanapathippillai et al. 2024). This fee generally includes all costs relative to the audit, which in one way reflects the effort of the auditor and the possible legal costs available (Choi et al. 2009). Therefore, the audit fees depend on many factors, such as the size of the audited entity and the complexity of the audit procedures used (Lyon and Maher 2005). Yassin and Nelson (2012); Ghafran and O’Sullivan (2017) show that higher audit fees point towards the auditor providing better services than firms with lower fees. In a highly competitive audit market with relatively low opportunities for extra profit, the amount of effort is likely reflected in the fees charged (Kanagaretnam et al. 2011).

Leverage

Leverage refers to utilizing both borrowed capital and personal funds for investment purposes, with the ratio of borrowed funds to personal funds (debt to equity) (Bhatti et al. 2010). Financial leverage arises from the disparity between the returns a firm generates from its assets and the returns it must provide to its creditors (Putri, Abbas, and Zulaecha 2022). Generally, the concept of "Leverage" is understood as the employment of borrowed funds to facilitate investments and the subsequent returns derived from those investments. A higher financial leverage ratio poses greater risks for a firm (Bhatti et al. 2010).

Firm Size

Firm size is a measure that indicates how big or small a firm is. This measure can be measured from several aspects, such as the number of employees, total assets, total sales, or market value of the firm (Fujianti and Satria 2020). Firm size is essential because it is often related to other characteristics, such as

competitiveness, operational efficiency, ability to obtain funding, and financial risk (Fitri et al. 2021). A firm with substantial total assets typically reflects higher transactional complexity, necessitating auditors to allocate more time for client interactions, comprehend intricate internal control systems, devise comprehensive audit procedures, and conduct thorough testing. Consequently, the auditor's fee is influenced by the time required to complete the audit, leading to the expectation that larger firms will incur higher fees (Stewart and Munro 2007).

Profitability

Profitability is the ability of a company or business to generate profits from its operations or investments (Alarussi and Alhaderi 2018). It indicates how effectively a company uses its resources and capital to generate profits. Profitability is usually assessed through several financial ratios that compare profits to various aspects of the business, such as sales, assets, or equity. Critical indicators of profitability include return on assets (ROA), return on equity (ROE), operating profit margin, and net income (Horvat et al. 2022). This ratio serves as a market-oriented gauge of financial performance, reflecting the internal operational efficiency of the organization (Orlitzky, Schmidt, and Rynes 2003).

Audit Firm size

Audit firm size refers to the size of an accounting firm or audit firm. This size is usually measured based on several indicators, such as the number of clients, the company's revenue, the number of employees or auditors working there, and the scope of its operations (DeAngelo 1981). Audit firm size is often divided into several main categories, such as the Big Four, the four largest accounting firms in the world, and non-Big Four or small to medium-sized firms with a more limited scope of operations (Francis 1984; Reynolds and Francis 2000). Audit firm size is important because it can affect audit quality, audit fees and client perceptions of the firm. Large firms, such as the Big Four, generally have more resources, expertise and reputation and are often perceived to provide a higher quality audit, especially for large or publicly traded companies. On the other hand, small or medium-sized firms may be more flexible and have a more personal approach but may be perceived as needing more resources than large firms (Bae and Lee 2013; Comprix and Huang 2015).

Audit Tenure

Audit Tenure is the period a public accounting firm gives to carry out audit functions sequentially with an assignment period agreed upon by the auditor and the client (Aly, Diab, and Abdelazim 2023). Audit tenure will be indicated by long tenure or short tenure. In some jurisdictions or under specific regulations, auditors must rotate after a certain period to maintain auditor independence. An audit engagement lasting three years indicates a long-term period, while one less than three years means short-term (Zielma and Widyawati 2019; Nasuci, Sari, and Sari 2020).

