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ANALYSIS OF AUDIT QUALITY FACTORS: THE EFFECT OF AUDIT FEES, AUDIT TENURE, PUBLIC ACCOUNTING FIRM SIZE, AND AUDIT COMMITTEES IN MANUFACTURING SECTOR OF THE INDONESIA STOCK EXCHANGE (2018 – 2022)

Mercyana Amelia Putri[1], Novita Weningtyas Respati[2]

[1,2] Program Studi Akuntansi, Universitas Lambung Mangkurat
mrcyanaaml@gmail.com, nwrespati@ulm.ac.id

Corresponding email: mercyanaaml@gmail.com

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ABSTRACT

Audit quality is the auditor's effectiveness in finding and disclosing material inconsistencies in the client's financial statements. Measured by using absolute discretionary accruals. This study aims to empirically test and analyze the effect of audit fees, audit tenure, size of public accounting firm, and audit committees on audit quality in manufacturing sector companies listed on the Indonesia Stock Exchange in 2018-2022. This type of research is quantitative with causality approuch. The study population amounted to 198 with sampling using purposive sampling methods, so that the total sample tested was 335. Statistical tests were carried out using multiple linear regression analyses method using SPSS. The result indicate that audit fees have a positive effect on audit quality, while audit tenure, size of public accounting firm, and audit committee do not have a significant effect on audit quality.

INTRODUCTION

An audit is a practice that plays a vital role in business and financial operations, particularly for companies listed on the Indonesia Stock Exchange. The primary objective of an audit is to ensure that a company's financial statements are accurate, reliable, and compliant with applicable standards. Numerous studies have demonstrated that investors tend to rely on financial statements that have been audited. However, research also shows that audited financial statements are not guaranteed to be free from material misstatement.

Audit quality has become a focal point in both academic and professional discussions, particularly following high-profile corporate scandals such as those involving Enron and WorldCom (Ayedh et al., 2017; El-Dyasty & Elamer, 2021).

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Recently, one of the Big 4 publlic accounting firms, PwC's Australian branch, faced a major scandal related to the leakage of confidential govenrment tax data for business purposes. These incidents have raised public concerns about the quality of audits results.

Audit fees are considered a critical factor that can enhance audit quality by enabling better resource allocation and the implementation of more comprehensive audit procedures (Ahfas et al., 2023; Andriani & Nursiam, 2018). Studies by Andriani & Nursiam (2018) and Ahfas dkk. (2023) suggest that adequate budgets allow auditors to conduct more in-depth testing and and utilize advanced audit technologies, thereby improving audit quality. This perspective is also supported by studies from Hoitash dkk. (2007), Suwarno dkk. (2020), and Yefni & Sari (2021) which asserting that audit fees influence audit quality, with some specifically noting a positive effect. Fitriani, (2019) also believes that audit fees have a positive effect on audit quality. Conversely, other studies from Ananda & Faisal, (2023) report a negative effect, while Suwarno et al., (2020) shows no significant impact of audit fees on audit quality.

There remains a debate regarding the relationship between audit tenure and audit quality. Fitriany et al., (2016) suggests that longer engagements between a public accounting firm or auditor and client lead to a deeper understanding of the client's operations, potentially enhancing audit quality. However, Carcello & Nagy (2004) found that financial reporting fraud is more likely to occur in the first three years of an audit engagement. This highlighting the need to understand the impact of audit tenure on audit quality. Various studies report conflicting findings, Andriani & Nursiam, (2018) and Suwarno et al., (2020) show that audit tenure has no effect on audit quality, while Indriani & Hariadi, (2021) and Ananda & Faisal, (2023) shows empirical evidence that audit tenure has a positive effect on audit quality, even though Wicaksono & Purwanto, (2021), in their study shows that audit tenure has a negative effect on audit quality.

The size of a public accounting firm refers to the scale of the firm auditing a client company (Siahaan & Simanjuntak, 2020). The size of the public accounting firm typically catgorized into Big4 and non-Big4 (Deangelo, 1981). Big4 firms are perceived to have a superior resources and expertise, which may enhance audit quality (Alzoubi, 2018). According to Deangelo (1981), Ali & Aulia (2015), and Ananda & Faisal (2023), in their study, larger firms possess greater financial and human resources, enabling them to deploy superior audit teams. However, studies from Nugroho, (2018), Nurintiati & Purwanto, (2017) found no empirical evidence that size of public accounting firm affects audit quality.

