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Unraveling Audit Fee Dynamics: How Auditor Reputation Moderates Corporate Attributes in the Middle Eastern Landscape

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ABSTRACT

Concerns over audit fee structures have intensified following high-profile corporate failures, such as the collapse of NMC Health in the UAE, where questions were raised about the impact of long-term auditor relationships and high fees on audit independence. This highlights the critical need to understand the factors that influence audit fees, especially in sectors where audit quality is paramount. This study investigates the determinants of audit fees in publicly listed healthcare firms across Middle Eastern stock exchanges during 2022–2024 period. Specifically, it examines how firm risk, firm size, and firm profitability influence audit fees, with auditor reputation as a moderating variable. Using a dataset of 273 firm-year observations and applying multiple linear regression analysis, the findings reveal that firm size has a significant positive effect on audit fees, while firm profitability and firm risk both exhibit significant negative effects. Additionally, auditor reputation strengthens the positive relationship between firm size and audit fees but does not significantly moderate the relationship between profitability and audit fees. Interestingly, auditor reputation weakens the negative effect of firm risk on audit fees, suggesting nuanced pricing strategies among highly reputable auditors. These results contribute to a deeper understanding of audit fee dynamics within a sector and region that remain underexplored in existing literature. The study also highlights the importance of considering contextual factors such as audit firm reputation when evaluating audit cost structures.

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INTRODUCTION

In an increasingly complex and competitive business environment, transparency and accountability are essential for corporate sustainability. One of the critical aspects in maintaining the integrity of financial reporting is the external audit process. An independent external audit not only provides assurance regarding the fairness of financial statements but also plays a strategic role in safeguarding stakeholder trust. As compensation for their work, auditors are remunerated through audit fees. However, audit fees also present an inherent dilemma: while

auditors are expected to maintain strict independent and objective judgment in forming their opinions, they are simultaneously financially compensated by the very clients they audit (Rimet & Syakirin, 2024). This duality can create a potential conflict of interest, raising concerns about the extent to which auditor objectivity is preserved in practice.

A notable example is observed in the case of NMC Health, a major healthcare provider based in the United Arab Emirates (UAE). Prior to its collapse in 2020, which was triggered by the revelation of over USD 4 billion in undisclosed debt, NMC Health had consistently received unqualified audit opinions. Ernst & Young (EY), the company's external auditor since its initial public offering (IPO), had garnered substantial audit fees, approximately £14 million, over the course of many years from this long-term engagement. This raised significant concerns regarding the auditor's objectivity, particularly with respect to whether such a financially and professionally close relationship might have compromised the impartial conduct of the audit. The NMC Health case serves as a poignant illustration of how high audit fees can compromise auditor objectivity and, consequently, the overall effectiveness of the audit process. Excessively low audit fees, on the other hand, can significantly hinder audit quality by restricting the allocation of necessary resources for a comprehensive and effective audit. The reduction in available audit resources heightens the risk of undetected misstatements or fraudulent activities, ultimately undermining the integrity and reliability of financial reporting. Consequently, such constraints can erode stakeholder confidence in the accuracy and trustworthiness of the financial information presented (Nurbaiti et al., 2024).

Based on this phenomenon, it is crucial to conduct research on the determinants of audit fees since audit fees are not determined arbitrarily, rather, they are influenced by a range of internal and external corporate factors. Identifying and analyzing these determinants can shed light on the balance between ensuring adequate compensation for auditors and maintaining their independence, objectivity, and overall effectiveness in the audit process. This research will specifically examine corporate attributes such as company risk, company size, and company profitability as key determinants of audit fees. A number of prior studies have explored the determinants of audit fees. However, their findings remain inconclusive and exhibit considerable variability. The study conducted by Gymnastiar et al., (2024) demonstrates that firm risk has a positive influence on audit fees. However, contrasting findings were reported by Lasniroha et al. (2022), who found that firm risk does not significantly affect audit fees. Furthermore, in relation to profitability, both Lasniroha et al. (2022) observed a positive relationship between profitability and audit fees. On the other hand, Saputra & Miftah (2024) found no significant effect of profitability on audit fees. Regarding firm size, they reported a positive association with audit fees, whereas Fisabilillah et al. (2020) concluded that firm size does not have a significant impact on audit fees.

