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## Does audit fee stickiness and audit quality are reciprocal?

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### ABSTRACT

This study examines the relationship between audit fee stickiness and audit quality to determine whether they mutually affect each other. Using panel data and fixed-effects as well as common-effects regression methods, the study evaluates how total assets, leverage, audit changes, and the Covid-19 pandemic influence both variables. This methodology was chosen for its ability to control for individual differences and handle panel data, allowing for a more accurate analysis of the relationship between audit fee rigidity and audit quality. The main findings show that total assets and audit changes have a significant positive effect on audit fee stickiness, while the Covid-19 pandemic does not significantly affect audit fee stickiness. Additionally, total assets and leverage have a significant positive impact on audit quality, whereas audit changes do not influence audit quality and the Covid-19 pandemic actually improves audit quality. Although audit fee stickiness contributes to the enhancement of audit quality, audit quality does not have a significant effect on audit fee stickiness, indicating that there is no reciprocal relationship between the two. The study suggests the need for adjustments in the audit fee setting mechanism to ensure that audit quality is maintained optimally without being influenced by fee rigidity.



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## Introduction

Audit plays an important role in maintaining the integrity of the company's financial statements, ensuring that the information presented is accurate, transparent, and in accordance with applicable accounting standards (Utami et al., 2024). A quality audit process can detect errors or potential fraud, providing assurance that the financial statements reflect the true financial condition of the company (Grigoras-Ichim et al., 2024). This is important because the trust of investors and stakeholders depends on the validity of the financial information they use to make decisions. With an independent and objective audit, a company can increase its credibility, which in turn strengthens relationships with shareholders and improves access to capital (Mulyana et al., 2024).

Audit fee stickiness is a phenomenon in which audit fees do not change proportionally, despite changes in audit complexity or client financial condition (Biswas, 2021); (Ibrahim et al., 2022). This means that audit fees tend to remain fixed or only experience minimal changes, even though the auditor's risk or workload increases or decreases. The cause of audit fee rigidity may be due to the long-term relationship between auditors and clients, where auditors tend to maintain certain rates to maintain business relationships (Harjanto et al., 2024). In addition, bargaining power between auditors and clients also affects; if clients have greater bargaining power,

they can suppress audit fees from rising, while auditors may be willing to lower fees to maintain long-term contracts (Karampinis, 2024).

Audit quality refers to the level of reliability and accuracy achieved in the audit process, which is usually measured through several common indicators such as auditor thoroughness in examining financial statements, auditor independence from the influence of interested parties, and compliance with accounting standards and applicable regulations (Purba & Umar, 2021); (Rya Aristia Lestari, 2023). Thoroughness ensures that every aspect of the financial statements is examined in depth, while independence avoids potential conflicts of interest that could affect auditor objectivity (Hapipah & Susilawati, 2023). The importance of maintaining high audit quality is to prevent errors, both accidental and caused by manipulation, which can damage public, investor, and stakeholder confidence in the Company (Wahyuni, 2022). A well-audited financial report provides assurance that the information presented is valid and can be used as a basis for making business decisions (Ezuwore & Agbo, 2020); (Tjeng & Nopianti, 2021).

Previous theory and research results show that the relationship between the amount of audit fees and audit quality is not always linear or direct (Dewita & Erinos, 2023); (Lailatul & Yanthi, 2021); (Kuntari et al., 2017). Some studies indicate that an increase in audit fees may contribute to an increase in audit quality because auditors have more resources to conduct a more in-depth and thorough examination. However, there are also studies that show that after reaching a certain level, an increase in audit fees is not always directly proportional to an increase in audit quality (Agustini, 2020). Factors such as effectiveness and efficiency in the use of audit resources, as well as the level of auditor experience and competence, may influence the extent to which additional fees contribute to quality improvement. Moreover, in some cases, high audit fees may not reflect better quality if the audit is not conducted with sufficient rigour and compliance. Therefore, it is important to consider that audit fees are only one of many factors that affect audit quality, and the relationship between the two may vary depending on the specific context and characteristics of the audit being performed.

Audit fee stickiness refers to the tendency of auditors to keep their audit rates at the same level despite changes in audit complexity. If auditors are reluctant to adjust their rates despite facing more complex audits, this may reduce audit quality as auditors may be forced to complete the work in less time or with limited resources. On the other hand, long-term relationships between auditors and clients, which often contribute to fee stickiness, can have a positive impact on audit quality. Over time, auditors who continuously work with a particular client may gain a deeper understanding of the company's operations and risks, allowing them to make more accurate judgements and provide more relevant recommendations. Thus, although fee stickiness can potentially reduce audit quality in certain situations, the long-term relationships created can help improve audit quality through a deeper understanding and broader experience with the client.

The topic of audit fee stickiness and its impact on audit quality is highly relevant in the context of today's business world, where companies face an increasingly dynamic business environment and increasingly stringent regulations. In this situation, maintaining audit quality is crucial to ensure regulatory compliance and increase stakeholder confidence. Audit fee stickiness can affect audit quality because a fixed rate despite increasing audit complexity can result in a decrease in quality. An existing research gap lies in understanding whether the relationship between audit fee stickiness and audit quality is reciprocal, where fee stickiness may affect audit quality and vice versa. Further exploring this relationship is critical, as it may provide additional insights into how to manage audit fees and improve audit practices amidst changing regulations and increasingly complex business demands.

The purpose of this study is to explore the relationship between audit fee stickiness and audit quality in the context of a dynamic business environment and strict regulation. This study aims to understand whether audit fee stickiness affects the quality of audits provided by auditors, as well as vice versa, whether audit quality can affect the level of fee stickiness. By identifying and analysing the reciprocal relationship between these two variables, this study seeks to provide greater insight into the impact of fee stickiness on audit practice and audit service quality. In addition, this study aims to fill the existing research gaps in the current literature and provide relevant recommendations for practitioners and policy makers to improve audit fee management and audit quality standards amidst changing regulations and increasingly complex market demands.

