

# Examining the Impact of Audit Committee Characteristics on Audit Fees

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## ABSTRACT

This study examines the effects of various audit committee characteristics, including meeting frequency, size, gender diversity, school ties, and independence, on audit fees in Malaysia. Utilizing a sample of the top 100 companies listed on Bursa Malaysia from financial periods 2019 to 2023, the study employs multiple regression and correlation analyses, using the Statistical Package for the Social Sciences (SPSS) to interpret the data. The results reveal a significant negative relationship between audit committee school ties and audit fees, suggesting that personal affiliations within the audit committee may lower the perceived governance risk, potentially leading to cost reductions. Additionally, a positive and significant relationship is found between the frequency of audit committee meetings, size, and gender diversity, with audit fees. This suggests that audit committee that are more engaged, diverse, and structurally robust may enhance its oversight functions, leading to an increased scope and intensity of audit work, which in turn results in higher audit fees. Conversely, the study finds an insignificant negative relationship between audit committee independence and audit fees. This research findings supports the signalling theory and provides valuable insights for practitioners and policymakers on the trade-offs between strengthening audit committee oversight functions and managing their associated financial implications via elevated audit costs. Regulators may also consider reviewing existing governance guidelines to ensure that they encourage audit committee attributes that are most effective in promoting transparency and accountability.

**Keywords:** Audit Committee Characteristics, Audit Fees, Audit Committee School Ties

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## **INTRODUCTION**

Corporate governance encompasses the relationships among a company's management, board, shareholders, and other stakeholders, as articulated in the G20/Organisation for Economic Co-operation and Development (OECD) Principles of Corporate Governance (OECD, 2015). This framework is essential for setting organizational goals, determining the means of achieving them, and evaluating performance. In Malaysia, the Malaysian Code on Corporate Governance (MCCG) (2021) underscores that corporate governance involves the processes and structures for directing and managing a firm's affairs, promoting accountability, and enhancing long-term shareholder value while considering the interests of various stakeholders.

An increasing number of businesses recognize the significance of accurate financial reporting due to its critical impact on organizational success. However, the emergence of audit committees in companies has led to a dual reporting structure, where the internal audit department is sometimes perceived to compromise auditor independence. This issue is particularly relevant in countries undergoing economic reform, such as Malaysia, where regulatory frameworks require audit committees to uphold high standards of accountability in financial reporting (Che-Ahmad and Houghton, 1996). In the context of Malaysian public listed companies (PLCs), earnings management has been shown to influence the likelihood of financial misstatements, particularly in financially distressed and family-owned firms (Hussain et al., 2016). Furthermore, income smoothing practices have been found to affect overall financial performance (Ali et al., 2020).

The relationship between agency theory and corporate governance highlights a key conflict where the interests of the agent (management) may diverge from those of the principal (shareholders). This misalignment can generate agency costs, including monitoring costs, which are pivotal in understanding the dynamics of audit fee determination (Jensen & Meckling, 1976). As noted by Che-Ahmad and Houghton (1996), an understanding of what drives audit fees is crucial for both providers and consumers of audit services, and the Malaysian Institute of Accountants (MIA) emphasizes the importance of appropriate audit fee levels to sustain service quality.

Despite the breadth of studies on audit fee determinants, there remain a notable research gap regarding how specific characteristics of audit committees influence audit fees within the Malaysian context. Therefore, this study contributes to the literature in several ways. Firstly, this study respond to a recent call (i.e. Nerantzidis et al., 2023) for more studies to clarify whether recent political strategies for promoting gender equality can play significant roles in audit fees and contribute to the quality of financial statements. This study is important for Malaysian context consistent with the recent Guidance G5.10 of the Malaysian Code of Corporate Governance (MCCG) 2021 which demands increasing participation of women in the top management team of a firm, as it is believed could lead to more innovative solutions and well informed decision-making. Secondly, there is very limited studies on the effect of school ties between the external auditors and audit committee (e.g. Harymawan et al., 2025; Nasih et al., 2023), and none of these researched the Malaysian context. Hence, this study seeks to address this gap in the literature by exploring the impacts of audit committee characteristics, such as school ties, frequency of meetings, size, gender diversity, and independence on audit fees in Malaysian companies. By investigating these dimensions, this study aims to provide valuable insights for auditors, companies, and policymakers, enhancing the understanding of factors that contribute to audit pricing in Malaysia and addressing the current limitations in the literature. Thus, this study also provide a nuanced understanding of these relationships to foster improved governance structures and practices in Malaysia's corporate sector. The findings will also contribute to the broader discourse on audit quality and corporate governance, urging further consideration of how audit committees can effectively balance stakeholder interests and enhance transparency in financial reporting.