Hypothesis Development

Leverage has an explicit impact on attributing a firm’s financial position since tackling debt funding critically impacts the complexity of reporting (Fitri et

al. 2021). Leverage, the use of debt to fund a firm's operations, is the benchmark that defines the fees specified in the contract with the public accounting firm when signing a contract with the firm (Halim 2021; Triani and Yanthi 2020). The leverage status of a firm provides auditors with important information about the client and the sector the firm belongs to. Besides, the linkage between the totality of the firm's fixed assets and the amount of total liabilities assists in determining the mutually agreed fee between the auditor and the firm, making leverage a vital driver of the audit fee (Fujianti and Satria 2020). Moreover, risk relating to the firm is an essential signal for auditors indicating how to proceed during the audit procedures and to determine necessary audit evidence, which depends on the audit duration and the size of the audit teams required. Agency theory states that using more debt increases financial risk, impairs auditors' certainty about potential manipulation of financial statements and thus prompts them to make more extensive audit procedures that increase the general costs of the audit. Research conducted by Kajola et al. (2022); Agustina, Puspitosarie, and Hasan (2023) found that leverage positively affects audit fees. Consequently, the first hypothesis of this study is H_1: Leverage positively affects audit fees.

The firm size indicates its total assets; as the asset base increases, so does the complexity of its transactions, the diversification of its product offerings, and its market share. Companies that engage in more complex transactions require more time from auditors during the audit evidence collection process. Research has consistently demonstrated that larger firms typically face higher audit fees than their smaller counterparts (Zhou et al. 2022). Within the agency theory framework, a firm's size significantly influences the determination of audit fees, as larger entities often exhibit more intricate organizational structures, elevated transaction volumes, and a broader range of products or services. This complexity compels auditors to conduct more comprehensive and meticulous audit procedures to mitigate the heightened risks associated with potential inaccuracies or fraudulent activities in the financial statements (Chow 1982). Research conducted by Lyubimov (2019) states that firm size positively affects audit fees. Consequently, the second hypothesis of this study is H_2: Firm size positively affects audit fees.

Profitability is an essential financial performance indicator that reflects how well the firm generates revenue and manages its operating costs. The better a firm manages its business, the greater the profit generated from several product innovations (Latifi, Nikou, and Bouwman 2021). The effect of profitability on audit fees is of concern because companies with higher financial performance can reflect varying levels of financial risk and complexity of financial statements. Signalling theory helps explain how companies can use profitability and audit fees to demonstrate their quality and credibility to external parties. Several studies have shown that companies with higher profitability tend to have a more stable financial structure and lower financial risk, as well as more transparent and easily verifiable financial statements so that auditors consider the firm's audit risk to be lower and require less audit effort to verify the compliance of its financial statements and can also reduce audit complexity and make it easier for auditors to carry out their duties, which in turn can have a positive impact on audit fees (H. Chang et al. 2021; Horvat et al. 2022). Companies with higher profitability have more transactions and complex operational activities, thus requiring more

extraordinary audit efforts (Simunic 1980; He et al. 2020; Zhou et al. 2022). Therefore, the third hypothesis in this study is H_3: Profitability positively affects audit fees.

The audit firm size, often measured by the number of auditors, revenue, or branch office network, is an essential factor that can influence the determination of audit fees. The existence of significant public accounting firms with abundant resources and strong reputations gives the perception that they can provide higher quality assurance in audit results; however, this is often offset by higher audit fees (Haapamäki and Sihvonen 2019; Shan, Troshani, and Tarca 2019). Agency theory links the audit firm size and audit fee to reduce conflicts of interest between owners and managers. Public accounting firms with more extensive resources provide a stronger signal of trust for investors and management when making decisions. Meanwhile, smaller public accounting firms offer more competitive prices. Research conducted by Francis (1984); Bae and Lee (2013); Kikhia (2014) state that audit firm size has a positive effect on audit fees. Therefore, the fourth hypothesis in this study is H_4: Audit firm size positively affects audit fees.

