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## THE EFFECTS OF INTERNAL AUDIT, EFFECTIVENESS, AND GENDER DIVERSITY OF AUDIT COMMITTEE ON AUDIT FEE

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**Abstract:** The objective of this study is to assess and analyze the impacts of internal audit, effectiveness, and gender diversity of the audit committee on audit fees. The data was harvested from the annual reports of 52 property and real estate companies listed on the Indonesia Stock Exchange in 2023. The results of the analysis indicate that the audit's internal functions positively influence the audit fee. The audit committee's effectiveness was assessed by measuring its proxies with the following results. Audit committee size, audit committee's meeting frequency, and audit committee expertise have no effect on audit fees, and the committee's gender diversity also has no effect on the audit fee. The positive effects indicate the presence of the internal audit functions supporting the demand perspective, where the better the resources in the company, the more quality audits will be demanded. On the contrary, the absence of the effect of audit committee effectiveness and gender diversity of the audit committee on audit fees indicates an opposition to both the demand perspective and the supply perspective.

**Keywords:** Audit Committee Effectiveness, Audit Committee Gender Diversity, Audit Fee, Internal Audit, Supply and Demand Side Perspectives

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## INTRODUCTION

One of the primary mechanisms through which companies communicate their activities to shareholders and other stakeholders is the publication of annual financial statements (Mustapha et al., 2020). However, such reports often raise concerns among stakeholders regarding their accuracy and reliability, thereby necessitating an external audit of the financial statements. External auditors are entitled to receive audit fees from client companies based on several considerations, including the client's needs, the auditor's duties and responsibilities, expertise, the complexity of the audit engagement, the time required to complete the audit, and other relevant factors (Wulandari & Harymawan, 2021). Because of the many factors, various issues concerning audit fees will inevitably arise. A recent issue concerning audit fees is the delayed submission of audited financial statements by 129 companies listed on the Indonesia Stock Exchange (IDX) in 2023. From that list, the property and real estate sector gives a significant number of delayed submissions with 20 companies (Mutianisa et al., 2024). Based on the delays in the submission of audited financial statements in 2023, one factor that may have contributed to these delays is the imposition of inappropriate audit fees. Audit failures or delays involving Public Accounting Firms (PAFs) can erode public trust in both the audit firm and the audited company (Suharyono & Lasminingrat, 2022). Such erosion of public confidence may lead to significant losses for the entities involved.

Previous studies have sought to identify factors that influence audit fee determination. Research by Prasad et al. (2021) and Dzikrullah et al. (2020) found that the presence of great internal audit function is associated with higher audit fees. In contrast, Yusica & Sulistyowati (2020) reported that effective internal audit functions may reduce audit fees. That research explains that internal audit has a critical role in supporting external audits by providing relevant organizational information, thereby facilitating more objective and accountable decisions by independent auditors (Junita, 2017). Several studies also identified another factor that can influence audit fees, that is, the effectiveness of the audit committee. Mustapha et al. (2020) and Nurjanah & Sudaryati (2019) found a positive relationship between audit committee effectiveness and audit fees. However, Nurjanah & Imam Amrozi (2021) reported a negative relationship. Meanwhile, Afenya et al. (2022) and Januarti et al. (2020) analyzed individual characteristics of the audit committee that contribute to its effectiveness, such as committee size, frequency of meetings, and the accounting or financial expertise of its members. Based on these studies, the audit committee is considered an influential factor in determining audit fees, as it is involved in auditor selection, determining audit fees, and audit quality (Azizkhani et al., 2023). Not only audit committee effectiveness, but some studies have also highlighted that the role of gender diversity in audit committees influences audit fee determination. Mustapha et al. (2020) found that female representation on audit committees creates positive effects on audit fees. Conversely, Afenya et al. (2022) and Alkebeese et al. (2021) reported a negative effect. From the perspective of Resource Dependence Theory (RDT), greater female representation in decision-making bodies enhances diversity and resource quality and also improves oversight functions (Del Mar Fuentes-Fuentes et al., 2023). Enhanced oversight might increase external auditors' confidence in the organization or may prompt more rigorous audit efforts, both of which can affect audit fee levels.