This research is grounded in agency theory, which posits that conflicts of interest arise between principals (e.g., shareholders) and agents (e.g., management) due to divergent objectives and unequal access to information (Jensen & Meckling, 1976). In this context, external audits serve as a vital monitoring mechanism to reduce information asymmetry and ensure the credibility of financial reporting. Audit fees, therefore, represent the cost of this monitoring process and are influenced by the perceived complexity, risk, and governance structure of the audited firm. From an agency theory perspective, analyzing the determinants of audit fees is essential, as they can serve as s ignals of the monitoring effort required to protect stakeholder interests and uphold financial transparency.

This study differs from previous research in two significant ways. First, it introduces auditor reputation as a moderating variable, which has been largely overlooked in earlier studies despite its potential to influence the strength and direction of the relationship between company characteristics and audit fees. Second, the novelty of this research also lies in its focus on healthcare companies in the Middle East, a sector and region that are relatively underexplored in the audit fee literature. The healthcare industry is chosen due to its strategic and critical role during and after the COVID-19 pandemic. The pandemic has placed unprecedented pressure on healthcare

systems and companies, resulting in increased public scrutiny, regulatory attention, and financial volatility, all of which heighten the relevance of audit quality and transparency in financial reporting. The Middle East region, meanwhile, is undergoing significant regulatory and economic transformation, making it a timely and relevant setting for investigating audit practices. Furthermore, this study uses the most recent data from 2022 to 2024, offering updated empirical insights in the post-pandemic era and enhancing the relevance of the findings for current policy and practice.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory, introduced by (Jensen & Meckling, 1976), is a key concept in financial economics that explains conflicts between principals (shareholders) and agents (company management). It highlights issues such as information asymmetry, where agents, due to their managerial role, hold more information than principals, and the potential for agents to act in their own interests rather than those of the owners.

Auditors serve as an independent mechanism to reduce these conflicts by safeguarding shareholder interests (Simamora & Hendarjatno, 2019). Through objective audits of financial statements, internal controls, and accounting practices, auditors enhance the credibility of financial information and reduce agency risk. They also assess broader internal and external factors affecting the firm's sustainability (Hardi et al., 2020).

The Impact of Firm Risk on Audit Fee

Firm risk refers to the degree of uncertainty associated with a firm's operations, financial performance, and external environment (Oktris et al., 2025). Firms with higher risk profiles, characterized by volatile earnings, complex operations, weak internal controls, or exposure to uncertain regulatory or economic conditions, necessitate more extensive audit procedures. Auditors, in response to elevated risk, are required to increase audit effort, apply more rigorous testing, and exercise heightened professional skepticism. These additional procedures translate into greater time commitment and resource allocation, which are reflected in higher audit fees.

Moreover, auditors face increased litigation and reputational risk when auditing high-risk clients. To mitigate these risks and compensate for the additional audit complexity, auditors typically charge a premium. Prior literature supports this association, indicating that firm risk is positively related to audit pricing (e.g., Izzani & Khafid, 2022; Jatmika & Nurdin, 2023). Therefore, it is reasonable to expect that firms exhibiting higher levels of risk will incur greater audit fees (**H1**).

The Impact of Firm Size on Audit Fee

Firm size pertains to the measurement of a firm's scale or magnitude, typically assessed through specific indicators such as total assets, market capitalization, or revenue levels (Elisa & Amanah, 2021). The size of a firm has significant implications for audit complexity, audit risk, and the scope of audit procedures required. Larger firms generally operate with more complex organizational structures, engage in a higher volume of diverse transactions, and maintain operations across multiple geographical locations. These characteristics necessitate more extensive audit work, longer audit hours, and the involvement of more experienced audit personnel, all of which contribute to higher audit fees.