### **Agency Theory**

Agency problems occur because of a mismatch of interests between shareholders and managers. The implication of the agency problem is that managers engage in business empire building activities, for example, growing the size of the company beyond its optimal limit. The size of the company is used to maintain status, power, compensation, and prestige (Chen et al., 2012; Hope & Thomas, 2008; Jensen, 1986; Masulis et al., 2007; Stulz, 1990). Previous studies have documented that managers with empire-building tendencies tend to add excess resources when sales increase and, moderately, firms are unable to reduce unused resources when demand falls,

this will result in rigidity of audit fees (Banker et al., 2018; Chen et al., 2012). (Chen et al., 2012) documented a positive relationship between agency problems and audit fee stickiness. Self-serving managers may be less tempted to dispose of unused resources, because decisions like this reduce their opportunity to maximize personal gain. One way to reduce agency conflicts is to convey information on company performance in the form of reports to all stakeholders in the form of reliable and trustworthy financial reports and involve external auditors for transparency and fairness.

Audit has important economic purposes and plays an important role in serving the public interest to increase accountability and build confidence in financial reporting. Thus, the audit increases economic welfare, expands the variety, quantity and value of transactions that people want to do. However, in recent years, following corporate scandals, we have witnessed a global demand for increased audit quality. The simple representation model shows that due to information asymmetry and self-interest, economic actors have no reason to trust their agents and will try to solve the problem. By implementing mechanisms to align the interests of agents with those of principals, this reduces the possibility of information asymmetry and opportunistic behavior. Differences in motives and information asymmetry raise concerns about the reliability of information, which impacts on the level of trust managers have in their agents. The simplest agent model assumes that there are no trusted agents and if trusted agents develop at the expense of fiduciaries, then it will. This ignores the possibility that some agents are genuinely trustworthy and will work in the interests of the principal, whether or not their performance is monitored and their results measured. Therefore, the level of suspicion is a key factor in determining the extent to which incentive and control mechanisms are applied (Audit Quality Forum, 2005).

#### **Effect of Total Assets on Audit Fee Stickiness**

Many authors such as (Calleja et al., 2006) have tested firm size (total assets), with the assumption that large firms may experience audit fee rigidity. In a case study from Australia, (Bugeja et al., 2015) found that the size of Australian firms is consistent with the level of audit fee stickiness. However, (Walid, 2021) shows that company size has no effect on Audit Fee Stickiness. (Cullinan et al., 2016) found a non-linear relationship between client size and audit fees. The size of company assets that are considered more complex tends not to follow the traditional log transformation because the presence of these assets has a stronger relationship with audit fees. Referring to the results of this study, the researcher made the following hypothesis

Ho1: There is no effect of Total Asset on Audit Fee Stickiness Ha1 There is an effect of Total Asset on Audit Fee Stickiness

#### **Effect of Leverage on Audit Fee Stickiness**

Previous research by (Cullinan et al., 2016), (Abu-Serdaneh, 2014) explained that leverage has an influence on the level of audit fee stickiness. (Dhaliwal et al., 2008) investigates the relationship between total auditor fees and corporate debt. The results of his research found that the relationship between income and the cost of debt decreased as audit fees increased. In addition, (Dhaliwal et al., 2008) also found evidence that auditor fees directly affect debt in non-investment grade companies. Based on the results of this study, the researchers made the following hypothesis

Ho2: There is no effect of Leverage on Audit Fee Stickiness Ha2 There is a Leverage effect on Audit Fee Stickiness

#### **Effect of Audit Changes on Audit Fee Stickiness**

(Kamarudin et al., 2022) found that auditor turnover has a decreasing effect on audit fees. (Kamarudin et al., 2022) also found that companies from developing countries with mandatory audit office rotation requirements and strong auditing and reporting standards had higher audit fees than companies from countries with weak auditing and reporting standards and no mandatory office rotation requirements. audits. (Deis Jr & Giroux, 1996) explained that research on auditor turnover on audit fees so far has consistently shown that independent auditor turnover is associated with reduced audit fees (DeAngelo, 1981). Although the cost for the initial audit assignment is lower, this theory states that product quality will be maintained (Klein & Leffler, 1981). However, this theory has been slow to develop due to a lack of adequate information about auditor effort and audit quality. Most independent audit fee studies lack data on audit hours or the assignment of specific audit quality measures. Based on the results of this study, the researchers made the following hypothesis:

Ho3: There is no effect of Audit Changes on Audit Fee Stickiness Ha3 There is an influence of Audit Changes on Audit Fee Stickiness

#### **Effect of the Covid-19 Pandemic on Audit Fee Stickiness**

(Pesudo et al., 2023) explains that the impact of the Covid-19 pandemic is not only related to the company's financial position, but also related to the company's decision to disclose financial information to the public. In disclosing financial information, a company's financial statements must be audited by a public

accountant/auditor to ensure that the company's financial statements comply with financial accounting standards. However, the Association of Chartered Certified Accountants (2020) explained that during the Covid-19 pandemic, the process of auditing financial statements was quite difficult because of the social distance policy so that auditors could not conduct audits at client locations. The entire audit process is carried out using technology and remotely from the client's location so that it can affect audit quality during the Covid-19 pandemic. In addition, (Albitar et al., 2020) also stated that the financial instability experienced by companies during the Covid-19 pandemic affected company liquidity, risk and performance, thereby affecting company financial performance, company audit fees. Therefore, companies experiencing financial difficulties will tend to look for auditors who provide audit services at the lowest cost. Based on the results of this study, the researchers made the following hypothesis:

Ho4: There is no effect of the Covid-19 Pandemic on Audit Fee Stickiness Ha4 There is an influence of the Covid-19 Pandemic on Audit Fee Stickiness

#### **Effect of Total Assets on Audit Quality**

(Farid & Baradja, 2022) explain that company size is also considered a factor affecting audit quality. In order for the company size to continue to grow and of course wealth to increase, the KAP chosen to audit the company is also determined to have a better reputation and higher audit fees to achieve the goal. better audit quality. compared to small businesses. In addition, small businesses also often choose smaller KAPs to audit their business in order to reduce costs, even though in terms of quality they will not be better than larger and more prestigious KAPs. Buchori & Budiantoro (2019) in their research shows that company size has a significant and positive influence on audit quality. In other words, if the size of the company increases, it means that the company's internal control will also be better and can encourage an increase in audit results, because the auditor is more flexible in acting, checking and knowing the information contained therein. Referring to the results of this study, the researcher made the following hypothesis