The object of this study is to focus on property and real estate companies listed on IDX in 2023. The delay in the submission of audited financial reports in 2023, which was dominated by companies in the property and real estate sector, suggests that mismatches in audit fee determination may play a role. These delays are not without justification, as the property and real estate sector is considered to carry higher risks, especially regarding property investments, which are subject to fluctuations in property values due to changes in interest rates, inflation, and market demand-supply dynamics (Susilowati, 2024). From this fact, we

can infer that companies operating in the property and real estate sector are exposed to high levels of risk.

The factors influencing audit fees discussed above have not yet produced consistent and conclusive findings. Despite numerous studies examining elements such as the internal audit function, the effectiveness of the audit committee, and the gender diversity within the audit committee, the results remain varied and contradictory. Over the past five years, empirical evidence has shown inconsistencies, with some studies suggesting that these variables have a positive and significant effect on audit fees, while others conclude the opposite, indicating either a negative effect or no significant relationship at all. This inconsistency in research findings suggests that the relationship between these governance mechanisms and audit fees is still an open question, potentially influenced by contextual factors such as industry characteristics or organizational structures.

From the limitations and inconsistencies of previous studies, this research is expected to contribute by providing clearer insights and greater certainty regarding the influence of internal audit, audit committee effectiveness, and audit committee gender diversity on audit fees. The novelty in this study is its focus on property and real estate sector companies listed on the Indonesia Stock Exchange (IDX), which have not been previously examined in prior research on audit fee determinants. This study is expected to assist stakeholders and companies in making informed decisions related to audits, particularly regarding audit fees and internal organizational aspects associated with the audit process. The purpose of this research is to examine and provide empirical evidence regarding the effects of internal audit, audit committee effectiveness, and gender diversity within the audit committee on audit fees.

## LITERATURE REVIEW

### Audit Fee

An audit fee is a fee received by a public accountant after carrying out their audit services, where the amount of the fee depends on the risk of the assignment, the complexity of the service, the level of expertise required to carry out the audit service, and the cost structure of the relevant KAP (Yulianto & Sulistyowati, 2021). The audit fee is established through a contract between the auditor and the auditee (the client company) (Alhadisa & Yusrianti, 2024).

### Supply and Demand Perspective

The determination of audit fees is closely tied to the economic principle of supply and demand, known as the supply and demand perspective. Hay et al. (2004) investigated this perspective to identify factors influencing audit fee determination, one of which is the company's internal control. From the supply side, which reflects the external auditor's viewpoint, strong internal control within a company reduces audit risk, thereby lowering the audit fee. Conversely, from the demand side, representing the viewpoint of top management, effective internal audit and audit committees may lead to higher audit fees. This is because higher managerial effectiveness tends to demand more reliable audit services and greater audit quality, which increases the audit fee.

### Internal Audit Function

The internal audit function is an organizational function established to oversee, control, and mitigate risks resulting from inadequate internal control systems, so a well-organized internal audit function is needed for enhancing a company's operational efficiency (Harymawan & Putri, 2023). Therefore, collaboration between internal auditors and external auditors is necessary to improve the overall effectiveness of corporate control systems.

### Audit Committee Effectiveness

Audit committee is a committee formed by and responsible to the Board of Commissioners to assist in carrying out its oversight duties and functions (PT Phapros Tbk, 2024). The audit committee has responsibility for overseeing both internal and external audit functions (Berlinna & Supriyono, 2023). This study uses three proxies to measure audit committee effectiveness. First, audit committee size refers to the number of directors appointed as audit committee members. A larger size is expected to help maintain auditor independence from management influence (Afenya et al., 2022). Second, audit committee meeting frequency, where committees that meet more frequently are considered more effective in their oversight role by engaging in regular discussions on company issues. Third, audit committee expertise, which emphasizes the necessity for audit committee members to have great accounting and financial knowledge because they are responsible for providing oversight and advising the external auditor on audit matters and financial reporting issues (Abu & Jaffar, 2020).