Empirical studies have consistently demonstrated a positive association between firm size and audit fees. For instance, Fisabillillah et al. (2020) found that larger firms typically possess greater resources, enabling them to afford higher audit fees compared to smaller firms. Furthermore, the research of Saputra & Miftah (2024) assert that auditors face greater risks when auditing large companies, which consequently leads to higher audit fees charged to the audited firms. Given these considerations, it is reasonable to posit that firm size exerts a significant positive influence on audit fees (**H2**).

The Impact of Firm Profitability on Audit Fee

Firm profitability refers to a company's ability to generate earnings relative to its expenses and other relevant costs during a specific period (Jayathilaka, 2020). From an auditor's perspective, highly profitable firms may present both greater risk and higher expectations. On one hand, auditors may perceive

higher profitability as a potential incentive for earnings management or aggressive financial reporting practices, which in turn requires more extensive audit procedures to ensure the reliability of financial statements. This increased audit effort often translates into higher audit fees. Moreover, auditors may charge a premium to profitable firms, anticipating that these clients have a lower likelihood of financial distress and a higher ability to pay.

Empirical evidence supports this notion. Studies such as those by Agustina et al. (2023) and Januarti & Wiryaningrum (2018) identified a positive association between profitability and audit fees, attributing it to the heightened complexity and materiality of revenue and expense recognition. Thus, this research proposes that firm profitability is positively associated with audit fees (**H3**).

The Moderating Effect of Auditor Reputation on The Relations Between Firm Risk, Firm Size, Firm Profitability, and Audit Fee

Auditor reputation is commonly associated with audit quality and perceived credibility in the market. Auditors from large and well-established firms, referred to as Big Four, are perceived to provide higher quality audits due to their extensive resources, standardized methodologies, and stronger incentives to protect their reputations (Judijanto & Iskandar, 2024). As a result, clients audited by reputable auditors are often subject to more stringent audit procedures, which may influence the structure and magnitude of audit fees.

Firms with higher risk profiles are typically associated with greater audit complexity and require more extensive audit procedures. These risks increase the auditor's potential exposure to litigation or reputational damage, prompting auditors to demand higher fees as compensation for the elevated audit effort and associated risks. When reputable auditors are involved, however, the risk factor might be more carefully scrutinized and incorporated into the audit fee structure. Due to their cautious approach and strict internal policies, reputable auditors may further accentuate the sensitivity of audit fees to client risk levels. Hence, this study anticipates that auditor reputation positively moderates the relationship between firm risk and audit fee (**H4**).

Larger firms are often subject to greater public scrutiny and regulatory oversight due to their economic significance and broader stakeholder base. Accordingly, these firms may prefer to engage high-quality audit services to enhance the credibility of their financial statements and maintain investor confidence. Engaging reputable audit firms, often associated with higher service fees, further drives up audit costs for large companies. Therefore, this research hypothesizes that auditor reputation strengthens the positive influence of firm size on audit fee (**H5**).

Profitable firms typically possess greater financial capacity, which enables them to procure and prioritize higher-quality audit services. Such firms are strategically positioned to invest in reputable auditors as a means of signaling financial transparency, enhancing the credibility of their disclosures, and mitigating information asymmetry. Consequently, the presence of a reputable auditor may amplify the positive relationship between firm profitability and audit fees (**H6**).

RESEARCH METHOD

This research focuses on publicly listed healthcare firms traded on Middle Eastern stock exchanges over 2022–2024 window. Using purposive sampling, this study retained 91 firms that met the predefined inclusion criteria, namely, the availability of complete, relevant financial data and the absence of extreme outlier characteristics. Observing each firm across three fiscal years produces a balanced panel of 273 firm-year observations. This investigation draws exclusively on secondary data, specifically, the audited financial statements of the sampled firms. These statements are publicly obtainable from multiple channels, including the S&P Capital IQ Pro commercial database, the official websites of the relevant stock exchanges, and the companies' own investor-relations portals.

