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EFFECT OF MANAGEMENT CHANGE, FINANCIAL DIFFICULTIES, FIRM SIZE, AND AUDIT DELAY ON AUDIT FEE.

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ABSTRACT

This study examines the influence of management change, financial difficulties, firm size, and audit delay on audit fees in healthcare companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. The research aims to analyze how these factors affect the determination of audit fees. A quantitative approach with panel data regression analysis was used to assess the relationships among these variables. The results indicate that management change, financial difficulties, and audit delay do not significantly impact audit fees. However, firm size significantly affects audit fees, suggesting that larger companies tend to incur higher audit costs due to greater operational complexity. The findings provide valuable insights for auditors, investors, and regulators, aiming to enhance transparency, efficiency, and the quality of financial reporting.

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INTRODUCTION

In the context of global economic competition, companies in Indonesia face various challenges in maintaining their business sustainability. Effective financial management is one of the key factors for a company's success, where appropriate financial policies can influence the company's overall performance (Zainal, 2024). One important aspect of financial management that significantly impacts the stability of financial statements is the audit fee. Audit fees are often used as an indicator of the quality of financial oversight and the transparency of a company's financial reports.

However, there is a common phenomenon in this sector, namely the influence of several factors on audit fees, such as management changes, financial difficulties, company size, and audit delays. Frequent management changes can affect the stability and investor confidence in the company, leading to increased audit fees (Khairunnisa & Pattawe, 2025). Additionally, financial difficulties faced by the company can increase the complexity of the audit, raising audit fees due to the higher risks in financial assessment (Rhamadhani & Heriyati, 2025). Company size is another important factor in determining audit fees, with larger companies generally incurring higher audit fees due to the complexity of their operations and the larger number of assets that need to be audited (Adimas et al., 2024). Furthermore, audit delays are often associated with higher audit fees, as delayed audits may indicate problems in completing financial reports on time, potentially increasing both the time and cost required (Tasya & Kuntadi, 2024).

Several previous studies have extensively discussed the factors influencing audit fees, particularly in relation to management changes and financial difficulties. Research by Khairunnisa & Pattawe (2025) found that management changes can lead to increased audit fees, while another study by Alauddin (2024) suggested that companies facing financial difficulties have higher audit fees. However, the combined influence of these factors, including company size and audit delays, is still rarely studied together.

Therefore, this study aims to empirically test the impact of management changes, financial difficulties, company size, and audit delays on audit fees in healthcare sector companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. This research contributes to filling the research gap by considering multiple factors simultaneously, with a particular focus on the healthcare industry, which has been underexplored in previous audit fee studies. The findings are expected to offer valuable insights into the determinants of audit fees in emerging markets, providing guidance for auditors, investors, and regulators to improve transparency, efficiency, and audit quality in financial reporting.

LITERATURE REVIEW

The application of agency theory (Jensen & Meckling, 1976) in auditing provides valuable insights into how audit fees are influenced by various factors, such as management changes, financial difficulties, firm size, and audit delays. The theory highlights the conflict of interest between managers (agents) and owners (principals), and in situations where this conflict is high, independent audits act as a mechanism to ensure accountability. The following discussion outlines how these factors align with agency theory and its relationship to audit fees.

Audit Fee

Audit fees reflect the auditor's effort and perceived risk in performing audit engagements. Drawing on agency theory (Jensen & Meckling, 1976), when conflicts of interest exist between managers (agents) and owners (principals), independent audits serve as a control mechanism to ensure accountability. Higher agency risk typically translates into higher audit effort and, consequently, increased audit fees. Meanwhile, signal theory (Spence, 1973) suggests that audit delay or other firm-specific signals can influence how auditors assess risk and complexity, affecting pricing decisions.

Management Change

Agency theory, as explained by Anthony and Govindarajan (2002), describes the contractual relationship in which one party (the principal/shareholder) engages another party (the agent/management) to perform services on their behalf, including decision-making activities related to company operations. In this context, auditors act as independent agents who ensure that financial statements are presented fairly and reliably. The relationship between management and auditors reflects an agency relationship, where auditors are hired to audit financial statements to enhance their relevance, reliability, and investor confidence.

Financial Difficulties

Financial difficulties refer to a condition in which a company is unable to meet its financial obligations due to a lack of funds, resulting in operational disruptions and the potential risk of bankruptcy. Firms experiencing financial difficulties tend to engage in more aggressive tax avoidance practices as a means of ensuring business continuity (Nadhifah & Arif, 2020).

Firm Size

Firm size represents the scale of a company's operations as measured by its total assets, which can be utilized to support operational activities. According to Suharli (2006), companies with larger total assets allow management greater flexibility in utilizing resources, which can enhance firm value. Sudarsi (2002) further explains that firm size can be measured using the natural logarithm of total assets. Generally, larger firms possess stronger financial capacity, operational stability, and greater access to external financing.