### Gender Diversity of the Audit Committee

The concept of gender diversity refers to the differences in characteristics shaped by social and cultural factors, which influence the perceived roles of men and women (Alhadisa & Yusrianti, 2024). According to Gender Socialization Theory by Betz and O'Connell (1989), men and women exhibit distinct behavioral tendencies in the workplace (Berlinna & Supriyono, 2023). These differences shape values, attitudes, and behaviors that influence decision-making processes. Both Resource Dependence Theory (RDT) and Agency Theory confirmed that greater female representation in decision-making bodies contributes to enhanced diversity, improved resource quality, and better oversight functions (Del Mar Fuentes-Fuentes et al., 2023).

### Theoretical Framework

This study examines three main variables that may influence audit fees: the internal audit function, the effectiveness of the audit committee, and gender diversity within the audit committee. The audit committee effectiveness variable is measured through three distinct proxies that will be tested separately for their influence on audit fees.

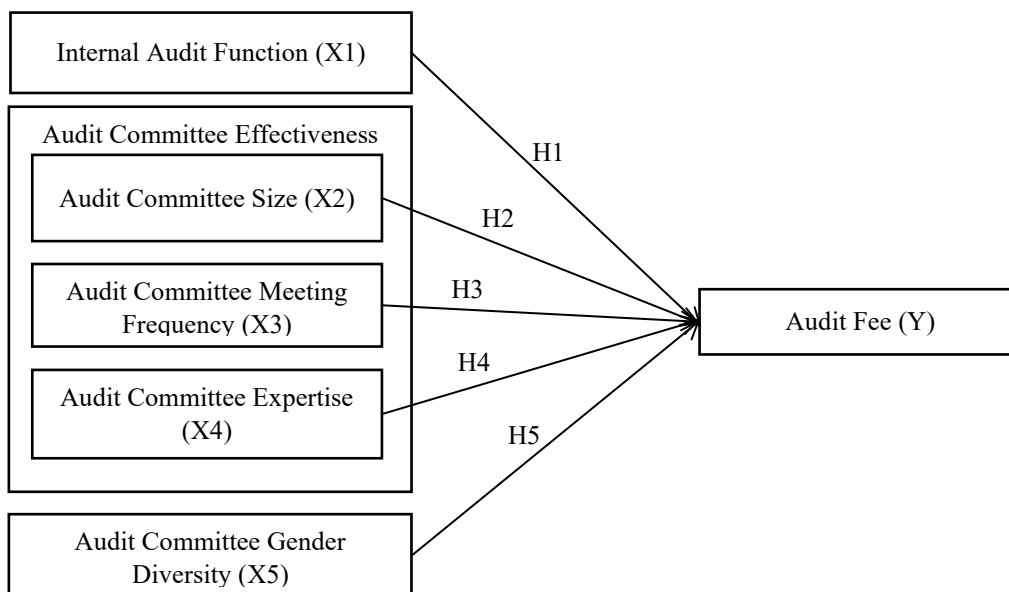


Figure 1. Theoretical Framework

## HYPOTHESIS DEVELOPMENT

The internal audit function within a company is an important component of corporate governance practices. As an essential unit responsible for supervision, control, and risk mitigation, the internal audit is expected to influence the determination of audit fees. According to Yusica & Sulistyowati (2020), the internal audit function has a negative impact on audit fees, which is because an effective internal audit function improves the efficiency and effectiveness of company operations. This finding aligns with the supply-side perspective, where external auditors perceive companies with sound corporate governance systems as having lower risk, so that requires less audit effort, which leads to lower audit fees.