Ho5: There is no effect of Total Assets on Audit Quality Ha5 There is an influence of Total Assets on Audit Quality

#### **Effect of Leverage on Audit Quality**

(Alshouha et al., 2022) explains that among the things discussed in agency theory is the issue of conflict of interest that occurs between two major parties, namely shareholders and debt holders and conflict will lead to the transfer of wealth from debt holders to shareholders. Ownership of a company characterized by a large amount of leverage will put more pressure on management to demand better audit quality so that information asymmetry can be reduced, besides that it will also produce high quality financial reports. Managers employ high-quality auditors as a way to prove their integrity for companies with large amounts of (Alshouha et al., 2022). Furthermore, (Alzeaideen & Al, 2018) also explained that company leverage has a significant positive effect on audit quality in companies listed on the Amman Stock Exchange. Based on the results of this study, the researchers made the following hypothesis

Ho6: There is no influence of Leverage on Audit Quality Ha6 There is an effect of Leverage on Audit Quality

#### **Effect of Audit Changes on Audit Quality**

(Cassell et al., 2020) found that audit quality was not lower for companies that hired new auditors before the end of the third fiscal quarter than for companies that did not change auditors. However, firms that engaged a new auditor during or after the fourth fiscal quarter were more likely to misstate their audited financial statements than firms that employed a new auditor earlier in the year and firms that did not change auditors. (Cassell et al., 2020) also found that the decline in audit quality associated with late auditor turnover was more pronounced in firms with complex operations (i.e., more operating segments). These results suggest that the extent to which audit quality declines in the first year of an audit engagement is influenced by both the amount of time required to understand the client's business, assess risk and perform the audit (all of which are driven by client complexity), as well as the amount of time available to auditors to perform their duties. Based on the results of this study, the researchers made the following hypothesis:

Ho7: There is no effect of Audit Changes on Audit Quality Ha7 There is an influence of Audit Changes on Audit Quality

#### **Effect of the Covid-19 Pandemic on Audit Quality**

Audit quality is the conformity between the audit process carried out and the applicable auditing standards (Khasanah & Suryatimur, 2021). (D. Samosir, 2016) explained that audit quality is the auditor's ability to detect violations or errors related to client non-compliance with the accounting system. (Akrimi, 2021) explained that audit quality could have decreased during the Covid-19 pandemic. The Covid-19 pandemic has had a negative impact on the quality of financial report audits due to periodic social restrictions. Budiandru (2022) argues that

the working mechanism of auditors has changed during the Covid-19 pandemic. Auditors cannot conduct audits directly on clients, but instead conduct remote audits or remote audit processes using technology. The remote audit process carried out by the auditor will prevent the auditor from carrying out several audit procedures. even if audit risk is likely to increase. Based on the results of this study, the researchers made the following hypothesis:

Ho8: There is no influence of the Covid-19 Pandemic on Audit Quality Ha8 There is an influence of the Covid-19 Pandemic on Audit Quality

#### Effect of Fee Stickiness Audit on Audit Quality

Chang et al (2019) tested how the rigidity of audit fees varies with changes in market competition in China and its effect on audit quality. The structure of the Chinese audit market has changed significantly since the Chinese Institute of Certified Public Accountants (CICPA) issued a proposal to improve the competitiveness of large domestic audit firms by promoting the consolidation of domestic audit firms in 2007. more dominated by the top 10 domestic auditors. In addition, Chang et al (2019) found that upward (downward) cost rigidity has a negative (positive) relationship with audit quality as measured by earnings management and auditor reporting conservatism. Furthermore, in Aljaaidi's research, et al (2021) it is explained that there is a significant positive relationship between the rigidity of audit fees and audit quality for the period before and after the selection of a new auditor, in The Gulf Cooperation Council companies. Based on the results of this study, the researchers made the following hypothesis:

Ho9: There is no effect of Audit Fee Stickiness on Audit Quality Ha9 There is an effect of Audit Fee Stickiness on Audit Quality

#### There is an influence of Audit Quality on Audit Fee Stickiness

(Cao et al., 2022) explain in their research that it shows that cost rigidity can be reduced by improving corporate governance and audit quality. The results of this study also add to the literature that examines the influencing factors and mechanisms of cost stickiness. (Cao et al., 2022) used data on manufacturing companies in China from 2013 to 2019 to test external audit quality against cost stickiness. Further research by (Salehi et al., 2019) There are several studies on the rigidity and changes in audit fees. In previous research, researchers focused on cost behavior, which is expected to change in the short run, regardless of the fixation of costs and the likelihood of their changes. In this study, the authors investigate the rigidity of audit fees and the factors that influence them, particularly audit quality and financial crises in developing countries. The findings show that there is no significant relationship between audit quality and audit fee rigidity. The author also finds that the financial crisis has no impact on the relationship between audit quality and audit fee rigidity. Based on the results of this study, the researcher makes the following hypothesis:

Ho10 There is no effect of audit quality on audit fee stickiness

Ha10 There is an influence of Audit Quality on Audit Fee Stickiness

#### Hypothesis Framework

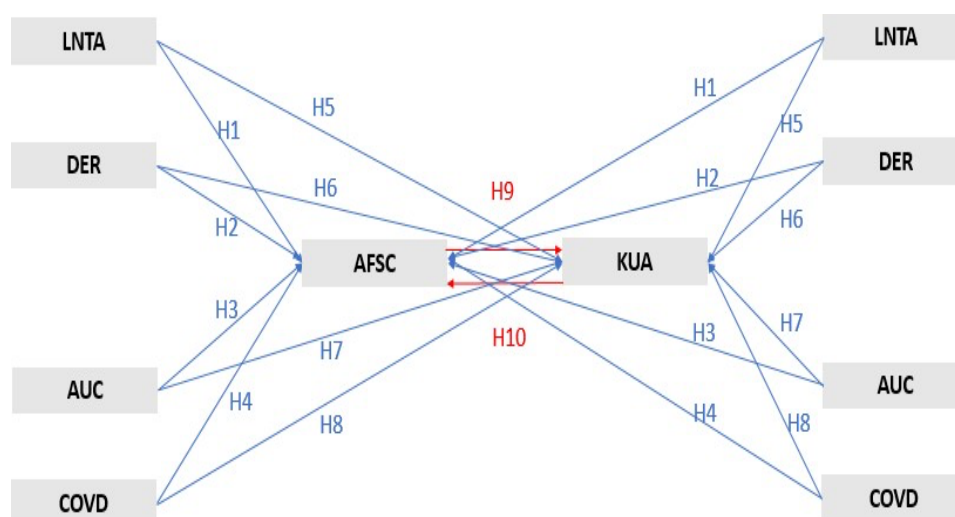


Figure 1. Hypothesis Framework

## Method

### Research Design

The use of quantitative methods with a panel data regression approach in this study is very appropriate, especially since the sample used is companies listed on the LQ45 index, which includes large companies with high liquidity and significant market capitalisation. The panel data regression method allows for more in-depth analysis as it incorporates both time-series and cross-sectional variation, which is important in capturing the dynamics of changes in audit fee stickiness and audit quality in large companies such as those listed on the LQ45. LQ45 companies generally have higher operational complexity and are often audited by large public accounting firms (KAP), so fluctuations in audit fees and audit quality are important factors to study over the long term. Panel data regression allows researchers to control for inter-firm heterogeneity factors, such as unique firm characteristics that may not be measured, which is particularly relevant in the context of these large firms. In addition, this approach is able to capture the effects of external variables such as the COVID-19 pandemic or auditor changes more efficiently through the use of dummy variables. Compared to other methods, panel data regression produces more accurate and generalisable results as it considers complex inter-temporal and inter-entity variations, which are relevant for large companies in LQ45. The research population uses companies listed successively on the LQ45 index of the Indonesian Stock Exchange. The data used is secondary data sourced from the company's annual report. The independent research variables used are Total Assets, Leverage, Audit Change, Covid-19. Then the intervening variable and the dependent variable of the research are Audit Fee Stickiness and Audit Quality.

### Measurement Variable

The measurement of the independent research variables is explained in detail as follows:

#### Total Assets

Total assets are the total assets owned by the company taken from the financial statements published by the company. Total assets are measured by transforming data into natural logarithms to minimise research data gaps. Total assets are related to audit complexity, where the greater the company's total assets, the more complicated the audit required, which ultimately affects audit costs and audit quality.

$LNTA = \text{Log Natural (Total Assets)}$

#### Leverage

Leverage is the total liability taken from the company's financial statements which is measured using the Debt-to-Equity Ratio. The level of leverage indicates how much a company relies on debt. Companies with high leverage usually face greater financial risk, which may increase auditor attention and potentially affect audit quality. High leverage may also lead to audit fee stickiness, as high risk may force auditors to maintain lower audit fees to retain clients. The calculation is as follows

$$DER = \frac{\text{Total Liability}}{\text{Total Equity}}$$

The dummy variable is given a value of 1 if the company changes KAP Auditors and 0 if otherwise the company does not change KAP Auditors.

#### Covid-19 pandemic

The COVID-19 pandemic is a factor that can cause disruption in business, which affects audit fees and audit quality. The use of dummy variables (1 if the firm is affected by the pandemic, 0 otherwise) helps control for these external variables and evaluate whether the pandemic has a significant impact on audit fees and audit quality. The measurement of intervening and dependent research variables is explained in detail as follows:

#### Audit Quality

The measurement of audit quality using discretionary accruals is very common in audit research. Discretionary accruals (DA) indicate the extent to which company management can manipulate financial statements. Better audit quality will generally reduce this level of manipulation. According to (Sloan, 1996) the calculation formula is as follows:

$$DA_t = TA_t / Asset_{t-1}$$

### Audit Fee Stickiness

Audit fee stickiness refers to slow or no change in audit fees despite changes in audit complexity. Audit fee stickiness is based on the percentage change in the actual audit fee that reacts to the increase or decrease in the audit fee in the previous period. Anderson et al (2003)

$$AFS = \text{Log} \left( \frac{AF_t}{AF_{t-1}} \right)$$

### Sample Determination

The research population is 45 companies included in the LQ45 Index. Samples taken from a population of 21 companies. The sampling process is based on purposive sampling technique. The purposive sampling criterion used is that the company had an IPO before 2018 which consistently entered the LQ45 Index during the period from 2018 to 2022.

### Method of Analysis

Data analysis uses Panel Data Regression Fixed Effect Model and Common Effect Model through Eviews 9 software. Panel data regression is a combination of cross section and time series analysis to examine the effect of Total Assets, Leverage, Audit Change, Covid-19 on Audit Fee Stickiness and Audit Quality (Gujarati & Porter, 2012; Juanda & Junaidi, 2012). The Research Panel Data Regression Model is:

#### Model 1

$$AFSC = 0.378698 * LNTA - 0.025601 * DER + 0.198124 * AUC + 0.051786 * COVD - 6.51914966587 + e$$

#### Model 2

$$KUA = 0.004075 * LNTA + 0.002621 * DER - 0.001707 * AUC + 0.024954 * COVD + 0.002248 * AFSC - 0.1377652 + e$$

#### Model 3

$$KUA = 0.004161 * LNTA + 0.002606 * DER - 0.001766 * AUC + 0.022858 * COVD - 0.137168 + e$$

#### Model 4

$$AFSC = 0.376372 * LNTA - 0.016811 * DER + 0.199296 * AUC + 0.037123 * COVD + 0.529945 * KUA - 6.467952 + e$$

Where AFSC = Audit Fee Stickiness, KUA = Audit Quality, LNTA = Natural Total Asset Logarithm, DER = Leverage (Debt to Equity Ratio), AUC = Audit Change (Auditor Change), COVD = Covid-19 Pandemic Period in Indonesia, C = Coefficient Intercept Model.