The empirical work employs multiple linear regression, all executed in STATA version 17. The analytical sequence comprises descriptive statistics, model-selection diagnostics, model-specification tests, and hypothesis test. The nexus among the variables is estimated via the following generic panel-data regression model:

Model 1
AFEEit = β0 + β1FIRMRISKit + β2FIRMSIZEit + β3FIRMPROFITit + β4AFIRMit + e
Model 2
AFEEit = β0 + β1FIRMRISKit + β2FIRMSIZEit + β3FIRMPROFITit + β4AFIRMit + β5AFIRMxFIRMRISKit + B6AFIRMxFIRMSIZEit + β7AFIRMxFIRMPROFITit + e
β0 : Constant Coefficient
β1, β2, β3…. β7 : Regression Coefficient
i : Firm i
t : Year t
FIRMRISK : Firm Risk
FIRMSIZE : Firm Size
FIRMPROFIT : Firm Profit
AFIRM : Auditor Reputation
AFIRMxFIRMRISK : Interaction between AFIRM and FIRMRISK
AFIRMxFIRMSIZE : Interaction between AFIRM and FIRMSIZE
AFIRMxFIRMPROFIT: Interaction between AFIRM and FIRMPROFIT
e : Residual Errors

RESULTS AND DISCUSSIONS

Descriptive Statistical Analysis

The mean of AFEE is 3.0335, with a standard deviation of 2.0565, indicating substantial variability across firms. Values range from -2.8134 to 9.0065, reflecting a wide dispersion. The skewness of 0.6119 suggests a slight rightward skew, yet it remains within acceptable limits. The kurtosis value of 3.1758 indicates a moderately peaked distribution, consistent with normality. The mean of FIRMRISK is 0.3867, with a standard deviation of 0.5391, suggesting that most firms in the sample exhibit relatively low risk, albeit with noticeable variation. A skewness of 1.7371 points to a moderate rightward skew, while a kurtosis of 5.1370 implies a somewhat sharper peak than the normal distribution, but still within reasonable bounds. The mean of FIRMSIZE is 5.5479, with a standard deviation of 2.6159, reflecting considerable variation in firm size. The distribution is nearly symmetrical (skewness = 0.1166) and exhibits moderate kurtosis (2.6395), indicating a shape close to normal.

The mean of FIRMPROFIT is -0.2289, suggesting that, on average, firms experienced negative profitability. A standard deviation of 0.4684 indicates substantial variation across firms. The distribution is left-skewed (skewness = -1.6038), nearing the threshold for significant skewness. A kurtosis of 4.5108

Table 1 Variables and the Measurements

Variable	Proxy	Formula
Audit Fee (AFEE)	Natural Logarithm of Audit Fee (Alamsyah & Januarti, 2024)	$Ln\,(Audit\ Fee)$
Firm Risk (FIRMRISK)	Debt-to-Equity Ratio (DER) (Gymnastiar et al., 2024)	$\frac{Total\ Debt}{Total\ Equity}$
Firm Size (FIRMSIZE)	Natural Logarithm of Total Asset (Fisabilillah et al., 2020)	$Ln\,(Total\ Asset)$
Firm Profitability (FIRMPROFIT)	Return on Asset (ROA) (Lasniroha et al., 2022)	$\frac{Net\ Income}{Total\ Asset}$
Auditor Reputation (AFIRM)	Dummy Variable (Nelwan et al., 2021)	0: non-Big4 1: Big4