Another significant variable in this context is the audit committtee, which is considered to play a crucial role in enhancing oversight and accountability in the audit process, thereby influencing audit quality. Studies by Ritonga, (2022) and Fitriani, (2019) argue that audit committees have an impact on audit quality. Lailatul & Yanthi, (2021) also proves that audit committee has a positive effect on audit quality. While Edyatami & Sukarmanto, (2020) and Effendy & Ulhaq, (2021) find no significant impact.

Given the ongoing occurrence of audit failures and the incosistent findings of prior research on audit quality, this study aims to re-examines the research by Damayanti & Aufa, (2022). The objective of this study is to investigate the effects of audit fees, audit tenure, the size of public accounting firms, and audit committees on audit quality. The additional factors variables incorporated from previous study are the size of public

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accounting firm and audit committee.

LITERATURE REVIEW

Agency Theory

Agency theory serves as a foundational framework for understanding the dynamics of the relathionship between principals (owners) and agents (management) in modern organizations. According to Jensen & Meckling (1976), this theory describes the contractual relathionship wherein principals delegate corporate governance responsibilities to agents. Agency problems emerge due to conflicting interests between the two parties, which can affect the quality of information presented by agents to principals.

In the context of agency theory, audit quality is a critical factor related to the auditor's role in mitigating conflicts of interest between principals and agents. External auditors help diminish information asymmetry by ensuring that financial statements prepared can be trusted by the company's owner. This underscores the importance of audit quality, where auditors are expected to maintain independence and conduct audits with integrity (Panjaitan & Chariri, 2014; Nurintiati & Purwanto, 2017).

Audit Quality

Audit quality refers to the auditor's effectiveness in detecting and disclosing material misstatements in a client's financial statements (Ananda & Faisal, 2023; Edyatami & Sukarmanto, 2020). An audit is deemed high quality if its procedures comply with applicable audit standards and ethical codes (Novrilia et al., 2019). Adopting the measurement used by Ananda & Faisal (2023), audit quality is assessed by using the absolute discretionary accruals model by Kaznik (Kasznik, 1999; Fitriany et al., 2016; Oktavia & Ermian Challen, 2022). Discretionary accruals stem from management's discretion, while non-discretionary accruals depend on the company's operational activities (Kasznik, 1999).

There is an inverse relationship between discretionary accruals and audit quality. Disretionary accruals values close to zero indicate the absence of earnings management, meaning the reported earnings accurately reflect the company's financial condition and operational performance. This signifiles excellent audit quality, as auditor effectively detects and reports misstatements in the financial statements (Dechow et al., 1995). Positive disccretionary accrual values suggest earnings management aimed at inflating profits (income increasing). The larger the positive discretionary accrual value (further from zero), the greater the extent of earnings management, indicating poorer audit quality. Conversely, negative discretionary accrual values indicate earnings management aimed at reducing profits (income decreasing). The larger the negative discretionary accrual value, the greater the earnings management, which also reflects lower audit quality (Becker et al., 1998; Dechow et al., 1995; Krishnan, 2003)

Audit Fees

Audit fees represent the compensation received by auditors based on agreements

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for performing audit services (Ahfas et al., 2023). Research by N. Andriani & Nursiam, (2018); Yefni & Sari, (2021) indicates that audit fees influence audit quality. Higher audit fees increase the likelihood of improved audit quality. With adequate budgets, auditors can plan and execute more comprehensive audit procedures (Ahfas et al., 2023). By implementing thorough audit procedures, auditors enhance their ability to identify potential fraud or material misstatements in client's financial statement, thereby strengthening audit quality. This is supported by several studies from Andriani & Nursiam (2018), Yefni & Sari (2021), Indriyani & Meini (2021).