The amount of time an auditor has been associated with the particular firm refers to audit tenure can communicate a positive signal to the market about the supply and demand for that firm's financial information (Ball, Tyler, and Wells 2015). A long association of an auditor with the auditing process is likely to improve investors' confidence in financial statements, which may create market pressure for extended audits and consequently may lead to increased audit fees (Hsieh et al. 2020). According to agency theory, long audit tenure is likely a positive factor because the auditors get to know a lot about the firm's operations and the situation in the industry the firm is in to make the audit more efficient and effective. But this long involvement distorts the audit processes and, therefore, the fees. In addition, long-term auditor- firm relationships may reduce the information asymmetry between management and auditors; however, auditors may feel pressure to use extra-effective audit procedures to confirm the accuracy of the financial statements, which in turns increases the costs and fees associated with the audit. Research conducted by Hsieh et al. (2020) stated that the longer the external auditor audits, the higher the audit fee. Consequently, the fifth hypothesis of this study is H_5: Audit tenure positively affects audit fees.

METHODS

This study uses a quantitative research type. This approach focuses on measuring and proving hypotheses and using statistics to analyze and describe relationships between variables (Deshmukh and Cornman-Homonoff 2023; Ward et al. 2023). The research utilizes secondary data, specifically the annual reports from 2022 of companies listed on the Indonesia Stock Exchange (IDX), which can be accessed via www.idx.co.id. The study's population comprises 505 entities, from which a sample was drawn through purposive sampling. The selection criteria required that the companies had published their financial reports for 2022 and included a specified audit fee within those reports. Ultimately, a sample of 281 companies was identified from the total population. The dependent variable used in this study is Audit fees. While leverage, firm size, profitability, audit firm size, and audit tenure are independent variables, Table 1 shows the operational

definition of the variables. The analytical method employed is multiple linear regressions with cross-sectional data, utilizing SPSS version 22. The choice of cross-sectional data is justified by the researcher's focus on a single annual reporting period, specifically for 2022, across all sectors represented on the Indonesia Stock Exchange.

Table 1 Operational Definition of Variables

Variables	Description	Measurement
Audit fee (ADF)	Fees or honorariums an entity pays to an audit firm or external auditor to audit the entity's financial statements.	Ln (Audit Fee)
Leverage (LEV)	Leverage shows how much a firm uses external debt to finance operations or expand.	Debt to Asset Ratio (DAR) = Total Debt / Total Assets
Firm Size (FSZ)	Firm size is a measure, a scale that describes the size of a firm based on several provisions.	Ln (Total Assets)
Profitabilitas (PBL)	The ratio measures the extent to which an investment generates profits.	ROA = Revenue / Total Assets
Audit Firm Size (AFS)	Audit Firm Size refers to the size or scale of the audit or public accounting firm that audits an entity's financial statements.	Levels (Big Four, Big Twenty, Non-Big Twenty, Local)
Audit Tenure (ADT)	The length of the relationship between an audit firm or external auditor and a particular client.	Period of Engagement

The analysis used in this study is multiple linear regressions using SPSS 22. The following is the regression equation of this study:

$$ADF = \alpha_0 + \alpha_1 LEV_{it} + \alpha_2 FSZ_{it} - \alpha_3 PBL_{it} + \alpha_4 AFS_{it} - \alpha_5 ADT_{it} + \varepsilon$$

RESULTS AND DISCUSSIONS

Descriptive Statistics

Descriptive statistical tests are used to see the general picture of data distribution through the Mean, Maximum, Minimum, and standard deviation values of each variable. The results of the descriptive statistical test can be seen in Table 2.

Table 2 Descriptive Statistics Results

Variables	N	Minimum	Maximum	Mean	Std. Deviation
LEV	281	0.18	1.08	0.6432	0.19412
FSZ	281	4.99	5.78	5.3908	0.16909
PBL	281	0.01	0.42	0.2067	0.10135
AFZ	281	1.00	1.73	1.4089	0.30591
ADT	281	1.00	1.73	1.2673	0.28452
ADF	281	4.23	4.87	4.5090	0.13015

Source: secondary data (processed, 2024)