The subsequent sections of this work are organized as follows: Section 2 provides an overview of the literature review and hypotheses development. Section 3 outlines the research methodology used in the study. Section 4 presents the empirical results and discussion of the findings. Finally, Section 5 concludes and provides direction for future research

## **LITERATURE REVIEW**

### **Audit Fees**

Audit fees are an interesting topic that has been widely discussed by researchers. Simunic (1980) described audit pricing theory as the foundation for calculating audit fees. The relationship between the audit committee and the external auditor is manifested in its responsibility for overseeing the audit process and liaising between the external auditor and management. This includes making recommendations to the board on the appointment of the external auditor, discussing the level of audit fees, reviewing the audit engagement scope and activities, and protecting the auditor's independence (MCCG, 2017, 2021). This is due to auditors trying to balance their audit costs with expected future losses as a consequence of legal liability arising from audit failure (Carcello et al., 2002). Consistently, Stewart and Munro (2007) documented that the auditor risk assessment is lower in the presence of an active audit committee. This means that the auditor assesses risk to be higher and plans more audit hours for companies with weak governance (Carcello et al., 2011). According to Agoes (2004), audit fees depend on the level of risk associated with the engagement, the complexity of the services provided, the degree of expertise required, the pricing structure of the audit firm, and other expert considerations. DeFond and Zhang (2014) identified several advantages of using audit fees as a proxy for audit quality, noting that audit fees are continuous and capable of capturing subtle variations in audit quality. A recent study by Ganesan et al. (2024) found a positive relationship between audit fees and financial reporting quality, while Jادیappa et al. (2021) argued that audit fees influence audit quality.

The relationship between corporate governance and external audit can be explained using two competing theories, namely, the substitution theory and the signalling theory (Wu, 2012; Kharuddin & Basioudis, 2022). The substitution theory posits that firms with effective corporate governance have lower agency costs, which contribute to lower audit risk and lower audit effort, thus lowering the audit fees charged by the auditor. In other words, effective corporate governance, to some degree, represents a substitute to the audit external auditor function. On the other hand, the signalling theory argues that companies with an effective board and audit committee may signal to management and the auditor that they exercise a more effective

monitoring role, and they are thus likely to be more demanding and to insist on having a higher quality audit, hence paying higher audit fees for the extra audit effort required (Carcello et al. 2002; Carcello et al. 2011). Redor (2017) discovered that governance necessitates superior audits to safeguard their reputational capital and address the danger of misstatement; hence, they often result in increased audit fees. Nevertheless, inconclusive results reported in prior studies (e.g. Wu, 2012) make it difficult to ascertain which theory actually better explains the relationship between corporate governance and auditing.

## **Audit Committee Characteristics**

An audit committee is a subcommittee appointed by the board, and is responsible for the financial reporting oversight. The existence and effectiveness of the audit committee strengthens the control environment for the auditors which they rely on when conducting their audit (Muniandy, 2007; Krishnan, 2005). In the auditing process, the audit committee influence the selection of high quality auditors (Abbott and Parker, 2001), protect auditors' independence (Abbott et al. 2003), and assess the appropriateness and adequacy of the audit plan (Dezoort and Salterio, 2001) amongst others. The following subsections discuss the audit committee characteristics examined in this study.

## **Audit Committee School Ties**

“School ties” refers to the interaction between the audit committee and the external auditor that specifically deals with the setting of audit fees. Guan et al. (2016) argued that a similarity in alma mater and organisational origin is one type of social connection that can have a significant impact on decision-making as similar experiences might facilitate communication and perhaps influence how decisions are made in the context of corporate governance and auditing. Bliss et al. (2011) argued that the audit committee may be more likely to support an increase in fees requested by an auditor with whom they have a close working relationship as the committee has limited control over the process and acts as a crucial middleman in determining audit fees.

In Indonesia, a recent study by Harymawan et al. (2025) found that school ties between audit committee members and external auditors have a positive influence on audit fees. However, this effect can be mitigated by increasing the size of the audit committee. This finding is consistent with the study by Nasih et al. (2023), which found that companies often show a preference for school ties between the Chief Financial Officer (CFO) and the auditor.

On the other hand, Alhababsah (2019) reported that social ties between these two parties can negatively affect audit quality and may lead to higher audit fees, as auditors could exhibit bias in favour of their clients, as supported by Guan et al. (2016). Nasih et al. (2023) further argued that the existence of school ties between the CFO and the auditor may contribute to increased audit fees. They explained that the CFO, who has direct access to financial reporting processes, may prefer to work with auditors who share a similar educational background in order to facilitate the achievement of company objectives.

Nevertheless, He et al. (2017) found that the existence of these ties can help external auditors gather evidence, which improves the audit's efficiency and quality. Besides, Cardello et al. (2002) argued that the level of audit fees is dependent on the audit committee's experience. Looking at the mixed findings, the hypothesis of this study is developed as follows:

**H1:** There is a positive relationship between audit committee school ties and audit fees

## **Frequency of Audit Committee Meetings**

The MCCG (2000) recommends that, in addition to additional meetings held in response to events that occur during the accounting year, at least three or four meetings should be scheduled in accordance with the audit cycle and the publication date of the annual reports. Saleh et al. (2007) and Rashidah and Mohamed (2006) argued that the frequency of audit committee meetings is important in mitigating several issues, including the agency problem, which ultimately affects a firm's performance.

In Athens, Drogalas et al. (2021) emphasized the need for frequent audit committee meetings and for committee members to possess relevant experience and knowledge in financial matters. Their findings indicated a positive relationship between the frequency of audit committee meetings and audit fees. They suggested that the involvement of such expertise may reduce the company's reliance on non-audit services. In Burundi, Abel et al. (2024) found that audit committee meetings have an impact on financial performance, as regular meetings allow for more effective oversight of the company's operations.