H1: Audit fees have a positive effect on audit quality

Audit Tenure

Audit tenure refers to the duration of an audit engagement between an auditor (firm) and a client company on a continuous basis (Oktavia & Ermian Challen, 2022). Longer audit tenure is associated with higher audit quality. Auditors with extended engagements tend to develop a deeper understanding of the client's operations and business environment. This knowledge provides an advantage in assessing risks, performing audit procedures, and evaluating financial information. With such understanding, auditors can more effectively identify potential fraud or material misstatements in the company's financial statements, which is expected to enhance overall audit quality. Longer tenure enables auditors to assess risks, execute audit procedures, and evaluate financial information more effectively, contributing to improved audit quality. This aligns with study by (Fitriany et al., 2016), Nugroho, (2018) and Ananda & Faisal, (2023), indicating a positive effect of audit tenure on audit quality.

H2: Audit tenure has a positive effect on audit quality

Ukuran KAP

Public accounting firms (KAP) are classified into two categories based on their size: Big 4 and non-Big 4. According to Deangelo, (1981), Audit quality can be influenced by the size of the firm conducting the audit procedures. Big 4 firms are considered to have superior resources and a broader client portfolio compared to non-Big 4 firms, motivating them to deliver higher audit quality (Alzoubi, 2018). With greater resources and extensive client portfolios, Big 4 firms can implement more comprehensive audit procedures and are generally more efficient in addressing audit risks. This is consistent with study by Deangelo (1981), Alzoubi (2018) Ananda & Faisal, (2023) and F. Andriani et al., (2020) suggesting that size of public accounting firm affects audit quality.

H3: Size of public accounting firm has a possitive effect on audit quality

Audit Committee

The audit committee, as defined by the Indonesian Institute of Certified Public Accountants (IKAI), is a competent and independent body supported by the board of commissioners to oversee financial reporting procedures, risk management, audit implementation, and good governance practices within a company (Ritonga, 2022). Regulation BAPEPAM No. KEP-642/BL/2012 emphasizes the critical role of audit committees in assisting the board of commissioners in overseeing issuers. The presence

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of an audit committee is expected to enhance oversight of management performance, provide accurate information, and support the board of commissioners in analyzing financial statements (Ritonga, 2022). Research also indicates that audit committees with above-standard membership and expertise in accounting and finance can strengthen audit quality and support accountable audit processes (Winda L. & Sudjiman, 2022). This is supported by studies from Effendy & Ulhaq (2021), Lailatul & Yanthi (2021), and Ritonga (2022), that show a positive effect of audit committees on audit quality

H4: Audit committees have a positive effect on audit quality

RESEARCH METHOD

This study employs a quantitative research design with a causality approach. The population consists of companies listed on the Indonesia Stock Exchange (BEI) from 2018 to 2022, totaling 198 companies. Sampling was conducted using purposive sampling with the following criteria: (1) Manufacturing companies listed on the BEI from 2018 to 2022; (2) Manufacturing companies not delisted from the BEI during 2018–2022; (3) Availability of annual reports on the BEI website and/or the company's official website consistently during 2018–2022; (4) Manufacturing companies disclosing all required variable data during 2018–2022; (5) Manufacturing companies presenting annual reports in Indonesian Rupiah (IDR). Based on these criteria, 67 companies were selected for analysis over a 5-year observation period, resulting in a total of 335 samples.

The research variables, operational definitions, and variable measurements are presented in Table 1. Data collection was conducted using documentation techniques, sourced from Indonesia Stock Exchange official website (www.idx.co.id).

Table 1. Operational Definitions of Variables

Definition	Measurement	Reference
Audit fees are the compensation received by auditors based on agreed-upon terms for performing audit tasks (Ahfas et al., 2023).	Ln (*Professional fees*)	Ananda & Faisal (2023)
Audit tenure is the continuous period during which an auditor conducts audits for a client company (Oktavia & Ermian Challen, 2022).	Number of yearsthe auditor has been engaged, starting with 1 for the initial engagement and increasing by 1 for each subsequent year	Suwarno dkk. (2020)
Size of a public accounting firm is defined as the scale of the firm auditing the client company (Siahaan & Simanjuntak, 2020).	Dummy Variable (1 if the public accounting firm is affiliated with Big4, 0 otherwise)	Hartono & Laksito (2022)