The findings from the study encompassing 281 companies reveal several significant trends concerning the analyzed variables. The average leverage ratio of 0.6432 suggests that the companies in the sample utilize debt amounting to approximately 64.32% of their total assets, accompanied by a notable variation (standard deviation of 0.19412). This variation highlights considerable disparities in debt utilization, which may influence financial decision-making and risk assessments within these firms. Additionally, the average firm size, measured at 5.3908 on a logarithmic scale, indicates that many companies are classified as large, with a relatively modest variation (standard deviation of 0.16909), suggesting a degree of stability in their structural composition. The average profitability, recorded at 0.2067, also exhibits significant variation (standard deviation of 0.10135), indicating that while the average profitability is relatively centralized, substantial differences among individual companies could impact their strategic choices. Conversely, the average size of the accounting firms, at 1.4089, along with a considerable variation (standard deviation of 0.30591), points to a diversity in the sizes of the audit firms engaged, which may influence their capacity to manage complex client needs. The average audit tenure, calculated at 1.2673 years with a significant variation (standard deviation of 0.28452), reflects the varying lengths of auditor-client relationships, where longer tenures may enhance the auditors' understanding of associated risks and business characteristics. Finally, the average audit fee is estimated to be about 1.45 billion, and the standard deviation of around 0.13015 signifies that though the audit fees differentiated by firms are not incredibly diverse, they are closer to the mean of the distribution. Altogether, these observations describe how the financial structure, firm size, profitability and audit fees interact, and the findings will be helpful for firms' stakeholders engaged in financial and audit determinations.

Normality Test

The normality test is an evaluation performed to determine the distribution characteristics of a dataset or set of variables, specifically to ascertain whether the data follows a normal distribution. In the case of the one-sample Kolmogorov-Smirnov test, asymp. sig. value of 0.200 > 0.05 was obtained, suggesting that the data distribution in this study adheres to normality.

Corelianity Test

The correlation test is designed to measure and analyze the relationship between two different variables. Table 3 shows a positive relationship between leverage and audit fees, indicating that as a firm’s leverage increases, the audit fees also increase. This is due to several reasons relating to audit evidence, such as challenges in compiling sufficient and reasonable audit evidence and third-party reconfirmation, which becomes complex in case of a high number of debts. Further, size correlates positively with audit fees, suggesting that companies that employ the services of external auditors pay more for audit services because their transactions are complicated. In addition, it is established that firm size is positively related to leverage, which points to the fact that companies with huge, fixed assets use credit to finance their expansions, product differentiation and many subsidiaries. On the other hand, it has a negative coefficient with profitability, indicating that higher profits are likely to mean that the firm will be

able to decrease its leverage. Moreover, the size of the audit firm is positively correlated with audit fees, indicating that public accounting firms associated with foreign entities tend to charge higher fees, likely due to their enhanced reputation and the increased trust they inspire among investors. Lastly, the size of the audit firm is also positively correlated with firm size, suggesting that larger companies are inclined to engage foreign-affiliated public accounting firms to uphold their reputation and maintain investor confidence.

Table 3 Correlations Test Results

	ADF	LEV	FSZ	PBL	AFZ	ADT
ADF	1					
	281					
LEV	0.198**	1				
	0.001					
	281	281				
FSZ	0.764**	0.273**	1			
	0	0				
	281	281	281			
PBL	0.032	-0.288**	0.02	1		
	0.597	0	0.744			
	281	281	281	281		
AFZ	0.642**	0.046	0.477**	0.108	1	
	0	0.44	0	0.071		
	281	281	281	280	281	
ADT	0.003	-0.008	-0.021	0.039	0.079	1
	0.954	0.898	0.728	0.513	0.184	
	281	281	281	281	281	281

**. Correlation is significant at the 0.01 level (2-tailed) or 1%.

Source: secondary data (processed, 2024)

Multicollinearity Test

The statistical value of collinearity is shown in Table 4. Judging from the tolerance value, it shows that all independent variables have a tolerance value close to 1, which means that there is no high collinearity problem between the independent variables, and the VIF value of all independent variables is less than 10, which indicates that there is no significant multicollinearity. So, the research data is accessible from multicollinearity problems. Independent variables will be free from collinearity and serious multicollinearity problems if the tolerance value is more than 0.1 and the VIF values are less than 10.