Source: processed by the authors, 2025

Table 2 Descriptive Statistical Result

Variable	Min	Max	Mean	Std. Dev.	Skew	Kurt
AFEE	-2,813	9,006	3,033	2,056	0,611	3,175
FIRMRISK	-0,076	1,954	0,386	0,539	1,737	5,137
FIRMSIZE	-1,584	12,100	5,547	2,615	0,116	2,639
FIRMPROFIT	-1,523	0,176	-0,228	0,468	-1,603	4,510
AFIRM	0	1	0,238	0,426	1,229	2,512

Source: processed using STATA, 2025

Table 3 Descriptive Statistical Result

Variabel	*Shapiro-Wilk*	*Shapiro-Franchia*	*Skew/ Kurt*
	p-value	p-value	p-value
AFEE	0,0000	0,0000	0,0010
FIRMRISK	0,0000	0,0000	0,0000
FIRMSIZE	0,0012	0,0025	0,2185
FIRM-PROFIT	0,0000	0,0000	0,0000
AFIRM	0,0034	1,0000	0,0000

Source: processed using STATA, 2025

reflects a more peaked distribution than normal, yet still within acceptable limits. The mean value of AFIRM is 0.2380, indicating that approximately 23.8% of firms employ auditors from large audit firms. The distribution is moderately right-skewed (skewness = 1.2298), while the kurtosis value of 2.5125 suggests a distribution within the normal range.

Classical Assumption Analysis

Normality Test

Based on Table 3, only the variables FIRMSIZE and AFIRM are statistically significant (p-value < 0.05), while the remaining variables are not. However, the results of the descriptive statistics indicate that all variables meet the normality assumption, with skewness values below 3 and kurtosis values below 10. Given the sample size of 273, the data satisfy the Central Limit Theorem and align with the normality guidelines, making them appropriate for further analysis.

Multicolinearity Test

As presented in Table 4, all tolerance values (1/VIF) and the mean VIF are approximately 1 and well below the threshold of 5, indicating no significant multicollinearity among the variables.

Table 4 Multicolinearity Test Result

Variable	VIF	Nilai Tolerance (1/VIF)
FIRMRISK	1,16	0,863390
FIRMSIZE	2,07	0,481982
FIRMPROFIT	1,94	0,514838
AFIRM	1,25	0,797659
Mean VIF	1,61	

Source: processed using STATA, 2025

Table 5 Heteroscedasticity Test Result (Breusch-Pagan/Cook-Weisberg)

Model	Chi^2	p-value	Conclusion
1	0,06	0,8144	Homoscedasticity
2	0,61	0,4346	Homoscedasticity

Source: processed using STATA, 2025

Heteroscedasticity Test

Based on the results presented in Table 5, the Prob > Chi^2 values for Research Models 1 and 2 are 0.8144 and 0.4346, respectively, both substantially exceeding the conventional significance threshold of 0.05. These results indicate the absence of heteroskedasticity issue in both models.

Autocorrelation Test

Table 6 presents Durbin–Watson values of 1.9561 for Model 1 and 1.9692 for Model 2, both of which are near the ideal value of 2. These results indicate no autocorrelation in the residuals, confirming the assumption of independent errors in both models.

Coefficient Determination (R-squared)

As shown in Table 7, Model 1 produces an R-squared value of 0.8344, indicating that 83.44% of the variation in audit fees (AFEE) is explained by the independent variables. Model 2, which includes interaction terms, yields a higher R-squared of 0.8577, meaning 85.77% of the variation is explained. The remaining 16.56% and 14.23%, respectively, are attributed to other factors not captured in the regression models.

Table 6 Autocorrelation Test Result (Durbin Watson)

Model	Total Variable	Durbin-Watson
1	5	1,956054
2	8	1,969201

Source: processed using STATA, 2025

Table 7 Coefficient Determination (R-squared)

Model	Total Variable	R-squared
1	5	0,8344
2	8	0,8577

Source: processed using STATA, 2025

Table 8 Overall Significance Test (F-test) Result

Model	Total Variable	F-test
1	5	0,0000
2	8	0,0000

Source: processed using STATA, 2025

Overall Significance Test (F-test)

Table 8 shows that both Model 1 and Model 2 yield p-values of 0.0000, which are significantly lower than the conventional significance level of 1%. This indicates that at least one of the independent variables has a significant impact on the dependent variable (AFEE).