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The audit committee, as defined by IKAI, is an independent body established to assist the board of commissioners in performing oversight functions (Ritonga, 2022).	(Number of external audit committee members/total audit committee members) x 100%	Ritonga, (2022)
Audit quality is the auditor's effectiveness in detecting and disclosing material misstatements in the client's financial statement (Ananda & Faisal, 2023; Edyatami & Sukarmanto, 2020).	Absolute Discretionary Accruals	Ananda & Faisal (2023)

Statistical tests were used to examine and analyze the effects of audit fees, audit tenure, size of public accounting firm, and audit committees on audit quality. Multiple linear regression was employed for hypothesis testing. Classical assumption tests included normality tests using non-parametric Kolmogorov-Smirnov tests, multicollinearity tests by examining tolerance and variance inflation factor (VIF) values, heteroskedasticity tests using the Glejser test, and autocorrelation tests using non-parametric run tests.

The multiple lineaar regression model used is as follows:

$$ABDAC = \alpha + \beta 1FA + \beta 2ATEN + \beta 3UKAP + \beta 4COMA + e$$

Where:
ABDAC = Audit Quality (absolute discretionary accruals)
α = Constant
$\beta 1, \beta 2, \beta 3, \beta 4$ = Regression coefficient
FA = Audit Fees
ATEN = Audit Tenure
UKAP = Size of public accounting firm
COMA = Audit Committee
e = Standard (error), set at 0,05

RESEARCH RESULTS AND DISCUSSION

The population of this study consists of 198 manufacturing companies listed on the BEI from 2018 to 2022. Sample selection was conducted using purposive sampling. Based on the predetermined criteria, 67 companies met the requirements. Over the 5-year research period, the total sample size was 335. Table 2 presents the sample selection based on the established criteria.

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Table 2. Sample Selection

No	Criteria	2018-2022
1	Manufacturing companies listed on the BEI from 2018-2022	198
2	Manufacturing companies delisted from the BEI during 2018-2022	(39)
3	Annual reports unavailable on the BEI website and/or the company's official website consistently during 2018-2022	(10)
4	Manufacturing companies not disclosing all required variable data consistently	(58)
5	Manufacturing companies presenting annual reports in currencies other than IDR (rupiah)	(24)
Total sample companies		67
Total sample companies over 5 years		335

The descriptive statistical test results in Table 3 below provide the description of the number of data points, minimum values, maximum values, means, and standard deviations of the variables studied.

Table 3. Descriptive Statistical Test

	N	MIN	MAX	MEAN	Std. Dev
FA	295	18,770	25,675	22,130	1,687
ATEN	295	1,000	5,000	2,691	1,405
UKAP	295	0,000	1,000	0,362	0,481
COMA	295	0,500	1,000	0,663	0,040
KA	295	-0,183	0,240	0,025	0,067

Source: SPSS 29 Output Data, 2024

Classical assumption tests included normality, multicollinearity, heteroskedasticity, and autocorrelation tests. Tabel 4 shows the normality test using the non-parametric 1-sample Kolmogorov Smirnov. Initial tests indicated that residual data were not normally distributed, so 40 outlier data were removerd to address this issue. This resulted in normally distributed data, with a final sample size of 295. The third-stage normality test showed a Kolmogorov-Smirnov significance value of 0,200, greater than 0,05, indicating normally distributed data (Ghozali, 2018).

Table 4. Kolmogorov-Smirnov Test

		Unstandardized Residual
N		295
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.06616579
Most Extreme	Absolute	.045

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Differences	Positive	.035
	Negative	-.045
Test Statistic		.045
Asymp. Sig. (2-tailed)[c]		.200[d]

Source: SPSS 29 Output Data, 2024

The multicollinearity test results in Table 5 show VIF values < 10 and tolerance values ≥ 0.10 for all variables, meeting the multicollinearity test requirements (Ghozali, 2018).