Table 4 Multicollinearity Test Results

Variables	Tolerance	VIF
LEV	0.833	1.200
FSZ	0.705	1.418
PBL	0.898	1.113
AFZ	0.754	1.326
ADT	0.988	1.012

Source: secondary data (processed, 2024)

Hypothesis Test

Table 5 is the result of hypothesis testing; the regression equation formed where the equation describes how each independent variable affects the value of the dependent variable ADF.

$$\text{ADF} = 1{,}896 + 0{,}013\text{LEV}_{\text{it}} + 0{,}450\text{FSZ}_{\text{it}} - 0{,}017\text{PBL}_{\text{it}} + 0{,}155\text{AFS}_{\text{it}} - 0{,}006\text{ADT}_{\text{it}} + \varepsilon$$

The regression equation can explain that the constant value of 1.896 is the average value of the audit fee if all independent variables are zero. The leverage coefficient value of 0.013 indicates that every increase in one leverage will increase the audit fee value by 0.013 if other independent variables remain constant. Then, firm size has a coefficient value of 0.450, meaning that every increase in firm size will increase the audit fee value by 0.450 units if other independent variables remain constant. Meanwhile, in terms of profitability, the coefficient value is -0.017. This means that every increase in profitability will decrease the audit fee value by 0.017 units, assuming other independent variables remain constant. The audit firm size has a coefficient value of 0.155. This indicates that if the audit firm size increases by one, the audit fee value will increase by 0.155, assuming that other independent variables are constant. The audit tenure has a coefficient value of -0.006. This shows that if the audit tenure increases by one, the audit fee value will decrease by 0.006 if the constant of other independent variables remains constant.

Table 5 Hypothesis Test Results

Hypothesis	Coefficient	Std. Error	Beta	t-Statistic	Sig.
(Constant)	1.869	0.156	-	11.954	0.000
LEV → ADF	0.013	0.025	0.019	0.518	0.605
FSZ → ADF	0.450	0.031	0.585	14.436	0.000
PBL → ADF	-0.017	0.046	-0.013	-0.362	0.718
AFZ → ADF	0.155	0.017	0.364	9.283	0.000
ADT → ADF	-0.006	0.016	-0.012	-0.356	0.722
F-Statistic				117.907	0.000
Adjusted R-Square					0.677

Source: secondary data (processed, 2024)

Table 5 shows that leverage has a significance value of 0.605 (sig. > 0.05), so H_1 is rejected; this means that leverage does not affect audit fees. The firm size has a significance value of 0.000 (sig. < 0.05) with a positive coefficient value (0.450) and t-statistics 14.436 > 1,96; therefore, H_2 is accepted; this means that firm size positively and significantly affects audit fees. The profitability has a

significance value of 0.718 (sig. > 0.05), so H_3 is rejected; this means that profitability does not affect audit fees. Audit firm size has a significance value of 0.000 (sig < 0.05), with a positive coefficient value (0.155) and t-statistics 9.283 > 1,96; therefore, H_4 is accepted; this means that audit firm size positively and significantly affects audit fees. Audit tenure has a significance value of 0.722 (sig < 0.05), so H_5 is rejected; this means that audit tenure does not affect audit fees.

An adjusted R-Square value of 0.75 falls within the strong category, while a value of 0.50 is classified as moderate, and a value of 0.25 are deemed weak. As presented in Table 5, the adjusted R-value of 0.677 reflects a moderate correlation between the independent and dependent variables. This adjusted R-Square value of 67.7% suggests that the audit fee is affected by the variables under consideration, whereas 32.3% of the influence comes from factors not included in the analysis. The F-statistic (Sig.) of 0.000 signifies that the overall regression model achieves statistical significance at the 0.01 level, indicating robust evidence that the independent variables collectively influence the dependent variable, the audit fee. The exceptionally high F-statistic value of 117.907 further demonstrates that the variation explained by the regression model far exceeds the variation that is not accounted for. As illustrated in Table 5, the regression model, which incorporates independent variables such as leverage, firm size, profitability, audit firm size, and audit tenure, effectively elucidates the variability in the dependent variable, audit fee. The notably low sig reinforces the existence of a strong correlation between the independent variables and the dependent variable within this model.