Hypothesis Test

The variable FIRMRISK has a coefficient of -0.3520 with a p-value of 0.000, indicating a statistically significant negative effect on AFEE. This suggests that higher firm risk is unexpectedly associated with lower audit fees. Therefore, hypothesis 1 is rejected. FIRMSIZE exhibits a strong positive coefficient of 0.8839 with a p-value of 0.000, indicating that larger firms tend to incur higher audit fees. Thus, hypothesis 2 is supported. FIRMPROFIT has a negative coefficient of -1.6832 with a p-value of 0.000, suggesting that more profitable firms are associated with lower audit fees. Therefore, hypothesis 3 is not supported .

The interaction variable AFIRM × FIRMRISK has a negative coefficient of -0.9237 with a p-value of 0.000, indicating a statistically significant negative moderating effect of audit firm type on the relationship between firm risk and audit fees. This suggests that the use of a high-reputation audit firm weakens the positive relationship between firm risk and audit fees. Thus, hypothesis 5 is not supported. The interaction variable AFIRM×FIRMSIZE shows a positive coefficient of 0.3175 and a p-value of 0.000, demonstrating a significant positive moderating effect. This implies that the positive relationship between firm size and audit fees is further strengthened when the audit is conducted by a high-reputation firm. Therefore, hypothesis 6 is accepted. In contrast, the interaction variable AFIRM×FIRMPROFIT yields a positive coefficient of 0.3000, but with a p-value of 0.446, which is not statistically significant. This indicates that audit firm type does not significantly moderate the relationship between firm profitability and audit fees. Consequently, hypothesis 7 is not supported.

Table 9 Hypothesis Test Result for Model 1

AFEE	Coeff.	Std. Err.	t-value	p-value (one-tailed)	p-value (two-tailed)
FIRMRISK	-0,352	0,102	-3,45	0,001	0,000
FIRMSIZE	0,883	0,028	31,41	0,000	0,000
FIRMPROFIT	-1,683	0,152	-11,07	0,000	0,000
AFIRM	0,373	0,134	2,78	0,006	0,003
Constant	-2,208	0,179	-12,29	0,000	0,000

Source: processed using STATA, 2025

RESULTS AND DISCUSSIONS

Firm Risk Negatively Influence Audit Fee

The research findings reveal that the variable FIRMRISK exerts a significantly negative impact on audit fees (AFEE). This finding aligns with the studies conducted by Musa et al. (2020) dan Harahap et al. (2018), which assert that even when a company has greater debt obligations than equity, public accountants may still perform audits at a lower audit cost. Companies with high leverage are typically expected to provide more detailed disclosures, particularly to satisfy the information needs of long-term creditors. By offering comprehensive and reliable disclosures, these companies reduce the need for auditors to conduct extensive investigations into the capital structure, thereby streamlining the audit process. This increased transparency facilitates a more efficient audit, which in turn reduces the audit fees charged. As a result, even in cases where a company's liabilities exceed its assets, auditors can complete the financial audit more efficiently and at a lower cost (Izzani & Khafid, 2022).