Table 5. Multicollinearity Tests

Independen Variable	Tolerance	VIF
FA	0,876	1.479
ATEN	0,998	1.006
UKAP	0,885	1.481
COMA	0,979	1.009

Source: SPSS 29 Output Data, 2024

Table 6 presents the heteroskedasticity test results. The test was conducted by transforming residual values into absolute residuals and regressing them. The results show that the significance values of all independent variables are > 0,05, indicating no heteroskedasticity (Ghozali, 2018).

Table 6. Heteroskedasticity Tests

	Model	Sig.
1	(Constant)	.791
	FA	.968
	ATEN	.650
	UKAP	.289
	COMA	.947

a. Dependent Variable: ABSRES3

Source: SPSS 29 Output Data, 2024

Table 7 displays the autocorrelation test results using the non-parametric run test. The results indicate no autocorrelation, with an Asymp. Sig. (2-tailed) value of 0,145, greater than 0,05.

Table 7. Autocorrelation Tests

	Unstandardized Residual
Test Value[a]	.00274
Cases < Test Value	147
Cases >= Test Value	148
Total Cases	295
Number of Runs	136

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Z	-1.458
Asymp. Sig. (2-tailed)	.145
a. Median	

Source: SPSS 29 Output Data, 2024

Table 8 presents the F-test results (model feasibility). The F-test shows a probability value of 0,013, which is less than 0,05, indicating that the regression model meets the model feasibility assumptions.

Table 8. F-Test for Model Feasibility

Model		Sum of Squares	Df	Mean Square	F	Sig.	Conclusion
1	Regression	.057	4	.014	3.211	.013[b]	Accepted
	Residual	1.287	290	.004			
	Total	1.344	294				
a. Dependent Variable: KA							
b. Predictors: (Constant), COMA, ATEN, UKAP, FA							

Source: SPSS 29 Output Data, 2024

Coefficient of Determination

The coefficient of determination test is shown in Table 9. The standard measurement for the coefficient of determination ranges between 0 and 1. Table 9 displays an Adjusted R^2 value of 0,029, indicating that the independent variables explain 2,9% of the variation in the dependent variable, while 97,1% is explained by other factors outside the independent variables not included in the research model. The hypothesis test results are presented in Table 10.

Table 9. Coefficient of Determination Test ($R^{2)}$

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.206[a]	.042	.029	.066620547310862

Source: SPSS 29 Output Data, 2024

Table 10. Hypothesis Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Conclusion
		B	Std. Error	Beta			
1	(Constant)	-.375	.418		-.896	.371	
	FA	.007	.002	.185	3.009	.003	Hypothesis Accepted
	ATEN	-.005	.003	-.097	-1.682	.094	Hyphotesis Rejected

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UKAP	-.013	.009	-.094	-1.546	.123	Hyphotesis Rejected
COMA	.004	.006	.035	.603	.547	Hyphotesis Rejected

Source: SPSS 29 Output Data, 2024

Effect of Audit Fees on Audit Quality

The research findings confirm that audit fees have a positive effect on audit quality. This is supported by empirical evidence showing a beta coefficient of 0,007 with a significance value of 0,003, which is less than 0,05. The results indicate that higher audit fees increase the likelihood of improved audit quality. Higher audit fees provide economic incentives for auditors to allocate more resources, such as extended audit time, additional audit staff, and more in-depth audit procedures. With adequate budgets, auditors can plan and execute more comprehensive audit procedures (Ahfas et al., 2023). Sufficient resources enable auditors to conduct audits more thoroughly and detect potential material misstatements in financial statements more effectively, thereby enhancing the quality of the audit performed.

The Indonesian Institute of Certified Public Accountants (IAPI) issued Decision Letter No. KEP.024/IAPI/VII/2008, which regulates the policy for determining audit fees. In setting audit fees, public accountants consider factors such as client needs, legal responsibilities, independence, expertise and responsibility levels, the complexity of the work, and the time required to complete the engagement. These findings are particularly relevant for the manufacturing sector selected for this study. The manufacturing sector generally involves high operational and transactional complexity, such as inventory calculations, fixed asset depreciation, and revenue recognition from product sales. This complexity requires auditors to perform more in-depth audit procedures and allocate greater resources (Amelia et al., 2022).