**H1:** The internal audit function has a negative effect on audit fees.

The audit committee is formed by the board of commissioners to help carry out the supervisory function (Nurjanah & Sudaryati, 2019). As entities responsible for corporate governance, audit committees must operate effectively to ensure strong oversight. According to Januarti et al. (2020), from a supply side perspective, audit committee size, which is measured by the number of its members, provides adequate resources for effective monitoring. Additionally, audit committees that meet more frequently are better positioned to carry out oversight responsibilities, especially in discussing and addressing corporate issues (Januarti et al., 2020). Furthermore, audit committee expertise in finance and accounting supports the supply-side argument, in which skilled members are better able to understand financial statements, thereby facilitating a more efficient audit process (Elmashtawy et al., 2023). These factors suggest that a more effective audit committee can reduce the level of audit effort required and therefore reduce the audit fee.

**H2:** Audit committee size has a negative effect on audit fees.

**H3:** Audit committee meeting frequency has a negative effect on audit fees.

**H4:** Audit committee expertise has a negative effect on audit fees.

Beyond audit committee effectiveness, gender diversity within the committee also influences audit fee determination. A study by Alkebeese et al. (2021) found that gender diversity in audit committees has a negative effect on audit fees. The presence of female audit committee members has an influence to enhance internal control systems, which lowers audit risk and consequently reduces audit fees. This supports the argument from the supply-side perspective.

**H5:** Audit committee gender diversity has a negative effect on audit fees.

## METHOD

This study uses a causal research method with quantitative data analysis. The causal method allows us to find a relationship between the variables involved in the research. The primary objective is to analyze the causal relationship between the independent variables (internal audit function, audit committee effectiveness, and audit committee gender diversity) and the dependent variable, which is the audit fee.

The population of this study includes all property and real estate companies listed on the Indonesia Stock Exchange (IDX) in 2023. This population was selected because the study focuses on the property and real estate sector and examines how internal audit, audit committee effectiveness, and gender diversity within the audit committee influence audit fees in this industry. The population consists of companies that meet certain criteria, including being publicly listed on the IDX and having annual reports that disclose audit fee data and detailed information about senior management and audit committee members.

The measurement of variables in this study adopts established methods from previous literature. The audit fee is measured by the natural logarithm ( $\ln$ ) of the audit service fee (Handoyo et al., 2023). The internal audit function is measured using the method of



Harymawan & Putri (2023), through a dummy ratio approach based on three proxies: (1) whether the internal audit team consists of at least three members, (2) whether at least one internal auditor holds a professional certification, and (3) the existence of an internal audit department within the company. Each proxy is assigned a dummy value (1 = yes, 0 = no), summed, then divided by three to generate a ratio score.

The effectiveness of the audit committee is assessed using proxies from Januarti et al. (2020), including the number of independent audit committee members (ACSIZE), the frequency of audit committee meetings per year (ACMEET), and the number of audit committee members with accounting expertise (ACEXP). Finally, audit committee gender diversity is measured following Alkebesee et al. (2021), using the proportion of female members on the audit committee (ACFP).

**Table 1. Variable Measurement**

Variable	Measurement	Code	Source
<b>Audit Fee</b>	Natural logarithm (Ln) of audit fee	AUFEE	Handoyo et al. (2023)
<b>Internal Audit Function</b>	Ratio of dummy values from three proxies: (1) if there are at least three internal audit members, (2) at least one certified internal auditor, (3) existence of an internal audit department. $IAF = ((1)+(2)+(3))/3$	IAF	Harymawan & Putri (2023)
<b>Audit Committee Size</b>	Number of independent audit committee members	ACSIZE	Januarti et al. (2020)
<b>Audit Committee Meetings</b>	Number of audit committee meetings held in one year	ACMEET	Januarti et al. (2020)
<b>Audit Committee Expertise</b>	Number of members with an accounting background (education, experience, or certification)	ACEXP	Januarti et al. (2020)
<b>Female Audit Committee Proportion</b>	The proportion of female members on the audit committee	ACFP	Alkebesee et al. (2021)

Sources: Data Process (2024)

The study variables will be analyzed using descriptive statistics, followed by classical assumption tests to assess data suitability for regression analysis. The model's overall significance will be tested using the F-test, which evaluates the regression model's overall fit. Then, the t-test will be used to determine the individual significance of each independent variable to explain the dependent variable. The coefficient of determination ( $R^2$ ) will also be tested to measure how well the independent variables explain the variance in the dependent variable.