### Results and Discussions

Based on table 1, it is known that Model 1 and Model 4 use the Fixed Effect approach, while Model 2 and Model 3 use the Common Effect approach. In this case, Model 1 and Model 4 using Fixed Effect are obtained through the Chow test results which show significance, so the use of Fixed Effect is more appropriate than Common Effect. Meanwhile, for Model 2 and Model 3 using Common Effect, the results of the Chow test are not significant, so Common Effect is more appropriate than Fixed Effect. Total assets have a significant positive effect on audit fee stickiness, with a coefficient in Model 1 of 0.37 and a significance of 0.08, and the same coefficient in Model 4 with a significance of 0.07. In contrast, leverage has no effect on audit fee stickiness; in Model 1, the coefficient is -0.02 with a significance of 0.2, and in Model 4 it is -0.01 with a significance of 0.4. Audit changes show a significant positive effect on audit fee stickiness, with a coefficient of 0.19 in Model 1 and Model 4, and a significance of 0.07 and 0.06, respectively. The Covid-19 pandemic has no significant effect on audit cost attachment, with a coefficient in Model 1 of 0.05 and a significance of 0.56, and in Model 4 of 0.03 with a significance of 0.65.

On the other hand, total assets have a significant positive effect on audit quality, with a coefficient of 0.004 in Model 2 and Model 3 and significance of 0.08 and 0.09. Leverage also has a significant positive effect on audit quality, with a coefficient of 0.002 in Model 2 and Model 3, and a significance of 0.05 and 0.06. However, audit changes have no effect on audit quality, with a coefficient of -0.001 in Model 2 and Model 3 and a significance of 0.65 and 0.61, respectively. The Covid-19 pandemic has a significant positive impact on audit quality, with a coefficient value of 0.02 in Model 2 and Model 3, and a significance of 0.00. Audit fee attachment also has a significant positive effect on audit quality, with a coefficient of 0.002 in Model 2 and a significance of

0.09. However, audit quality does not affect audit fee attachment and does not show reciprocity, with a coefficient value of 0.52 in Model 4 and a significance of 0.10. The R-Squared value indicates how well the regression model explains the variance of the dependent variable. In the presented model, Model 1 has an R-Squared of 21.45%, which means that 21.45% of the variation in audit cost attachment (AFSC) can be explained by the independent variables in the model. In contrast, Model 2 and Model 3 show higher R-Squared values of 33.03% and 34.44%, indicating that these two models are more effective in explaining variations in audit quality (KUA). Finally, Model 4 has a similar R-Squared value to Model 1, at 21.80%, indicating that the independent variables in this model explain approximately 21.80% of the variation in AFSC.

**Table 1.** Panel Data Regression Test Results

Independent Variable	Dependent Variable			
	Model 1 AFSC	Model 2 KUA	Model 3 KUA	Model 4 AFSC
LNTA	0.0873* (0.378698)	0.0833* (0.004075)	0.0916* (0.004161)	0.0760* (0.376372)
DER	0.2713 (-0.025601)	0.0516* (0.002621)	0.0626* (0.002606)	0.4978 (-0.016811)
AUC	0.0717* (0.198124)	0.5715 (- 0.001707)	0.6182 (-0.001766)	0.0682* (0.199296)
COVD	0.5694 (0.051786)	0.0000*** (0.024954)	0.0000*** (0.022858)	0.6522 (0.037123)
AFSC	-	0.0929* (0.002248)	-	-
KUA	-	-	-	0.1084 (0.529945)
Constant	0.1037 (-6.519150)	0.0010 (- 0.1377652)	0.0019 (-0.137168)	0.0911 (-6.467952)
Data Panel	<i>Fixed</i>	<i>Common</i>	<i>Common</i>	<i>Fixed</i>
Regression	<i>Effect</i>	<i>Effect</i>	<i>Effect</i>	<i>Effect</i>
Observation	105	105	105	105
R Squared	21.4583%	33.0336%	34.4402%	21.8010%

The results of analysis with panel data regression Fix Effect Model and Common Effect Model produce 4 models, namely model 1, model 2, model 3 and model 4. Where model 1 and 2 are determinants of Audit Fee Stickiness which has implications for Audit Quality. Meanwhile, model 3 and model 4 are the opposite of model 1 and model 2, namely to test whether Audit Fee Stickiness and Audit Quality are reciprocal or have a reciprocal relationship. This reciprocal is to test whether Audit Fee Stickiness affects Audit Quality and vice versa whether Audit Quality affects Audit Fee Stickiness?

#### Effect of Total Assets on Audit Fee Stickiness

The company's total assets that are transformed to the natural logarithm are the sum of all the assets owned by the company based on published financial reports. The relationship between total assets and audit fee stickiness can be seen in Table 2. The results of the panel data regression test on the fixed effect model are in model 1 and model 4. The test shows that the company's total assets have a significant positive effect on audit fee stickiness. The findings of the research are in line with the research by (Calleja et al., 2006) who tested firm size (total assets), with the assumption that large companies may experience audit fee stickiness or audit fee stickiness. The research findings are also in line with the research by (Bugeja et al., 2015) found that the size of Australian firms is consistent with the level of audit fee stickiness. However, the research results are not in line with Walid's research (2021) which shows that company size has no effect on Audit Fee Stickiness. Also, not in line with the research of (Cullinan et al., 2016).

Total company assets have a significant positive effect on audit fee stickiness because companies with larger assets generally face higher complexity in their operations and financial reporting. This complexity often requires additional time and effort from auditors to ensure that the financial statements are presented correctly and in accordance with applicable accounting standards. As a result, companies with larger total assets often have to pay higher audit fees, and such fees tend to remain stable or even increase from year to year, creating the phenomenon of audit fee stickiness. In addition, companies with large assets often establish long-term



relationships with their auditors, which may cause the inherent audit fees to remain stable despite changes in the level of audit complexity. This is because auditors may be reluctant to lower their fees despite a decrease in workload, in order to maintain the established working relationship and ensure that the quality of audit services is maintained. This audit fee stickiness reflects how audit fees are influenced not only by the actual needs of the firm but also by the historical relationship and long-term expectations between the firm and the auditor.