Effect of Audit Tenure on Audit Quality

The second hypothesis test shows a beta coefficient of -0,005 with a significance value of 0,094, which is greater than 0,05. Empirical evidence indicates that audit tenure does not have a significant effect on audit quality. Regulations regarding the duration of engagements for public accounting firms (KAP) and auditors are stipulated in the Minister of Finance Decree No. 423/KMK.06/2002 on Public Accounting Services, which limits a KAP to auditing the same company for a maximum of five consecutive years, with auditors required to be replaced after three consecutive years, as stated in Financial Services Authority (OJK) Regulation No. 13/POJK.03/2017 on the Use of Public Accountants and Public Accounting Firms.

Empirical evidence shows that most companies in the sample have relatively short audit tenures, ranging from 1 to 3 years. Approximately 68,5% of companies have an auditor engagement period of three years or less, while only 31,5% have audit tenures exceeding three years, with 16,9% in the fourth year and 14,6% in the fifth year.

The weighted average audit tenure of 2,69 years indicates that, generally, companies in the sample tend to have short to medium audit tenures. This average is

close to three years, suggesting that most companies engage a new KAP after approximately three years of engagement.

Effect of Size of Public Accounting Firm (KAP) on Audit Quality

The third hypothesis test shows a beta coefficient of -0,013 with a significance value of 0,123. The research findings indicate that KAP size (Big 4 vs. non-Big 4) does not have a positive effect on audit quality.

Empirical data reveal that 63,7% of the 295 samples, or 188 companies, used audit services from Big 4 KAPs. The remaining 107 companies (36,3%) used non-Big 4 KAPs, but the results do not indicate that KAP size influences audit quality.

The lack of influence of KAP size on audit quality is likely due to both large and small KAPs having adequate policies and procedures to ensure audit quality, making KAP size less of a determining factor. Additionally, both large and small KAPs conduct audits based on Audit Standards and the Public Accountant Professional Code of Ethics. The responsibility of KAPs for quality control systems in assurance engagements, including audits, reviews, and other assurance services, is also regulated by the Quality Control System (SPM) established by the Indonesian Institute of Certified Public Accountants (IAPI).

Effect of Audit Committee on Audit Quality

The fourth hypothesis test shows a beta coefficient of 0,004 with a significance value of 0,547. The research findings indicate that audit committees do not have a significant effect on audit quality.

Data Empirical data show that companies comply with regulations from the Capital Market and Financial Institution Supervisory Agency (BAPEPAM-LK), which mandates that all publicly listed companies must have an audit committee. Overall, companies also comply with Financial Services Authority Regulation No. 55/POJK.04/2015 regarding the minimum number of audit committee members.

The lack of influence of audit committees on audit quality may be attributed to several factors. During the audit process, the role and authority of audit committees may be limited in practice. First, while audit committees are responsible for advising on the appointment of public accountants and ensuring the audit process adheres to standards, the effectiveness of this role depends heavily on the competence and independence of committee members. If committee members lack a deep understanding of the audit process or are insufficiently independent, they may not provide appropriate advice or perform effective oversight. Additionally, pressure from management, particularly senior executives, may pose significant obstacles to the effectiveness of audit committees. Management may have interests that conflict with the independence of the audit committee.

CONCLUSION

The research findings confirm that audit fees have a positive effect on audit quality. However, audit tenure, KAP size, and audit committees do not significantly influence audit quality. The results suggest that manufacturing companies may benefit from

focusing on auditors' industry specialization and experience rather than KAP size or the duration of KAP engagements.

The low coefficient of determination indicates significant limitations in the research model. The sample companies come from diverse sub-sectors, which may contribute to the low coefficient of determination, as the model fails to capture all existing variability. The proxy for audit fees, using professional fees from financial statements, does not fully represent the actual costs incurred by companies for audit services, as it includes various fees for other professional services.

Based on these limitations, future research could consider including variables such as auditor industry specialization and auditor experience. Future studies may also focus on specific sectors rather than including diverse sub-sectors. The proxy for audit fee data could use audit fees disclosed in annual reports for more accurate data collection.

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