The Effect of Leverage on Audit Fees

The results show that leverage does not affect audit fees. This shows that the high or low level of leverage will not affect audit fees. This study's results align with the research conducted by Yulio (2016); Abbas et al. (2022), which stated that leverage does not affect audit fees. This is because, from the available data, the average leverage value owned by the firm is below 1%, or it can be said that the leverage is low. Only one firm has a leverage level above 1%, while the audit fees paid range from hundreds of millions to billions, and only five companies pay audit fees above ten billion. So that changes in audit fees charged to the firm are not affected by leverage. However, this is different from the signaling theory. Signaling theory explains that leverage (use of debt) can be considered as a signal conveyed by management to outside parties regarding their belief in the firm's ability to generate sufficient cash flow to meet its debt obligations (Alharasis, Clark, and Prokofieva 2021; Biswas 2021; Liu and Subramaniam 2013).

Management that uses high leverage will signal that they are confident in the firm's profit prospects and ability to generate sufficient cash flow to meet its debt obligations. Auditors see this as a positive sign that management has high confidence in the firm's future performance. However, auditors also see leverage as an increased financial risk if leverage is too high. So, with a high increase in risk, auditors need to carry out stricter and more in-depth supervision of the firm's financial statements and internal control systems to ensure that there are no errors or deviations (Abbas et al. 2022; Putri, Abbas, and Zulaecha 2022; Yu 2024). Several things cause leverage to be independent of audit costs. If the firm has a

solid internal control system and management has good debt management skills, then a high level of leverage will not affect the firm's financial risk. This can reduce audit risk, so auditors feel free from the need to adjust their fees based on the firm's leverage. A high level of leverage does not indicate that the quality of financial statements and compliance with accounting standards in preparing the firm's finances could be better (Abor 2017; Triani and Yanthi 2020). The lack of influence of leverage on audit fees indicates that agency theory is less relevant in this context. Regardless of the firm's leverage level, auditors apply consistent audit standards. Auditors focus more on compliance with accounting standards, the quality of financial statements, and the firm's internal control system. So, leverage does not affect the determination of audit fees.

The Effect of Firm Size on Audit Fees

The results show that firm size has a positive effect on audit fees. This indicates that the audit fee will also increase if the firm size increases. This study's results align with the results of studies conducted by Sibuea and Arfianti (2021); Izzani and Khafid (2022). In addition Ayu, Ida, and Apit (2019); Lyubimov (2019) stated that larger companies tend to incur higher audit fees than smaller ones. Firm size is one of the main factors that can affect audit fees. Large companies usually have more complex operations, with many divisions, locations, and transactions both regionally, nationally, and internationally, that require more time and effort from auditors to understand and audit thoroughly. In addition, the large number of transactions that occur in large companies indicates operational complexity, which can indicate that it has a higher audit risk (Chernobai, Jorion, and Yu 2011; Cope and Carrivick 2013; Ellul and Yerramilli 2013). This condition will require a more detailed and complex audit process, impacting the high fee charged. This is done to reduce the audit risk that will occur.

An agency theory perspective, the larger the firm, the greater the need to reduce agency conflicts, increase supervision, and minimize the risk of information asymmetry. This requires a more comprehensive audit and impacts increasing audit fees. In addition, auditors also need to test and evaluate the quality of the internal control system in large companies. Large companies must adhere to many regulations and provisions when carrying out operational activities and preparing financial reports. Therefore, to maintain the firm's credibility, transparency and compliance in making financial reports in order to maintain the trust of internal and external parties to the firm, a more detailed, complex audit process is needed where this requires additional time and processes, resulting in higher audit fees (Singh and Newby 2010; Li and Liu 2024). This is also in line with the signaling theory, which states that large companies will provide specific signals to the market and stakeholders regarding the credibility and quality of the financial information produced so that to produce credible and quality financial statements, a more stringent audit process is needed, and this can have an impact on increasing the audit fees charged. Overall, the size of the firm influences the audit fee because the larger the size of the firm indicates an increase in the complexity of the firm's transactions and operations, an increase in the volume of work, an increase in the risks that can occur and an increase in the audit compliance provisions that must be met by the auditor (Ayu, Ida, and Apit 2019; Ningsih et al. 2024).