In Malaysia, the frequency of audit committee meetings is considered an important factor influencing a company's performance (Saleh et al., 2007; Rashidah and Mohamed, 2006). Wu (2012) and Yatim et al. (2006) argued that a regular audit meeting would effectively discharge its supervisory responsibilities, and hence, mitigate audit risk and reduce financial reporting issues. This is due to the primary tasks performed during audit committee meetings which are overseeing the company's financial reporting, internal accounting control, the audit process, and its risk management procedures. Furthermore, year-end and quarterly financial statement results, which are significant issues, are also discussed in the audit committee meetings. According to Rashid et al. (2021), regular audit committee meetings could settle agency issues concerning information asymmetry and assess the quality of discussions. According to Abbott et al. (2003), businesses with audit committees that hold at least four meetings a year typically have less opportunities to restate their audited financial statements.

Consequently, it is expected that more frequent audit committee meetings would reduce financial reporting problems and potentially lower audit fees. However, prior research has yielded mixed findings. Yasin and Nelson (2012) showed that audit fees are positively impacted by the frequency of audit committee meetings. In addition, based on the study by Januarti et al. (2020), audit fees are positively impacted by the sheer number of audit committee meetings. This all demonstrates that regular audit committee meetings suggest the committee is conscientious, which may lead to a greater audit coverage at various audit phases. On the other hand, Abbott et al. (2003) reported no conclusive evidence regarding the relationship between audit committee meeting frequency and audit fees. Similarly, a recent study by Kateb and Belgacem (2024) found that

audit committee meetings do not have a significant impact on company performance. Boshnak (2021) also emphasized that an effective audit committee does not necessarily influence audit quality, as the frequency of meetings was not found to significantly affect audit quality levels. To evaluate the extent to which audit committee meeting frequency affects audit fees, the current study includes this committee characteristic as one of the determinants of audit quality. Therefore, the hypothesis of this study is developed as follows:

**H2:** There is a positive relationship between the frequency of audit committee meetings and audit fees

### **Audit Committee Size**

Although the audit committee is responsible for internal control to lower agency costs, it is impossible to disentangle an audit committee's oversight of corporate policy from its members' independence (Chariri et al., 2017). The Securities Exchange Commission mandates that to guarantee the efficient performance of its tasks, the audit committee must consist of a reasonable number of members to ensure that the financial statements available to the public are accurate. This committee is typically selected from outside the organisation and entrusted with offering an impartial and objective evaluation of the business's procedures. This shows that the audit committee's position is clear, truthful, trustworthy, impartial, and devoid of fear or bias.

Drogalas et al. (2021) discovered a favourable correlation between audit fees and audit committee size utilising a sample of 126 businesses listed on the Athens Stock Exchange. In a similar vein, Ali et al. (2018) also noted a favourable correlation between audit fees and the size of the audit committee. In Nigeria, Abu (2021), who chose 15 consumer goods companies listed on the Nigerian Stock Exchange, found that there is a substantial positive correlation between audit fees and audit committee size while the empirical data presented by Mat Yassin and Nelson (2012) found that the presence of the audit committee increases the amount of audit fees. From a financial performance perspective, Eseoghene and Oghenevwogaga (2021) found that audit committee size has a significant positive impact on the financial performance of listed service companies.



However, Farooq et al. (2018) discovered a substantial and adverse correlation between the size of the audit committee and audit fees whereas Yatim et al. (2006) provided evidence that the audit committee significantly reduces audit fees. Moreover, the study by Farooq et al. (2018) on how audit fees in Pakistan are affected by the calibre of the audit committee and board found that the size of the audit committee has a substantial and adverse impact on audit costs. A recent study by Abel et al. (2024) reported a positive but statistically insignificant relationship between audit committee size and financial performance. This is consistent with the findings of Osi et al. (2024), who observed a negative but insignificant effect of audit committee size on financial performance in Nigeria. In Bahrain, Al-Jalahma (2022) also concluded that audit committee size does not significantly influence corporate financial performance. According to the justification given, the method employed can determine if audit fees are high (positive) or low (negative). Therefore, the hypothesis of this study is developed as follows:

**H3:** There is a positive relationship between audit committee size and audit fees

## **Audit Committee Gender Diversity**

Gender diversity on the audit committee in this research refers to the equitable and inclusive representation of both male and female members on the committee. A study by Dennis and Kunkel (2004) found that female audit committee members are generally more capable, assertive, poised, emotionally stable, prudent, autonomous and less savage than their male counterparts. It has also been argued that a female member of the audit committee could be more aware of any possible financial reporting deception by the company.

A recent study by Ahmed et al. (2024) found a significant positive relationship between audit committee gender diversity and financial performance. The authors argued that female members are typically more proactive in raising questions than their male counterparts. This finding aligns with the study by Alkebeese et al. (2021), which noted that female directors are more concerned with obtaining high-quality audits and assurance from external auditors, particularly when firm performance is complex and risk-laden. Alkebeese et al. (2021) also suggested that gender

diversity on the audit committee can enhance internal monitoring and communication. However, McLaughlin et al. (2021) reported that the overall presence of female directors remains low.