## RESULTS

This study utilizes secondary data that was taken from the annual reports of property and real estate companies listed on the Indonesia Stock Exchange in 2023. These annual reports were obtained from the official website of the IDX (Indonesia Stock Exchange, n.d.) or from the respective companies' official websites. A purposive sampling technique was employed to select companies that meet certain predetermined criteria. From a total population of 92

companies, a final sample of 52 companies was obtained after excluding those that did not meet the specified criteria.

**Table 2. Sampling Process**

No.	Sampling Criteria	Number of Companies
1	Property and real estate companies listed on the IDX	92
2	Companies that did not publish an annual report in 2023	-11
3	Companies that did not disclose audit fees in their annual report	-18
4	Companies that did not report the number of audit committee meetings	-1
5	Companies that did not disclose the identity and composition of the audit committee	-3
<b>Total number of eligible companies based on the criteria</b>		<b>59</b>
Companies excluded due to outliers		-7
<b>Final sample size</b>		<b>52</b>

Sources: Data Process (2024)

### Data Analysis Results

The analysis results are presented in Table 3, which displays the descriptive statistics for all variables included in the study. Subsequently, classical assumption tests are conducted to assess the validity of the regression model, including the normality test in Table 4, the heteroscedasticity test in Figure 2, and the multicollinearity test in Table 5. The outcomes of the F-test, t-test, and coefficient of determination (R<sup>2</sup> test) are presented in Tables 6, 7, and 8. Respectively, they are used to evaluate the regression model's statistical significance and explanatory power.

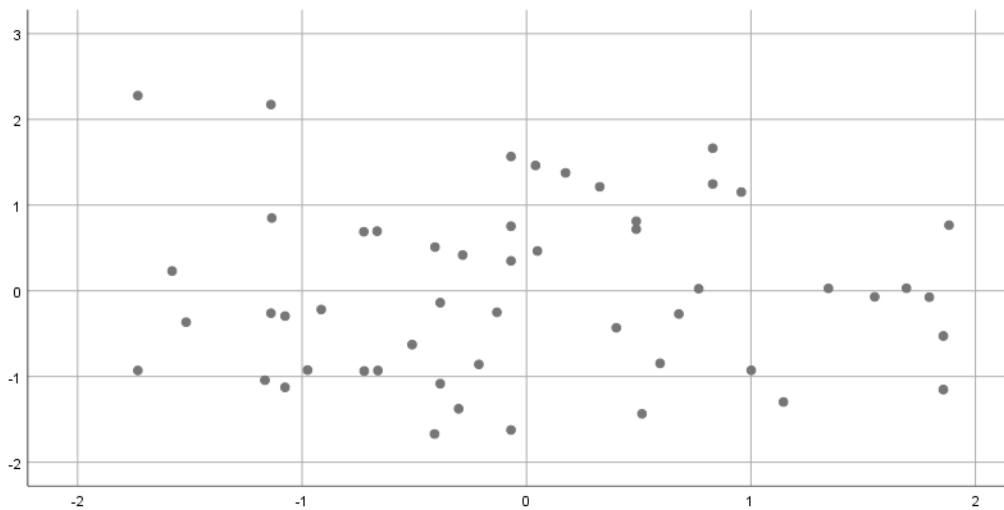
**Table 1. Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
Internal Audit Function (IAF)	52	0,33	1	0,5119	0,23523
Audit Committee Size (ACSIZE)	52	2	5	3,17	0,585
Audit Committee Meetings (ACMEET)	52	2	8	4,73	1,254
Audit Committee Expertise (ACEXP)	52	1	4	2,12	0,855
Audit Committee Gender Diversity (ACFP)	52	0,00	1,00	0,2694	0,28406
AUFEE	52	18,315	21,779	19,94396	0,972047
Valid N (listwise)	52				

Sources: Data Process (2024)