However, when a public accounting firm has an audit system and process that is supported by sophisticated technology so that it can make the audit process run effectively and efficiently, then the size of the firm does not influence the audit fee (Rusmin and Evans 2017; Xu et al. 2022). Auditors apply consistent standards and procedures, regardless of firm size, so auditing a large firm does not necessarily require significant additional effort. Experienced auditors can also effectively navigate the complexities of large firms. In addition, large firms have greater negotiating power to obtain competitive audit fees, and competition in the audit market encourages them to adjust their fees to remain attractive to large clients. Regulation and professional standards governing audit fees also help ensure fees remain fair and equitable. Together, these factors can mitigate the impact of firm size on audit fees.

The Effect of Profitability on Audit Fees

The results show that profitability does not affect audit fees. This indicates that the high or low level of firm profitability does not affect audit fees. This result is in line with the research of Naser and Nuseibeh (2008); Kikhia (2014) found that profitability does not affect audit fees. This is because, from the data collected, the firm's profitability, as measured using ROA, is below 1%, and some companies have negative ROA values. In this case, profitability does not affect audit fees. On the other hand, the auditor's duties mostly stay the same with the company's level of profitability. The auditor's workload is more influenced by the volume of transactions, types of transactions, and accounting policies applied. The auditor is responsible for remaining independent and objective so that fees cannot be determined solely on the size or results of the company's profits. The determination of audit fees is based on the work to be done and the risks faced, so profitability is not the main factor.

The results contradict the signaling theory where firm profitability can affect the number of audit fees because profitability can provide specific signals to auditors regarding the firm's financial condition and management (Abbas et al. 2022; Horvat et al. 2022). The results also contradict agency theory, where the effect of profitability on audit fees according to agency theory can be seen from the fact that companies with low profitability often require more in-depth audits to address financial risks and potential report manipulation so that auditors set higher fees as compensation for the increased risk. In contrast, more profitable companies can have varying fees depending on the flexibility and transparency of their financial statements, thus creating a dynamic between incentives for transparency and the need for tighter supervision (Chow 1982).

The Effect of Audit Firm Size on Audit Fees

The results show that audit firm size positively affects audit fees. This indicates that the larger the audit firm size, the higher the audit fees charged. The results of this study are in line with the results of studies research conducted by Francis (1984); Bae and Lee (2013); Kikhia (2014) state that audit firm size has a positive effect on audit fees. When viewed from the agency theory perspective, this positive influence is considered an offering of more valuable audit services, thereby protecting the company's interests. This is supported by research data showing that public accounting firms in the Big Four category charge higher audit

fees than public accounting firms in the Big Twenty, Non-Big Twenty, and local categories. Likewise, public accounting firms in the Big Twenty category will charge higher audit fees than public accounting firms in the non-Big Twenty and local categories but not higher than those in the Big Four category.

These results are in line with the explanation in signaling theory. According to signaling theory, audit firm size can positively affect audit fees because a large audit firm size is considered a signal of higher quality and better reputation (Bae and Lee 2013; Liu and Subramaniam 2013; Shan, Troshani, and Tarca 2019). Larger audit firms, such as the "Big Four" (Deloitte, PwC, EY, and KPMG) or Indonesian public accounting firms affiliated with foreign public accounting firms in the Big Four category, typically have more significant resources, broader experience, and access to more sophisticated technology. This allows public accounting firms to provide more comprehensive and high-quality audit services. Companies that choose to be audited by large public accounting firms signal to stakeholders that the firm is serious about maintaining the quality and integrity of its financial statements (Shan, Troshani, and Tarca 2019). This can increase the trust of investors, creditors, and other external parties. However, because the public accounting firm chosen is large, has a strong reputation, and provides better services, the public accounting firm tends to charge higher fees than smaller audit firms (Bae and Lee 2013). Therefore, signaling theory explains that there is a positive relationship between audit firm size and audit fees, where companies are willing to pay more to get an audit from a larger public accounting firm because it can provide a positive signal so that the level of trust of external parties to the firm's credibility and financial reputation will increase. This can also impact the increase in the firm's capital obtained from investors and creditors.