Schubert (2006) found strong evidence that women do better than males in employment requiring them to communicate with a variety of individuals because they are better communicators, which is in line with Gul et al. (2009) who argued that female directors may help to reduce the knowledge gaps between managers and the board by presenting the information gathered from managers to the board, and thus lead to transparency and better decision-making. Gyapong et al. (2015) also argued that women are more likely than males to consider ethical issues while making judgments. As a result, female board members could increase the need for audits (Lai et al., 2017), particularly in cases involving moral conundrums to safeguard the reputation of the business and individuals as well as to avert possible legal action (Fama & Jensen, 1983; Gilson, 1990).

The credibility of the financial reporting process may also be impacted by the conservatism and risk aversion of female board members as García-Sánchez et al. (2017) found that having women on the board of directors plays a critical role in advancing accounting conservatism and generating earnings reports of superior quality. According to several studies (Abbott et al., 2012; Barua et al., 2010; Srinidhi et al., 2011), female directors have a positive influence on the quality of financial reporting, which may lessen the requirement for external auditor assurance. Additionally, the research of Miglani and Ahmed (2019) indicated a strong and favourable correlation between audit fees and audit committee diversity. Besides, Ittonen et al. (2010) claimed that audit committees with female members are more diligent and typically pay lower audit costs.

Taken as a whole, these reasons imply that women will probably enhance the board's oversight role. Therefore, this study makes the case that having women on the audit committee limits the scope of the audit job and, consequently, lowers the related audit fees. The hypothesis of this study is developed as follows:

**H4:** There is a positive relationship between audit committee gender diversity and audit fees

## **Audit Committee Independence**

Auditor independence is essential to the audit profession, a vital component of the corporate reporting process, and a necessary condition for adding value to the audited financial statements (Ping et al., 2011). Previous research indicated that an independent audit committee can strengthen the dependability of the accounting process (Yatim et al., 2006), protect the financing reporting of the oversight functions process (Abbott et al., 2004), and increase the efficiency of the monitoring of the management activity (Husnin et al., 2016).

According to Klein (2002), audit committee members are chosen to operate independently to settle disputes between management and outside auditors to provide objective financial reports as they may disagree when selecting the accounting processes. Besides, Beasley et al. (2000) argued that companies with lower levels of audit committee independence are more prone to experience financial statement fraud. This is consistent with the findings of Mardessi (2021), who reported that audit committee independence enhances the quality of financial reporting in the Netherlands, primarily by curbing the manipulation of sales figures. However, regional context appears to influence this relationship. For instance, Safari Gerayli et al. (2021) found no significant association between audit committee independence and financial reporting quality in Iran. Similarly, An (2023) concluded that audit committee independence does not significantly affect audit quality in Korea.

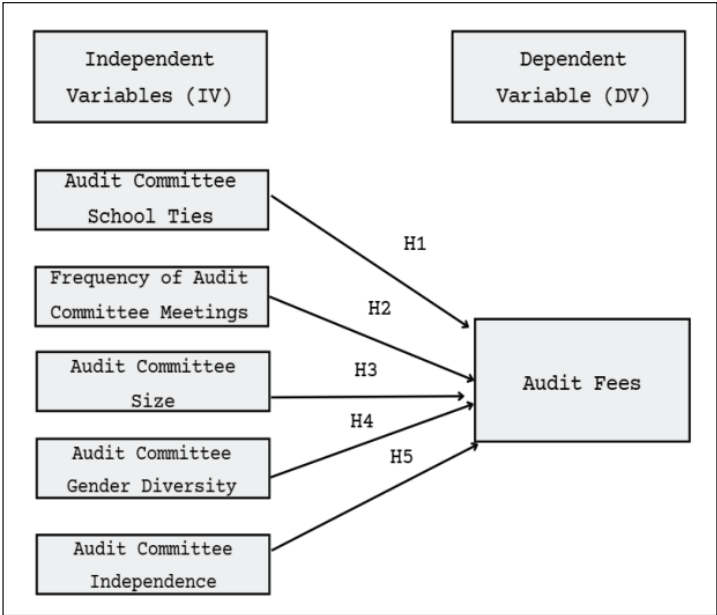
Ali and Meah (2021) examined the factors influencing audit committee independence and argued that it is shaped by both the structure of the corporate board and the size of the audit committee. Their findings indicate that audit committee independence tends to increase with larger board size and a higher proportion of independent directors. They also found that smaller audit committees are generally more independent than larger ones. Furthermore, audit committees were reported to exhibit greater independence in firms with institutional ownership compared to those with concentrated ownership by directors.

In Malaysia, Malaysian governance suggests that the audit committee should be composed primarily of independent directors and that all

members should be non-executive directors (MCCG, 2021). Research conducted in Malaysia revealed that the audit committees have a significant impact on the performance of firms. Jeffrey et al. (2011) stated that audit committee independence plays a crucial role in maintaining the accuracy of financial reporting as the committee may guarantee the integrity of the financial reporting to minimise the tendency of management to manipulate the accounts for their own interests. Saleh et al. (2007) argued that the composition of the audit committee affects company performance and suggested that the committee should have three characteristics – a high percentage of members with accounting expertise, a majority of independent members, and a high meeting frequency. Therefore, the hypothesis of this study is developed as follows:

**H5:** There is a positive relationship between audit committee independence and audit fees

Figure 1 below depicts the conceptual framework diagram, which illustrates the relationships between the variables used in the study that guides the hypotheses development and study design.