Audit Delay

Audit refers to the systematic process of collecting and evaluating objective evidence concerning an organization's economic activities to provide an impartial assessment (Junus et al., 2022). Timely audit completion is essential for maintaining market confidence since audit delay, defined as the length of time between the fiscal year-end and the auditor's report date, can be perceived negatively by investors as an indication of potential problems within the company. Delays that exceed the deadline set by the Indonesian Financial Services Authority (OJK) may result in administrative sanctions such as warning letters or monetary penalties (Nathasya, 2022).

RESEARCH HYPOTESIS

Management Change and Audit Fee

Management changes introduce uncertainty in governance, often requiring auditors to reassess control environments, policies, and financial assumptions. Auditors must spend additional time understanding the new management's strategies, especially during the initial year of transition (Blankley et al., 2012). This situation increases audit complexity and perceived risk, which may lead to higher audit fees. Some studies affirm this positive relationship (Lee et al., 2009), while others (Al-Hamdan & Sawan, 2017) find insignificant effects, revealing a gap in the literature.

H1: Management change has a positive effect on audit fee.

Financial Difficulties and Audit Fee

Firms experiencing financial difficulties are generally perceived as high-risk audit clients. According to Habib et al. (2019), such conditions may involve going concern issues, aggressive accounting, and heightened misstatement risk, compelling auditors to perform extensive procedures. From an agency perspective, the risk of misreporting increases when firms face financial pressure, thereby elevating audit effort and fees (Bell et al., 2001).

H2: Financial difficulties have a positive effect on audit fee.

Firm Size and Audit Fee

Larger firms tend to be more complex in terms of operations, transactions, and regulatory requirements. Auditors need more resources and time to evaluate such entities, leading to higher audit fees (Hay et al., 2006). However, economies of scale in audit processes may counteract this, especially if large firms have strong internal control systems. This duality has led to mixed findings in prior research.

H3: Firm size has a positive effect on audit fee.

Audit Delay and Audit Fee

Audit delay is a critical signal indicating potential audit issues, poor internal controls, or managerial inefficiencies. Signal theory posits that extended audit lag could increase perceived risk, resulting in longer audit procedures and higher fees (Carslaw & Kaplan, 1991). While some studies confirm this relationship (Afify, 2009), others report no significant impact, creating ambiguity in the literature.

H4: Audit delay has a positive effect on audit fee.

RESEARCH METHODS

This study employs a quantitative approach to examine the effect of management changes, financial distress, firm size, and audit delay on audit fees among healthcare sector companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. A total of 20 companies were selected based on specific criteria. Data analysis was conducted using panel data regression with EViews version 12.0.

The variables used in this study consist of the dependent variable, and independent variables.
Dependent Variable (Y)

Audit Fee, which represents the compensation received by external auditors for auditing a company's financial statements. The audit fee reflects the complexity and risk of the audit, the size of the company, and the audit completion time. It is measured using the natural logarithm of the total audit fee (Ln Audit Fee) paid by the company to the Public Accounting Firm (KAP) during one financial reporting period (Simunic, 1980). With the following calculation model:
Audit Fee:

Audit Fee = Ln (Audit Fee)

Independent Variable (X)
Management Change (X_1)
Management change refers to the replacement of key executives or top management within a company, such as the CEO or board of directors. This change can influence company policies and strategies, including relationships with auditors and decisions related to financial reporting. This variable is a dummy variable, where companies experiencing a management change are assigned a value of 1, and those without a management change are assigned a value of 0 (Susan and Trisnawati, 2011).

Change In Management = 1 No Management Change = 0

Financial Dificulties

Financial distress describes a condition in which a company experiences financial difficulties that may hinder its ability to meet its obligations. Companies facing financial difficulties are considered to have a higher audit risk, which can affect the level of audit effort and consequently the audit fee. This variable is measured using the leverage ratio, specifically the Debt to Equity Ratio (DER), which compares total debt to total capital (Harahap, 2011).

Debt to Equity Ratio = $\frac{\text{Total Debt}}{\textit{Total Capital}} x\ 100\%$

Company Size (X_3)
Company size reflects the scale or magnitude of a company's operations, which can influence the complexity of the audit process and the level of audit risk. Larger companies generally require more extensive audit procedures due to their wider operational scope and more complex transactions. In this study, company size is measured by the natural logarithm of total assets (Suparlan and Andayani, 2010).

Company Size = Ln (Total Assets

Audit Delay (X_4)
Audit delay refers to the time span from the company's fiscal year-end to the date the audit report is issued. A longer audit delay indicates that the audit process takes more time to complete, which may reflect the complexity of the audit, the quality of internal controls, or issues encountered during the audit process. This variable is used to measure the timeliness of audit completion (Istamar & Utomo, 2023).

Audit Delay = Audit Report Date – Fiscal Year-End Date

EViews 12 software is used to process data and perform regression testing. The statistical tests used are Significance Test (t - test) and R^2 (Coefficient of Determination).