Moreover, a salient characteristic of the companies in the healthcare sector in the Mid-

Table 10 Hypothesis Test Result for Model 2

AFEE	Coeff.	Std. Err.	t-value	p-value (one-tailed)	p-value (two-tailed)
FIRM-RISK	-0,031	0,115	-0,27	0,784	0,392
FIRMSIZE	0,790	0,031	25,39	0,000	0,000
FIRM-PROFIT	-1,377	0,153	-8,99	0,000	0,000
AFIRM	-1,402	0,462	-3,03	0,003	0,001
AFIRMxFIRMRISK	-0,923	0,236	-3,90	0,000	0,000
AFIRMxFIRMSIZE	0,317	0,057	5,49	0,000	0,000
AFIRMxFIRMPROFIT	0,300	2,204	0,14	0,892	0,446
Constant	-1,744	0,194	-8,97	0,000	0,000

Source: processed using STATA, 2025

dle East was the high level of institutional ownership. Institutional investors are known to strengthen corporate governance and bolster internal control systems. They typically demand robust financial reporting transparency, which enhances the credibility of disclosures and reduces information asymmetry. Empirical evidence suggests that large shareholders and institutional blockholders are associated with lower audit effort and consequently lower audit fees (Shakhatreh & Alsmadi, 2021).

Firm Size Positively Influence Audit Fee

This study finds that firm size has a significant positive effect on audit fees, meaning that larger firms tend to incur higher audit costs. Firm size, measured by total assets, reflects operational complexity and transaction volume, both of which necessitate more extensive audit procedures. Consequently, auditors must allocate additional time and resources to ensure audit quality, thereby increasing audit fees (Nathasya & Yohanes, 2022). This finding is consistent with (Syafii & Dewi, 2022), who state that higher audit fees result from the increased time and effort required to audit firms with complex structures and high transaction volumes. Furthermore, this study's findings are supported by (Fachriyah, 2024) and align with agency theory, which suggests that larger firms face greater agency conflicts due to the separation of ownership and control. To mitigate these risks, principals demand more extensive external audits to reduce information asymmetry and managerial opportunism. As audit scope and complexity increase, so do the required resources—ultimately raising audit fees.

Firm Profitability Negatively Influence Audit Fee

High firm profitability is empirically assumed to have a negative influence on audit fees. From the perspective of agency theory, more profitable firms are generally perceived as having lower audit risk due to their stable financial condition, strong internal control systems, and greater compliance with financial reporting standards. As a result of this lower risk profile, auditors are not required to perform extensive or complex audit procedures, which reduces the effort and time needed for the audit process, ultimately leading to lower audit fees. Furthermore, profitable firms tend to exhibit operational efficiency and well-structured accounting information systems, facilitating easier access and verification of financial data by auditors (Gaynor et al., 2016). From the standpoint of the audit services market, highly profitable companies often possess greater bargaining power and are considered ideal clients for public accounting firms, prompting auditors to offer more competitive pricing in order to maintain long-term client relationships(Huang et al., 2007).

Moreover, firms in this sector often operate under strict regulatory environments, with public or semi-public institutional involvement, and are frequently highly profitable due to government subsidies or monopolistic service structures. These factors contribute to strong internal controls and financial stability, thereby lowering the perceived audit risk. Moreover, the presence of large institutional investors and government-linked entities may also reinforce corporate governance practices, allowing auditors to rely more heavily on management representations and existing control systems. Studies by (Lawati & Sanad, 2023) and (Campa et al., 2025) show that in heavily regulated and state-influenced sectors, high profitability often coincides with reduced audit complexity due to enhanced transparency and oversight, which further explains the lower audit fees observed.

Empirical evidence further reinforces this inverse relationship between profitability and audit fees. For instance, Musa et al. (2020) in their study of quoted consumer goods firms in Nigeria, found that firms with lower profitability tend to implement strict cost-cutting measures, including reductions in overhead expenditures. These reductions can weaken internal control systems, thereby increasing audit risk and necessitating more extensive audit procedures, ultimately driving up audit fees. Moreover, Izzani & Khafid (2022) argue that firms with high profitability typically experience lower levels of agency conflict. As a result, agency costs, including audit fees, can be minimized due to stronger governance structures and more transparent financial reporting. Collectively, these findings suggest that firm profitability not only signals financial stability but also contributes to reduced audit complexity and cost.