#### **Effect of Leverage on Audit Fee Stickiness**

The company's leverage, as measured by the debt-to-equity ratio, is the ratio of all the company's liabilities to the company's equity. We can see the relationship between leverage and audit fee stickiness in table 2. The results of the panel data regression test are in model 1 and model 4. The results showed that leverage had no effect on audit fee stickiness. The results also show that leverage is negatively correlated, but is not significantly able to influence audit fee stickiness. It can also be said that leverage cannot be used to predict audit fee stickiness. The results of the study are not in line with previous studies by (Calleja et al., 2006) who explained that leverage has an influence on the level of audit fee stickiness. The research results are also not in line with (Dhaliwal et al., 2008) study investigating the relationship between total auditor fees and corporate debt.

The results show that leverage has no significant effect on audit fee stickiness, indicating that the level of corporate debt does not affect the stability of audit fees over time. Although there is an indication that leverage has a negative correlation with audit fee stickiness, the relationship is not strong enough to be considered statistically significant. This means that fluctuations in a company's debt structure do not have a significant impact on the audit fees incurred, and companies with high debt levels do not always show a clear change in their audit fees. Furthermore, the results show that leverage cannot be used as a reliable predictor of audit fee stickiness. This insignificant negative correlation signifies that the leverage variable, although it may affect other aspects of corporate finance, does not have a clear or consistent impact on audit fee stickiness. In other words, changes in a firm's debt structure do not contribute substantially to changes in the audit fees charged, so leverage does not provide sufficient information to predict or explain audit fee stickiness in the context of this study.

#### **Effect of Audit Changes on Audit Fee Stickiness**

Audit changes or auditor changes in this study are measured by dummy variables. The replacement of the auditor is carried out based on the decision of the shareholders. Auditor change can be mandatory or voluntary. Compulsory auditor replacement occurs because it must be carried out according to established regulations and standards, while voluntary auditor replacement occurs for any reason on the part of the client. From the results of research on model 1 and model 4, we can see that audit changes have a significant positive effect on audit fee stickiness. This means that if there is a change of auditors, it will increase audit fee stickiness. The findings of this study are in line with previous research by (Kamarudin et al., 2022) and research by (Deis Jr & Giroux, 1996) that auditor turnover has an effect on audit fee stickiness, but differs in the direction of the regression coefficient. Kamarudin et al (2022) found that auditor turnover has a decreasing effect on audit fees. (Kamarudin et al., 2022) also found that companies from developing countries with mandatory audit office rotation requirements and strong auditing and reporting standards had higher audit fees than companies from countries with weak auditing and reporting standards and no mandatory office rotation requirements. audits. (Deis Jr & Giroux, 1996) explained that research on auditor turnover on audit fees so far has consistently shown that independent auditor turnover is associated with decreased audit fees (DeAngelo, 1981).

Auditor changes have a significant positive effect on audit cost stickiness because auditor changes often result in changes in the way audits are conducted and the associated costs. When a company changes public accounting firms, the transition process typically requires an adjustment in the time and resources allocated to the audit. The new auditor needs to conduct an in-depth understanding of the company's systems and processes, which often leads to higher audit fees during the initial period. Audit fee stickiness increases during this transition period because the new auditor may charge higher rates to overcome the learning curve and additional complexity associated with adjusting to a new company. In addition, the positive effect of auditor change on audit cost stickiness may also be influenced by reputational impact and the long-term relationship between the firm and auditor. New auditors may seek to ensure high audit quality and build solid relationships with clients, which may cause them to set higher than usual audit fees to ensure client trust and satisfaction. This contributes to the stability or even increase of audit fees over time, creating a significant audit fee stickiness phenomenon during periods of auditor change.

#### **Effect of the Covid-19 Pandemic on Audit Fee Stickiness**

The Covid 19 pandemic that occurred throughout the world and in Indonesia certainly had an impact on the company's financial performance. Researchers used the Covid-19 pandemic period in this study because the research period was used through that period. The measurement of the Covid-19 pandemic period in this study was measured using a dummy variable. From the research results shown in model 1 and model 4, we can see

that the Covid pandemic period did not have a significant effect on audit fee stickiness. The results of the study also mean that the Covid 19 pandemic period was not able to significantly increase or decrease audit fee stickiness. The results of this study are not in line with previous research by Matitaputty (2023) and research by (Albitar et al., 2020) which state that the financial instability experienced by companies during the Covid-19 pandemic affected liquidity, risk and company performance thereby affecting company financial performance, company audit fees. Therefore, companies experiencing financial difficulties will tend to look for auditors who provide audit services at the lowest cost.

The COVID-19 pandemic has no significant effect on the stickiness of audit fees, suggesting that while the pandemic brought great challenges to many companies, it did not substantially affect the stability or change of audit fees over time. Although the pandemic has caused major changes in the way companies operate and adapt to unforeseen conditions, the audit fees charged by auditors do not show significant fluctuations. This may be due to the existence of long-term audit contracts or pre-set fees, which have not changed drastically despite the uncertain economic conditions caused by the pandemic. In addition, the pandemic may have accelerated the adoption of technology and process changes that make it easier for auditors to perform their duties, thereby reducing the possible impact on audit fees. Many auditors and firms may have adjusted their working methods to minimise disruptions and maintain operational efficiency, keeping audit fees stable despite the external pressures of the pandemic. Therefore, while the COVID-19 pandemic is impacting many aspects of business, its effect on audit fee stickiness does not appear to be significant enough to indicate a meaningful change in audit fees charged.

#### **Effect of Total Assets on Audit Quality**

We can see the relationship between total assets and audit quality in table 2, the results of the regression test on the panel data of the common effect model. Based on model 2 and model 3, we can see that the company's total assets as measured by the natural logarithm have a significant positive effect on audit quality. This shows that if there is an increase in the number of company assets, audit quality will also increase. The research results are in line with previous research by (Farid & Baradja, 2022) and Buchori & Budiantoro's research (2019). (Farid & Baradja, 2022) explain that company size is also considered a factor affecting audit quality. In order for the company size to continue to grow and of course wealth to increase, the KAP chosen to audit the company is also determined to have a better reputation and higher audit fees to achieve the goal. better audit quality. compared to small businesses. In addition, small businesses also often choose smaller KAPs to audit their business in order to reduce costs, even though in terms of quality they will not be better than larger and more prestigious KAPs. Buchori & Budiantoro (2019) in their research shows that company size has a significant and positive influence on audit quality. In other words, if the size of the company increases, it means that the company's internal control will also be better and can encourage an increase in audit results, because the auditor is more flexible in acting, checking and knowing the information contained therein.