The Effect of Audit Tenure on Audit Fees

The results show that audit tenure does not affect audit fees. This indicates that the length of the audit period does not affect audit fees. This study's results align with research conducted by Zielma and Widyawati (2019), which states that audit tenure does not affect audit fees. Audit tenure often only affects audit fees due to various factors. Although auditors working with clients for a long time can increase efficiency through a deeper understanding of the client's business, this efficiency is often offset by increased risks to auditor independence (Rahmina and Agoes 2014; Zielma and Widyawati 2019). Strict regulations and audit standards also require auditors to maintain audit quality, which requires sufficient resource allocation, regardless of the length of the relationship. In addition, according to agency theory, concerns about auditor independence in long-term relationships can cause auditors to keep audit fees stable to maintain their reputation and public trust (Rahmina and Agoes 2014; Gimbar, Hansen, and Ozlanski 2016). Therefore, factors such as business complexity and the risks faced by clients tend to have a more significant influence on audit fees than the length of the relationship between the auditor and the client (Zielma and Widyawati 2019). The existing research data shows that overall, the audit tenure of public accounting firms meets the audit tenure regulation, which is no more than 3 years or three audit processes at the same firm (Rahmina and Agoes 2014; Aly, Diab, and Abdelazim 2023). The public accountant's compliance with applicable regulations is one factor that prevents audit tenure from affecting audit fees. Signaling theory explains that

audit tenure can affect market perceptions of audit quality and auditor independence, impacting audit fees. If a public accounting firm has a long tenure, it can raise concerns about auditor independence (Rahmina and Agoes 2014). A tenure that is too long can give the perception or sign that the auditor is becoming too familiar with the client, so this can reduce the level of objectivity and independence of the auditor, which can have an impact on increasing the risk of fraud in the audit process where the auditor does not report the audit results honestly (Aly, Diab, and Abdelazim 2023). Signaling theory also explains that long audit tenure can also be seen as a positive signal, where the auditor has a deep understanding of the client's business so that they can conduct audits more efficiently and effectively.

CONCLUSIONS

The results of this study indicate that leverage, profitability, and audit tenure do not affect audit fees. Several factors can influence this. Existing research data, the number of companies with low levels of leverage and profitability causes leverage and profitability not to affect audit fees. Compliance of public accounting firms with regulations governing the limits of public accounting firm tenure is also one factor that prevents audit tenure from affecting audit fees. Existing data shows that audit tenure is no more than 3 years or three audit periods. This shows that overall, the tenure of a public accounting firm for a client firm is a maximum of 3 periods so that independence and objectivity will be maintained to produce a quality audit, and the credibility and financial reputation of the firm are maintained. This is what causes audit tenure not to affect audit fees. This study also shows that firm size and audit firm size positively affect audit fees. This means that the larger the firm size and the size of the public accounting firm, the higher the audit fees charged. The larger the firm size, the more complex the firm's operations are, so it requires a more complex and detailed audit process, which will also impact the increase in the audit fees charged. In addition, the larger the size of the public accounting firm, it indicates the public accounting firm has more significant resources, broader experience, and access to more sophisticated technology, which allows the public accounting firm to provide more comprehensive and high-quality audit services, which has an impact on the high audit fees charged to clients.

Although, theoretically, leverage and profitability can affect audit fees, the effect may not be significant, thus indicating the need for a holistic approach that considers the quality of the internal control system and compliance with accounting standards. Companies must control audit costs by considering not only leverage and profitability but also operational complexity and firm size, which can affect audit fees. In addition, companies need to maintain auditor independence while maintaining long-term relationships and ensuring a solid internal control system. The limitation of this study is that the analysis of variables that can affect audit fees needs to consider other factors, such as the industry and geographic location of the firm. Further research can conduct a more in-depth analysis related to the exploration of the influence of other factors, such as corporate culture and the level of industry complexity on audit fees, and longitudinal studies can be conducted to analyze changes in the relationship between factors that affect audit

fees over time, especially in the context of long-term relationships between auditors and clients.

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