**Figure 1: Conceptual Framework of the Study**

METHODOLOGY

Sample Selection

This study employs a quantitative research design, utilizing secondary data drawn from firms listed in the FTSE Bursa Malaysia Top 100 Index between 2019 and 2023. The analysis excludes firms from the financial services sector, as this sector is governed by distinct regulations and governance structures. Data were sourced from the Malaysian Code on Corporate Governance (MCCG) 2017, annual reports of the respective companies, and the websites of the Securities Commission (SC) and Bursa Malaysia. The availability of yearly reports and the fact that MCCG 2017 had been in force for a year led to the selection of the research period. As a result, it is anticipated that businesses will have put the recommendations of MCCG 2017 into practice starting in 2018. Companies with incomplete information and outliers were also removed, resulting in a final sample of 395 companies as presented in Table 1.

Table 1: Sample selection

Description	Sample size
Listed firms on FTSE Bursa Malaysia Top 100 Index as of December 2023	100
Less: Firms from the financial sector	(13)
Less: Firms with incomplete data	(8)
<b>Total firms</b>	<b>79</b>
Times: Number of years observed	5
<b>Total observations</b>	<b>395</b>

Model Specification

A multiple regression model was utilized to test the hypotheses surrounding the influence of audit committee characteristics on audit fees. The regression model is articulated as follows:

$$\text{LNFEED} = \beta_0 + \beta_1(\text{TIES}) + \beta_2(\text{ACFREQ}) + \beta_3(\text{ACSIZE}) + \beta_4(\text{ACGD}) + \beta_5(\text{ACIN}) + \beta_6(\text{Firm Size}) + \beta_7(\text{Leverage}) + \beta_8(\text{ROA}) + \epsilon$$

The dependent variable in this study is audit fees, designated as LNFEED, which is measured using the natural logarithm of the fees charged by external auditors (Hay et al., 2008). The independent variables are audit

committee characteristics comprised of audit committee school ties (TIES), the frequency of audit committee meetings (ACFREQ), audit committee size (ACSIZE), audit committee gender diversity (ACGD), and audit committee independence (ACIN), where all the definitions of variables have been sought from prior studies (e.g. Hay et al., 2008; Harymawan et al., 2025; Yatim et al., 2006; Ahmed et al., 2024). All the data regarding the audit committee is taken from the corporate governance section of the companies' annual reports. Following prior audit fee studies (e.g. Hay et al., 2008; Yatim et al., 2006), the control variables comprise of the main determinants of audit fees such as client's size (FIRMSIZE), leverage (LEVERAGE) and profitability (ROA). It is expected that larger firms typically have more intricate financial reporting needs, leading to potentially higher audit fees. Audit clients with high leverage can pose increased financial risk, necessitating more extensive audit procedures and potentially higher fees. This variable helps account for variations in audit fees tied to the firm's financial risk profile. ROA, a critical measure of operational efficiency, is used as a control variable to examine its influence on audit fees. It reflects the effectiveness with which a company utilizes its assets to generate profit. By controlling for ROA, the analysis aims to clarify the effects attributed to audit committee characteristics independent of profitability. The definitions of the variables and source of reference are shown in Table 2 below:

**Table 2: Definition of Variables**

Variable	Definition	Reference
LNFEETIES	Natural log of audit fees paid by the firm Dummy variable = 1 if any of the audit committee members have the same educational affiliation as the external auditor, either at the undergraduate or graduate level; and 0 if otherwise	Hay et al., (2008) Harymawan et al. (2025)
ACFREQ	Number of audit committee meetings held during the year.	Yatim et al. (2006)
ACSIZE	Number of directors in the audit committee	Ahmed et al. (2024)
ACGD	Proportion of female directors in the audit committee	
ACIN	Proportion of independent directors in the audit committee	
FIRMSIZE	Natural logarithm of total assets	Yatim et al. (2006)
LEVERAGE	Debt to total assets ratio	
ROA	Profit before interest and tax divided by total assets	
ε	Error term	

Data analysis for this study was conducted using the Statistical Package for the Social Sciences (SPSS). Descriptive statistics were employed to summarize the dataset, followed by multiple regression and correlation analyses to assess the impact of independent variables on audit fees.

## RESULTS AND DISCUSSION

### Univariate Analysis

#### *Descriptive statistics*

Table 3: Descriptive Statistics

Continuous Variable	N	Min	Max	Mean	Std. Deviation
LNFEED	395	104000	12200000	1005337.71	1294903.302
TIES	395	0	1	0.84	0.371
ACFREQ	395	3	14	5.53	1.709
ACSIZE	395	2	8	3.91	1.034
ACGD	395	0.0000	0.7500	0.249407	0.2451283
ACIN	395	0.5000	1.0000	.898102	0.1712478
FIRMSIZE	395	5285099	99962520	39328052.27	24044241.567
LEVERAGE	395	0.0002	1.0000	0.213478	0.2623577
ROA	395	-0.7936	.8829	0.049208	0.1317070

Table 3 summarizes the results of descriptive statistics. The analysis includes 395 observations, showing audit fees that range from a minimum of RM104,000 to a maximum of RM12,200,000, with an average of RM1,005,337.71. This indicates substantial audit fees along with significant variability, reflecting differences in audit complexity or firm size.