Total company assets have a significant positive effect on audit quality because companies with larger assets usually face higher complexity in their operations and financial reporting. Large companies are often involved in multiple transactions and have more complicated organisational structures, which require a more thorough and rigorous audit process. As a result, auditors must perform more in-depth audit procedures to ensure that the financial statements are accurate and in accordance with applicable accounting standards. This complexity encourages auditors to pay more attention and use more sophisticated methodologies, which directly contributes to improving audit quality. In addition, companies with large total assets tend to have more resources to allocate to audits, including investments in better financial reporting systems and internal controls. This allows auditors to conduct more effective and efficient audits, improving the quality of audit results. Large companies are also more often involved in stricter regulation and supervision, which encourages auditors to maintain high standards of audit quality to meet the expectations of stakeholders and regulators. Thus, larger total assets contribute to better audit quality, thanks to the need for more sophisticated audit procedures and more detailed attention to financial statements.

#### **Effect of Leverage on Audit Quality**

The common effect panel data regression model in model 2 and model 3 shows that leverage has a significant positive effect on audit quality. This means that if leverage increases, audit quality will also increase. The research results are in line with Alshouha et al., (2022) and Alzeaiden & Al (2018). Ownership of a company characterized by a large amount of leverage will put more pressure on management to demand better audit quality so that information asymmetry can be reduced, besides that it will also produce high quality financial reports. Managers hire high-quality auditors as a way to prove their integrity for companies with large amounts of leverage (Alshouha et al., 2022). In addition, Alshouha et al., (2022) also explains that among the things discussed in agency theory is the issue of conflict of interest that occurs between two large parties namely shareholders and debt holders and conflict will lead to the transfer of wealth from debt holders to shareholders.

Furthermore, Alzeaideen & Al (2018) also explains that company leverage has a significant positive effect on audit quality in companies listed on the Amman Stock Exchange.

Leverage has a significant positive effect on audit quality because companies with high levels of debt are often considered to have greater financial and operational risks. A high debt ratio indicates that the company is operating with a significant liability burden, which requires special attention from the auditor. Auditors are usually more cautious in assessing companies with high leverage because the risk of bankruptcy or greater financial distress may affect the company's ability to fulfil its obligations. Therefore, auditors will conduct a more thorough and in-depth audit to ensure that all liabilities are reported accurately and in accordance with applicable accounting standards, thereby improving audit quality. In addition, companies with high levels of leverage often have a greater interest in maintaining a healthy financial image and complying with strict regulations. To avoid greater scrutiny from stakeholders and regulators, companies with high debt will endeavour to ensure that their financial statements are presented accurately and transparently. This forces auditors to maintain high audit quality standards to identify and address potential problems associated with debt obligations. Thus, the positive effect of leverage on audit quality lies in the increased attention and complexity given by auditors to ensure the accuracy and integrity of the financial statements of highly indebted firms.

#### **Effect of Audit Changes on Audit Quality**

The results of the common effect model panel data regression test in model 2 and model 3 show that auditor change or audit change is not able to significantly affect audit quality. This is due to the research sample as a whole, namely companies listed in the LQ45 index using the services of BIG4 KAP auditors, so that even though there has been a change of auditors it still shows good audit quality. The results of this study are not in line with previous research by Cassell et al., (2020) which found that audit quality was not lower for companies that hired new auditors before the end of the third fiscal quarter than companies that did not change auditors. However, firms that engaged a new auditor during or after the fourth fiscal quarter were more likely to misstate their audited financial statements than firms that employed a new auditor earlier in the year and firms that did not change auditors. Cassell et al., (2020)) also found that the decline in audit quality associated with late auditor turnover was more pronounced in firms with complex operations (i.e., more operating segments). The research results of Cassell et al., (2020) also show that the extent to which audit quality declines in the first year of an audit engagement is influenced by these two things the amount of time it takes to understand the client's business, assess risk and carry out the audit (all of which are driven by client complexity). As well as the amount of time available for the auditor to perform his duties.

Auditor changes do not significantly affect audit quality in this study because the sample consists of companies listed in the LQ45 index, which consistently use the services of Big Four auditors. The Big Four auditors are known for their high-quality standards and rigorous audit methodologies, ensuring that the audit quality they provide remains stable and unaffected by auditor changes. Even when companies in the sample undergo auditor changes, the audit quality remains high due to the practices and procedures implemented by these large audit firms. Additionally, LQ45-listed companies often have strong reputations and must meet high financial reporting standards, adding an extra layer of assurance regarding audit quality. Since the Big Four auditors have extensive experience and expertise, they can quickly adapt to new clients and apply the same high-quality audit procedures as before. Therefore, despite auditor changes, audit quality does not show significant variation because these companies continue to be audited by firms with consistently high standards.

#### **Effect of the Covid-19 Pandemic on Audit Quality**

The results of the common effect panel data regression test in model 2 and model 3, show that the Covid-19 pandemic period has a significant positive effect on audit quality in LQ45 index companies. Audit quality is the conformity between the audit process carried out and the applicable auditing standards (Khasanah & Suryatimur, 2021). Samosir et al., (2022) explained that audit quality is the auditor's ability to detect violations or errors related to client non-compliance with the accounting system. Budiandru (2022) argues that the working mechanism of auditors has changed during the Covid-19 pandemic. Auditors cannot conduct audits directly on clients, but instead conduct remote audits or remote audit processes using technology. The remote audit process carried out by the auditor will prevent the auditor from carrying out several audit procedures. even if audit risk is likely to increase. The research results are not in line with Akrimi (2021) explaining that audit quality could have decreased during the Covid-19 pandemic. The Covid-19 pandemic has had a negative impact on the quality of financial report audits due to periodic social restrictions.