Table 2. One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual	Conclusion
N		52	
Normal Parameters <sup>a,b</sup>	Mean	0	
	Std. Deviation	0,85213241	
	Absolute	0,103	
Most Extreme Differences	Positive	0,103	
	Negative	-0,065	
Test Statistic		0,103	
Asymp. Sig. (2-tailed)		0,200 <sup>c,d</sup>	Normal



Conclusion: There is no Heteroscedasticity

Figure 1. Scatterplot Diagrams

Sources: Data Process (2024)

Table 3. Multicollinearity Test

	Collinearity Statistics		Conclusion
	Tolerance	VIF	
(Constant)			
IAF	0,875	1,143	No Multicollinearity
ACSIZE	0,665	1,503	No Multicollinearity
ACMEET	0,916	1,091	No Multicollinearity
ACEXP	0,648	1,544	No Multicollinearity
ACFP	0,773	1,294	No Multicollinearity

a Dependent Variable: AUFEE

Source: Data Process (2024)



Table 4. F-Test

Model		Sum of Squares	df	Mean Square	F	Sig.	Conclusion
1	Regression	11,156	5	2,231	2,771	0,029 <sup>b</sup>	Fit
	Residual	37,033	46	0,805			
	Total	48,189	51				

Dependent Variable: AUFEE

Source: Data Process (2024)

Table 5. t-Test

		Unstandardized B	Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Conclusion
1	(Constant)	18,854	0,919		20,508	0	
	Internal Audit Function (IAF)	1,670	0,571	0,404	2,925	0,005	H1 Rejected
	Audit Committee Size (ACSIZE)	0,257	0,263	0,155	0,976	0,334	H2 Rejected
	Audit Committee Meetings (ACMEET)	-0,029	0,105	-0,038	-0,28	0,781	H3 Rejected
	Audit Committee Expertise (ACEXP)	-0,147	0,183	-0,13	-0,808	0,423	H4 Rejected
	Audit Committee Gender Diversity (ACFP)	-0,483	0,503	-0,141	-0,96	0,342	H5 Rejected

Dependent Variable: AUFEE

Source: Data Process (2024)

Table 6. Coefficient of Determination (R<sup>2</sup> test)

Model Summary <sup>b</sup>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,481 <sup>a</sup>	0,232	0,148	0,89725

Source: Data Process (2024)

## DISCUSSION

### **The Effect of the Internal Audit Function on Audit Fee**

Based on the results shown in Table 7, the internal audit function has a positive and significant effect on audit fee. This finding indicates that H1 is rejected, suggesting that a strong internal audit function tends to increase the audit fee. This result is consistent with the studies conducted by Prasad et al. (2021) and Dzikrullah et al. (2020), which concluded that the presence of an internal audit function is associated with higher audit fees. Companies with robust internal audit mechanisms often require external auditors to enhance supervision and conduct deeper investigative procedures to ensure higher audit quality, thereby improving stakeholder trust.

In the context of property and real estate companies, an industry characterized by higher business risks, such as property value fluctuations, there is a greater need for a strong internal audit system. While internal audits aim to strengthen internal controls, external auditors may still perform additional procedures to assess the reliability of internal audit outputs. These extended audit efforts contribute to higher audit costs, consistent with the demand-side perspective, which argues that stronger internal audits lead to greater demand for high-quality external audits, and consequently, higher audit fees.

### **The Effect of Audit Committee Size on Audit Fee**

Table 7 shows that the size of the audit committee has no significant effect on audit fee, which leads to the rejection of H2. This is in line with the study conducted by Musah et al. (2022), which stated that the size of the audit committee does not have a significant effect on audit fees. This implies that the number of audit committee members will not affect the audit fees charged. A larger audit committee does not necessarily ensure more effective monitoring of the audit process or financial reporting, contradicting the demand-side perspective, which posits that larger audit committees might demand more extensive audits.