RESEARCH RESULTS AND DISCUSSION

Descriptive Statistics
Healtcare Companies 2021 - 2024

	N	Minimum	Maximum	Mean	Std. Deviation
Audit Fee	80	10457000	2.06E+10	1.76E+09	3.89E+09
Management Change	80	0.000000	1.000000	0.175000	0.382364
Financial Difficulties	80	0.051000	4.590000	0.790113	0.918666
Firm Size	80	0.000000	1.000000	0.462500	0.501737
Audit Delay	80	36.00000	234.0000	88.58750	29.30965
Valid N (listwise)	80				

Source: Data processed by Eviews 12

Based on the results of the descriptive statistical analysis, it can be seen that the data used in this study consist of 80 observations during the 2021–2024 period. The variables used include Audit Fee (AF), Managerial Change (MC), Financial Distress (FD), Company Size (CS), and Audit Delay (AD).

The Audit Fee (AF) variable shows a maximum value of 2.06 and a minimum value of 1,045,700, with an average of 1.76 and a standard deviation of 3.89. This means that the audit fee values among companies vary quite widely. The Managerial Change (MC) variable has a maximum value of 1.000 and a minimum of 0.000, with an average of 0.175 and a standard deviation of 0.382. This indicates that not all companies have managerial ownership, and the proportion of ownership varies between firms.The Financial Distress (FD) variable has a maximum value of 4.590 and a minimum of 0.051, with an average of 0.790 and a standard deviation of 0.918. These results show that the level of financial distress in the sample companies differs quite significantly. The Company Size (CS) variable shows a maximum value of 1.000 and a minimum value of 0.000, with a average of 0.462 and a standard deviation of 0.501, indicating that firm sizes in the sample are relatively balanced. The Audit Delay (AD) variable has a maximum value of 234 days and a minimum value of 36 days, with an average of 88.58 days and a standard deviation of 29.31. This means that the duration of audit completion among companies varies considerably.

Panel Data Regression Model Selection

Chow Test : indicate that the Fixed Effect Model (FEM) is the most appropriate model compared to the Common Effect Model (CEM). This is evidenced by the *Cross-section F* and *Chi-square* values being lower than the 0.05 significance level, suggesting significant differences among cross-sectional units.

Hausman Test: the results support this conclusion. The *random cross-section* probability value of 0.8143, which exceeds the 0.05 significance level, indicates that the Random Effect Model (REM) is more appropriate than the Fixed Effect Model (FEM), as there is no significant correlation between individual effects and the independent variables.

Lagrange Multiplier (LM) Test: shows a Breusch-Pagan probability value of 0.000, which is less than 0.05. Based on this result, it can be concluded that the Random Effect Model (REM) is more appropriate than the Common Effect Model (CEM).

Based on the combination of the results from the three tests, the Random Effect Model (REM) is regarded as the most appropriate panel data regression model to be applied in this study, as it best represents the characteristics of the data and provides consistent outcomes.

HYPOTESIS TESTING

Based on the results of the Adjusted R-Square Test (Coefficient of Determination), the Adjusted R-square value of 0.208421 shows that 20.84% of the variation in the dependent variable can be explained by the independent variables in the model, while 79.16% is influenced by other factors outside the model. Based on the results of the Partial Significance Test (t-test), the Management Change variable shows a value greater than 0.05, indicating it is not significant; the Financial Difficulties variable shows a value greater than 0.05, indicating it is not significant; the Company Size variable shows a value less than 0.05, indicating it is significant; and the Audit Delay variable shows a value greater than 0.05, indicating it is not significant.

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	2.87E+09	9.17E+08	3.127840	0.0025
Management Change	-540909955	1.63E+08	-0.331801	0.7409
Financial Difficulties	8413826	16349127	0.514635	0.6082
Firm Size	-2.52E+09	6.36E+08	-3.957697	0.0002
Audit Delay	-727011.3	2696792	-0.269584	0.7882

Source: Data processed by Eviews 12

Based on the results of the partial significance test (t-test) for Audit Fee and Audit Delay, it can be concluded that the Management Change variable has a T-statistic of -0.331801, which is less than the t-table value of 1.989319, indicating that it does not have a significant effect on Audit Fee. The Financial Difficulties variable has a T-statistic of 0.514635 < t-table 1.989319, also showing an insignificant effect on Audit Fee. In contrast, the Firm Size variable has a T-statistic of -3.957697, which is greater than the t-table value of 1.989319, indicating that it has a significant effect on Audit Fee. Meanwhile, the Audit Delay variable has a T-statistic of -0.269584 < t-table 1.989319, indicating that it does not have a significant effect

CONCLUSION

This study examines the impact of management change, financial difficulties, firm size, and audit delay on audit fees in healthcare companies listed on the Indonesia Stock Exchange (IDX) during 2021–2024. The results indicate that while management change, financial difficulties, and audit delay do not significantly affect audit fees, firm size does, with larger firms incurring higher audit costs due to greater financial complexity. This research contributes to understanding audit pricing behavior in emerging markets, particularly in the healthcare industry, and provides valuable insights for auditors, investors, and regulatory authorities in improving transparency and efficiency in financial reporting. Limitations of the study include its focus on healthcare companies and reliance on secondary data, which may not fully capture all factors influencing audit fees.

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