Audit committee school ties (TIES) reveal that 84% of firms have social connections, suggesting their influence in the Malaysian corporate environment, which may affect audit fees due to heightened governance risks. The frequency of audit committee meetings (ACFREQ) averages 6 per year, indicating regular oversight, while fewer meetings may indicate governance challenges. The average audit committee size (ACSIZE) is 3.91 members, showing a preference for smaller committees for efficiency, though some firms choose larger ones for enhanced expertise. Gender diversity (ACGD) is low, with only 24.9% of committee members being female, highlighting challenges in achieving gender balance.

Most audit committees maintain a high level of independence (ACIN) at 89.8%, although some firms meet only the minimum independence requirement. Firm size, indicated by total assets, varies significantly, with an average of RM3.93 billion, emphasizing the complexity of these firms. Leverage averages at 21.3%, reflecting moderate debt reliance, but there is wide variability in financial strategies. The average return on assets (ROA) is 4.92%, indicating moderate profitability, though some firms report negative ROA, which may increase audit fees due to the need for closer scrutiny. Overall, these findings highlight the complex factors influencing audit fees in the context of Malaysian corporate governance.

### **Normality test**

The analysis in Table 4 indicates that, except for the dependent variable LNFEF, all independent variables are normally distributed, as their skewness and kurtosis values remain below the thresholds of 3 and 10, respectively. In contrast, LNFEF exhibits a skewness of 3.577 and a kurtosis of 18.617, indicating a non-normal distribution. The Kolmogorov-Smirnov test further confirms this non-normality with a significant p-value of 0.001, suggesting LNFEF's data distribution is not normal. Additionally, all variables in the analysis show significant results ( $p < .05$ ) according to the test, reinforcing the findings. Previous research, as cited by Orcan (2020), advises using various methods to assess data normality, including skewness and kurtosis calculations or analyzing histograms of the dependent variable.

**Table 4: Normality Test**

Variables	Skewness		Kurtosis		Tests of Normality Kolmogorov-Smirnov <sup>a</sup>	
	Stat.	Std. Error	Stat.	Std. Error	Stat.	Sig. <sup>b</sup>
LNFEF	3.577	0.123	18.617	0.245	0.261	<0.001
TIES	-1.816	0.123	1.306	0.245	0.507	<0.001
ACFREQ	2.150	0.123	6.089	0.245	0.262	<0.001
ACSIZE	1.171	0.123	1.209	0.245	0.240	<0.001
ACGD	.310	0.123	-1.323	0.245	0.284	<0.001
ACIN	-1.420	0.123	0.583	0.245	0.425	<0.001
FIRMSIZE	0.869	0.123	-0.221	0.245	0.136	<0.001
LEVERAGE	1.192	0.123	0.163	0.245	0.292	<0.001
ROA	2.799	0.123	18.947	0.245	0.297	<0.001



### Correlation analysis

This study employs the Pearson Product Moment Correlation Coefficient matrix to explore relationships among various variables. Results indicate that the likelihood of no correlation is very low.

Table 5 reveals a strong positive correlation between audit committee meeting frequency (ACFREQ) and audit fees (LNFEED) ( $r = 0.394$ ,  $p < 0.001$ ), suggesting that more frequent meetings lead to higher audit fees due to increased discussions and oversight, thereby requiring greater auditor involvement. Similarly, a positive correlation exists between leverage (LEVERAGE) and LNFEED ( $r = 0.416$ ,  $p < 0.001$ ), indicating that firms with higher financial risk tend to incur higher audit fees, consistent with the idea that auditors charge more for higher-risk clients.

**Table 5: Pearson Correlation Matrix**

	LNFEED	TIES	ACFREQ	ACSIZE	ACGD	ACIN	FIRMSIZE	LEVERAGE	ROA
LNFEED	1	-.137**	.394**	.075	.101*	.048	-.099*	.416**	-.102*
TIES	-.137**	1	-.250**	-.130**	-.085	.051	-.102*	.061	-.114*
ACFREQ	.394**	-.250**	1	.164**	.124*	.120*	-.043	-.002	-.094
ACSIZE	.075	-.130**	.164**	1	.085	-.120*	-.056	-.192**	-.058
ACGD	.101*	-.085	.124*	.085	1	.199**	-.023	-.039	.017
ACIN	.048	.051	.120*	-.120*	.199**	1	-.117*	.025	.008
FIRMSIZE	-.099*	-.102*	-.043	-.056	-.023	-.117*	1	-.099*	-.016
LEVERAGE	.416**	.061	-.002	-.192**	-.039	.025	-.099*	1	.319**
ROA	-.102*	-.114*	-.094	-.058	.017	.008	-.016	.319**	1

\* denotes significance at 0.05 level

In contrast, a negative correlation is observed between school ties (TIES) and LNFEED ( $r = -0.137$ ,  $p < 0.01$ ), suggesting that stronger connections among audit committee members may reduce audit fees due to improved governance efficiency. However, this could also lead to less rigorous oversight if biases emerge.

Profitability, as measured by return on assets (ROA), is negatively correlated with LNFEED ( $r = -0.102$ ,  $p < 0.05$ ), indicating that more profitable firms typically pay lower audit fees due to perceived lower risk. Additionally, independent audit committees meet less frequently ( $r = -0.250$ ,  $p < 0.001$ ), suggesting a focus on efficient governance.