Audit Reputation Weakens the Negative Influence of Firm Risk on Audit Fee

This study reveals that auditor reputation has a moderating effect that weakens the negative relationship between firm risk and audit fees. Specifically, auditors with strong reputations, typically those classified as part of the Big Four, are associated with higher audit fees. This outcome aligns with the findings of (Novriansa et al., 2023), who assert that audit firms within the Big Four category are recognized for their high audit quality, which stems from their strong reputations, extensive experience, and superior efficiency and effectiveness. Consequently, these firms tend to charge premium audit fees. Similarly, the study conducted by (Sanusi Anwar Muhammad, 2017) supports this conclusion, indicating that engaging a Big Four audit firm results in significantly higher audit costs. This is primarily attributed to the reputational assurance and quality guarantee provided by such firms, which justify the premium pricing of their services.

Audit Reputation Strengthens the Positive Influence of Firm Size on Audit Fee

This research found that audit firms play a critical role in strengthening the positive relationship between firm size and audit fees. Larger firms typically exhibit greater organizational complexity, higher transaction volumes, and increased exposure to various risks, all of which necessitate more extensive and rigorous audit procedures. In this context, the involvement of reputable audit firms, particularly those among the Big Four, known for their substantial resources and industry-specific expertise, enhances the effectiveness and scope of the audit process. These firms adhere to higher quality standards and, consequently, tend to charge higher audit fees, especially when auditing large-scale entities that demand a high level of accuracy and precision.

Furthermore, large firms often engage prominent audit firms to bolster the credibility of their financial statements in the eyes of investors, regulators, and the broader public. This strategic choice reinforces the positive influence of firm size on audit fees, as the combination of organizational scale and premium audit quality results in significantly higher costs. Thus, audit firms not only serve as service providers but also function as moderating factors that amplify the impact of firm size on audit pricing. This finding is consistent with the studies conducted by Zielma & Widyawati (2019) and Putro & Sasongko (2023), which identified a positive relationship between audit firm and audit fee, primarily attributed to the reputation effect associated with the audit firm.

Audit Reputation Does Not Moderate the Negative Influence of Firm Profitability on Audit Fee

This research demonstrates that auditor reputation does not moderate the negative relationship between firm profitability and audit fees. Whether the auditor is affiliated with a Big 4 firm or a non-Big 4 firm, does not significantly influence the effect of profitability on audit costs. This finding is consistent with the study by (Panjaitan & Haryanto, 2021), which found that the status of a public accounting firm, whether large or small, does not significantly affect the amount of external audit fees paid by companies.

This suggests that firms do not base audit fee decisions solely on the auditor's reputation. Instead, factors such as auditor-client loyalty and long-term relationships play a more dominant role. In practice, companies often retain auditors they know and trust, regardless of the audit firm's status. This highlights the importance of trust and shared experience over institutional prestige in determining audit costs. Furthermore, (Fachriyah, 2024) further supports this, showing no significant relationship between PAF size and audit fees, attributed to competitive pricing and the preference for smaller firms to reduce costs without compromising quality.

CONCLUSIONS

Based on the research findings, it is concluded that firm size has a significant positive influence on audit fees. Conversely, firm profitability and firm risk exhibits a significant negative effect on audit fees. Regarding the moderating role of auditor reputation, the results indicate that high-reputation auditors strengthen the positive relationship between firm size and audit fees. However, auditor

reputation does not significantly moderate the relationship between profitability and audit fees. Moreover, the reputation of auditors weakens the negative effect of firm risk on audit fees.

Despite its contributions, this study is limited to healthcare firms in the Middle East, potentially restricting the generalizability of the results to other industries or regions. Additionally, the use of secondary data means that unobservable qualitative factors, such as auditor-client dynamics or internal governance practices, are not captured. Future research should consider expanding to other sectors and geographic contexts, incorporating longer time horizons, and examining additional moderating variables such as audit tenure, regulatory environment, or internal control quality.

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