The COVID-19 pandemic had a significant positive effect on audit quality for companies listed in the LQ45 index because the challenging circumstances forced companies to enhance transparency and accuracy in their financial reports. Faced with global economic uncertainty and rapid operational changes, LQ45 companies were required to provide clearer and more comprehensive financial information to maintain stakeholder and investor

confidence. This prompted auditors to conduct more thorough and in-depth examinations, which in turn improved overall audit quality. The pandemic also led to better adaptation in audit methods, including the use of technology to increase the effectiveness and efficiency of the audit process. Moreover, the pandemic underscored the importance of risk management and financial resilience, compelling auditors to focus more on high-risk areas and ensuring that financial statements reflected the impact of these unforeseen conditions. LQ45 companies, which are typically larger and more operationally complex, responded to these challenges by ensuring compliance with stricter financial reporting standards. This intensified and heightened the audit process, positively influencing audit quality. Auditors adapted effectively to the pandemic, implementing more advanced methods to ensure the accuracy and integrity of financial statements, ultimately improving the quality of audits delivered to these companies.

#### **Effect of Fee Stickiness Audit on Audit Quality**

The effect of audit fee stickiness on audit quality shows significant positive results. We can see these results in table 2. The results of the common effect panel data regression test in model 2. This significant positive result means that if there is an increase in audit fee stickiness, it will lead to an increase in audit quality. The results of the research are in line with the research of Aljaaidi et al., (2021), which explains that there is a significant positive relationship between audit fee rigidity and audit quality. Aljaaidi et al., (2021) used the period before and after selecting a new auditor in his research on The Gulf Cooperation Council company. However, the research results are not in line with the research of Chang et al., (2019) who found that fee rigidity has a negative relationship with audit quality as measured by earnings management and auditor reporting conservatism. Chang et al., (2019) tested how the rigidity of audit fees varies with changes in market competition in China and its effect on audit quality. The structure of the Chinese audit market has changed significantly since the Chinese Institute of Certified Public Accountants (CICPA) issued a proposal to improve the competitiveness of large domestic audit firms by promoting the consolidation of domestic audit firms in 2007. more dominated by the top 10 domestic auditors.

The influence of audit fee stickiness on audit quality shows a significant positive result, indicating that the stability or consistency of audit fees is directly related to improvements in audit quality. Audit fee stickiness, which reflects the consistency of audit fees from period to period, suggests a strong long-term relationship between the company and the auditor. This stable relationship allows auditors to become more familiar with the company's processes and risks, enabling them to perform more in-depth and comprehensive audit procedures. Consistency in audit fees is often associated with the auditor's extensive experience and deep understanding of the client, significantly enhancing audit quality, as auditors can more accurately assess and identify potential issues in financial reports. Additionally, audit fee stickiness reflects stability in the working relationship between the company and the auditor, which can create a more controlled and predictable audit environment. This stability provides auditors with more time and resources to conduct detailed analyses and perform more comprehensive audit procedures, thus improving the overall quality of the audit. With stable audit fees and consistent working relationships, auditors can focus on enhancing audit quality and addressing complex issues that may arise, resulting in more accurate and reliable audit reports.

#### **Effect of Audit Quality on Audit Fee Stickiness**

We can see the relationship between audit quality and audit fee stickiness in table 2. The results of the common effect panel data regression test in model 4. These results indicate that audit quality has not been able to significantly influence audit fee stickiness. This test is a reciprocal test, namely to see whether there is a reciprocal relationship between audit fee stickiness and audit quality and vice versa. The results of the study show that the relationship between audit fee stickiness has not been able to show a significant reciprocal nature of audit quality. Salehi et al., (2019) There are several studies on the rigidity and changes in audit fees. In previous research, researchers focused on cost behavior, which is expected to change in the short run, regardless of the fixation of costs and the likelihood of their changes. In this study, the authors investigate the rigidity of audit fees and the factors that influence them, particularly audit quality and financial crises in developing countries. The findings show that there is no significant relationship between audit quality and audit fee rigidity. Salehi et al., (2019) also found that the financial crisis had no impact on the relationship between audit quality and audit fee rigidity. Furthermore, research by (Cao et al., 2022) explains that in his research it shows that cost rigidity can be reduced by improving corporate governance and audit quality. The results of this study also add to the literature that examines the influencing factors and mechanisms of cost stickiness. (Cao et al., 2022) used data on manufacturing companies in China from 2013 to 2019 to test external audit quality against cost stickiness.

Audit quality has not been able to significantly influence audit fee stickiness, indicating that although high audit quality may contribute to the thoroughness and accuracy of financial reports, this does not necessarily translate into consistent changes in audit fees. Audit fee stickiness, reflecting the stability of audit fees from period to period, may be more influenced by other factors such as long-term audit contracts, fixed pricing

policies, or auditors' cost management strategies rather than variations in audit quality itself. In other words, even if auditors perform a high-quality audit, the fees charged may remain largely unchanged if the company and the auditor have agreed upon a fixed fee structure or if there are no substantial changes in audit complexity. Moreover, high audit quality does not always necessitate significant changes in audit fees, especially if the auditor already has an in-depth understanding of the client and the established audit process. In situations where auditors have extensive experience and knowledge about the company, they may not need to significantly increase audit fees, even though the quality of the audit has improved. This suggests that while better audit quality is expected to enhance the reliability of financial statements, there is not always a direct relationship between improvements in audit quality and changes in audit fees, especially if the fees have been stabilized or set based on an initial agreement.

## Conclusions

The conclusion of this study indicates that there is a complex reciprocal relationship between audit fee stickiness and audit quality. The findings reveal that while rigid audit fees may reflect a stable long-term relationship between the auditor and the client, this does not necessarily guarantee an improvement in audit quality. On the contrary, high audit quality often requires fee adjustments that align with the complexity and risk level of the audit. The study emphasizes the need for a deeper understanding of how these factors influence each other, as well as the importance of a flexible fee-setting mechanism to ensure that audit quality is maintained without being affected by factors that could compromise the objectivity and accuracy of the audit. To enhance the understanding of the relationship between audit fee stickiness and audit quality, future research should consider additional variables such as company size and complexity, as well as external factors like regulations and market pressures. Auditors and clients should also develop a more adaptive fee-setting approach to reflect changes in audit complexity, ensuring that audit fees accurately represent the true quality of the audit. Additionally, regulators and professional standards bodies may consider introducing clearer guidelines on audit fee-setting to prevent potential conflicts of interest and ensure that audit quality remains at an optimal level.

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