Gender diversity in audit committees (ACGD) positively correlates with leverage ( $r = 0.199, p < 0.001$ ), indicating that riskier firms may seek diverse perspectives for critical decisions. Interestingly, firm size shows a weak negative correlation with audit fees ( $r = -0.099, p < 0.05$ ), suggesting that larger firms may benefit from economies of scale, which can reduce per-unit audit costs, though this advantage might diminish in complex governance structures requiring more thorough audits.

Multicollinearity

Table 6: Checking for Multicollinearity Using VIF

Model	Collinearity Statistics	
	Tolerance	VIF
TIES	0.881	1.135
ACFREQ	0.872	1.146
ACSIZE	0.899	1.113
ACGD	0.936	1.068
ACIN	0.909	1.100
FIRMSIZE	0.957	1.045
LEVERAGE	0.847	1.181
ROA	0.862	1.160

a. Dependent Variable: LNFEE

The multicollinearity issue was not identified because, as shown by the correlation matrix in Table 5, none of the variables were higher than the cut-off value of 0.90. To further check for multicollinearity, the VIF was computed for each independent variable. According to the data in Table 6, all the independent variables had VIF values of less than 2, indicating that there is no multicollinearity problem.

Multivariate Analysis

Regression analysis

Table 7 evaluates the relationship between audit fees (LNFEE, as the dependent variable) and several independent variables and the control variables, including financial and governance-related factors, such as ROA, ACIN, FIRMSIZE, ACSIZE, TIES, ACGD, ACFREQ, and LEVERAGE. The R Square recorded is 0.3999. This indicates that approximately 39.9% of the variance in audit fees is explained by the independent variables. While this is a respectable level of explanatory power for social science research,

it suggests that additional factors not included in this model could also influence audit fees. The Durbin-Watson (d) test was employed to test the autocorrelation assumption. The result shows, as indicated by the Durbin-Watson value of 1.174 in Table 7, that it is less than 3.

**Table 7: Model Summary of the Regression Model**

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.631 <sup>a</sup>	0.399	0.386	1014512.934	1.174

a. Predictors: (Constant), ROA, ACIN, FIRMSIZE, ACSIZE, TIES, ACGD, ACFREQ, LEVERAGE

b. Dependent Variable: LNFEET

The significance of this model in forecasting companies audit fees is ascertained using the ANOVA table. Table 8 indicates that the model is statistically acceptable for forecasting firm audit fees, with a significance value of 5 percent ( $F = 31.985$ ,  $p = <.001$ ).

**Table 8: Analysis of Variance (ANOVA)**

ANOVA <sup>a</sup>					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	2.380	8	3.797	31.985	<0.001 <sup>b</sup>
Residual	3.100	386	1.322		
Total	6.500	394			

a. Dependent Variable: LNFEET

b. Predictors: (Constant), ROA, ACIN, FIRMSIZE, ACSIZE, TIES, ACGD, ACFREQ, LEVERAGE

**Table 9: Multiple Regression**

Coefficients <sup>a</sup>					
Model	Unstandardised Coefficients		Standardised Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	5.240	0.513		10.218	<.001
TIES	-0.124	0.048	-0.110	-2.428	0.016
ACFREQ	0.064	0.011	0.263	7.644	<0.001
ACSIZE	0.001	0.017	0.003	2.032	0.043
1 ACGD	0.013	0.072	0.008	1.714	0.087
ACIN	-0.078	0.103	-0.032	-0.126	0.900
FIRMSIZE	0.029	0.063	0.019	-1.056	0.292
LEVERAGE	0.856	0.070	0.540	12.038	<0.001
ROA	-0.829	0.138	-0.263	-5.757	<0.001

a. Dependent Variable: LNFEET

Table 9 presents the results of a regression analysis examining the impact of audit committee characteristics on audit fees. The model includes five independent variables: audit committee school ties (TIES), frequency of meetings (ACFREQ), committee size (ACSIZE), gender diversity (ACGD), and independence (ACIN), along with three control variables: firm size (FIRMSIZE), leverage (LEVERAGE), and return on assets (ROA). Key findings show that ACFREQ, ACSIZE, ACGD, and LEVERAGE have positive coefficients, while TIES, ACIN, FIRMSIZE, and ROA have negative coefficients. Statistically significant relationships were found for TIES, ACFREQ, ACSIZE, and ACGD.

The significant negative coefficient for TIES ( $B = -0.124$ ,  $p = 0.016$ ), suggests that school ties can reduce fees due to familiar relationships that could lower perceived governance risks. This finding of lower audit fees when the audit committee and external auditors have the same school ties is contrary to studies by Bliss *et al.* (2011), Harymawan *et al.* (2025), Nasih *et al.* (2023), Alhababsah (2019) and Guan *et al.* (2016), which argued that social ties between these two parties can negatively affect audit quality and may lead to higher audit fees, as auditors could exhibit bias in favour of their clients.

The coefficient for ACFREQ is significantly and positively associated with audit fees ( $B = 0.064$ ,  $p < 0.001$ ), indicating that more frequent meetings lead to higher fees. This finding is in contrast to Abbott *et al.* (2003) and Boshnak (2021) but consistent with Mat Yassin and Nelson (2012) and Januarti *et al.* (2020) which supports the argument that regular audit committee meetings indicates that the committee is more conscientious, which may lead to a greater audit coverage at various audit phases.

ACSIZE is also significantly positively related with audit fees ( $B = 0.001$ ,  $p = 0.043$ ), emphasizing the need for careful balance in committee size to enhance efficiency. This finding is in contrast with Farooq *et al.* (2018) and Abel *et al.* (2024), but consistent with Drogalas *et al.* (2021) and Ali *et al.* (2018). The finding suggests that a larger and more resourceful audit committee demands better quality audit work, hence paying higher audit fees.

ACGD also demonstrates a significant positive relationship with audit fees ( $B = 0.013, p = 0.087$ ), supporting the notion that gender diversity can improve governance and decision-making quality. This finding is consistent with Miglani and Ahmed (2019) but in contrast to Ittonen *et al.* (2010). Finally, audit committee independence (ACIN) shows an insignificant negative relationship with audit fees, consistent with prior studies by An (2023).

Likewise, firm size (FIRMSIZE) has a negative but insignificant relationship with fees, suggesting that other factors may moderate its effect. Among control variables, LEVERAGE has a strong positive and significant effect on audit fees ( $B = 0.856, p < 0.001$ ), confirming that riskier firms incur higher audit costs. Conversely, ROA presents a negative and significant association with fees, reflecting that more profitable firms tend to require less rigorous auditing, as they are perceived to be lower financial risks.

In summary, the analysis supports H2, H3, and H4 while rejecting H1 and H5. The results of the hypothesis testing is summarised in Table 10 below.

Table 10: Summary of Hypothesis Results

	Hypothesis	Findings
H1	There is a positive significant relationship between audit committee school ties and audit fees	Not Supported
H2	There is a positive significant relationship between frequency of audit committee meetings and audit fees	Supported
H3	There is a positive significant relationship between audit committee size and audit fees	Supported
H4	There is a positive significant relationship between audit committee gender diversity and audit fees	Supported
H5	There is a positive significant relationship between audit committee independence and audit fees	Not Supported

## **CONCLUSION**

This study examined the influence of audit committee characteristics on audit fees within the Malaysian context. The findings demonstrate that audit committee school ties, meeting frequency, size, and gender diversity are significant factors associated with audit fees, while audit committee independence and firm size show no significant impact. These results highlight the complex interactions between governance structures and audit cost considerations, especially in emerging market contexts.

The negative relationship between school ties and audit fees suggests that personal affiliations within the audit committee may lower the perceived governance risk, potentially leading to cost reductions. However, this observation contrasts with concerns raised in earlier research about the risks of compromised independence, indicating that the effect of school ties is contextually dependent. In contrast, the positive and significant relationships observed for frequency of meetings, committee size, and gender diversity suggest that audit committees that are more engaged, diverse, and structurally robust may enhance oversight functions. These characteristics can increase the scope and intensity of audit work, which in turn leads to higher audit fees. The absence of a significant relationship between audit committee independence and audit fees raises important questions about the practical influence of independence on audit outcomes in the Malaysian setting. Among other influencing factors, higher financial leverage is associated with increased audit fees, reinforcing the view that firms with greater financial risk require more extensive audit procedures. On the other hand, firms with stronger profitability tend to incur lower audit costs, likely due to perceptions of reduced audit risk.

Overall, these findings support the signalling theory and offer valuable insights for corporate leaders, auditors, and regulators. Companies should be mindful of the trade-offs between strengthening audit committee functions and managing the associated financial implications. While enhancing gender diversity and increasing meeting frequency may contribute to better oversight, these measures may also elevate audit costs. Regulators may consider reviewing existing governance guidelines to ensure that they encourage audit committee attributes that are most effective in promoting transparency and accountability.

This study is subject to several limitations. Firstly, the sample size is restricted to the top 100 FTSE Bursa Malaysia companies, which may limit the generalisability of the findings. While these firms represent a significant portion of Malaysia's corporate landscape, their governance practices and resources may differ substantially from smaller or privately held companies. For example, smaller firms might lack the resources to implement comprehensive governance structures, potentially leading to different dynamics between audit committees and auditors. Future research could address this limitation by including a broader sample of firms. Second, the measurement of school ties poses challenges. Quantifying these social connections relies on proxies, such as shared alma maters or overlapping educational histories, which may not fully capture the depth or influence of these relationships. Additionally, the study does not account for other types of interpersonal ties, such as familial or professional connections, which could also impact audit fees. For example, familial relationships between audit committee members and management might introduce additional complexities in governance that warrant further investigation. Thirdly, as highlighted by DeFond and Zhang (2014) caution need to be exercised when interpreting the findings as an increase in audit fees cannot be unambiguously interpreted as an increase in audit quality as changes in the level of audit fees can be explained from both supply and demand perspectives. While higher audit fees may reflect greater audit effort, they could also represent a risk premium charged by the auditor to compensate for an increased likelihood of legal or financial liabilities (Seetharaman et al., 2002; Bell et al., 2008). Even changes in the auditor's efficiency may also be reflected in fluctuations in audit fees.

Future studies could expand the scope by exploring other determinants of audit fees, including industry-specific characteristics, cultural influences, or the role of audit committee expertise. Comparative studies across different countries could also offer broader insights into how governance practices shape audit outcomes in varying institutional contexts. In conclusion, this study contributes to the growing literature on audit governance by showing how specific attributes of audit committees are associated with audit fee levels. These findings underscore the need for balanced, evidence-based governance strategies that promote both audit quality and financial sustainability.

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