In practice, external auditors focus more on the quality of internal control systems than on audit committee size. Even in companies with large audit committees, if internal controls are deemed inadequate, audit procedures and fees may remain high. Hence, this result also challenges the supply-side perspective, where it is expected that larger, potentially more effective committees would reduce audit risk and consequently lower audit fees.

### **The Effect of Audit Committee Meetings on Audit Fee**

According to the findings in Table 7, the frequency of audit committee meetings does not significantly affect audit fees, thus H3 is rejected. This supports the study by Nugroho (2017), which stated that audit committee meetings do not have a significant effect on audit fees. The number of meetings held does not necessarily reflect audit oversight effectiveness. Even if audit committees meet frequently, this does not guarantee better governance or enhanced control systems.

This result contradicts the supply-side perspective, which suggests that more frequent meetings lead to more effective supervision, potentially reducing the extent of external audit efforts. In high-risk sectors such as real estate, frequent meetings may occur as a response to risk rather than as a sign of effective governance, and thus do not influence audit fees significantly. It also contradicts the demand-side perspective, as frequent meetings do not necessarily signal a greater demand for more thorough external audits.

### **The Effect of Audit Committee Expertise on Audit Fee**

Table 7 reports that audit committee expertise has no significant impact on audit fees, leading to the rejection of H4. This supports the study conducted by Januarti et al. (2020), which stated that when the audit committee has a background and expertise in accounting, it does not have a significant effect on audit fees. The presence of accounting expertise among

audit committee members does not directly affect the audit fees charged. Although financial expertise may theoretically enhance internal monitoring, it does not guarantee more effective controls or greater reliance on external auditors.

This finding challenges both demand-side and supply-side perspectives. From the demand side, expertise does not mean increased audit efforts. From the supply side, expertise does not reduce perceived audit risk in a way that would justify lower audit fees. Ultimately, external auditors adhere to professional standards regardless of the composition of the audit committee.

### **The Effect of Gender Diversity in Audit Committee on Audit Fee**

The results presented in Table 7 indicate that gender diversity in the audit committee does not significantly affect audit fee. Thus, H5 is rejected. This supports the study by Berlinna & Supriyono (2023), which stated that gender diversity, specifically female, in the audit committee does not have a significant effect on audit fees. Whether the audit committee comprises more or fewer women does not influence the audit fee imposed by external auditors.

External auditors tend to maintain an objective stance and focus on audit risk, scope, and complexity rather than the personal characteristics of audit committee members. Even though female presence is often associated with conservatism and risk aversion, this does not necessarily lead to stronger governance that would justify reduced audit fees. Therefore, this result contradicts both the demand side perspective, which assumes women might demand higher audit quality, and the supply side perspective, which assumes female presence might enhance monitoring effectiveness and reduce perceived audit risk.

### **IMPLICATIONS**

From an academic and theoretical standpoint, this study contributes to the literature by enhancing understanding of the determinants of audit fees, particularly about the internal audit function, audit committee effectiveness, and gender diversity, using the lens of supply and demand theories. Practically, the findings offer insights for corporate executives and independent auditors regarding key factors that may influence audit fee determination. This knowledge can support more informed decision-making by companies in managing their audit-related policies and practices.

### **RECOMENDATIONS**

Future studies are recommended to consider adding or expanding the sample, such as by including property and real estate companies from other countries or by extending the research period to cover multiple years. Further, researchers should consider incorporating additional independent variables that may affect audit fees, such as firm size, public accounting firm size, profitability, or other proxies that may better capture audit committee effectiveness. This study is not without limitations. First, not all property and real estate companies listed on the IDX have publicly disclosed their 2023 annual reports, which limited the available sample. Additionally, several companies did not disclose their audit fee information, which reduced the usable dataset. Moreover, the independent variables in this study explain only 14.8% of the variation in audit fees, indicating that other potential influencing factors remain unexplored.

### **CONCLUSION**

This study has examined the influence of internal audit function, audit committee effectiveness, and gender diversity within the audit committee on audit fees in annual reports of property and real estate companies listed on the Indonesia Stock Exchange (IDX) for the year 2023. Based on statistical analysis, several conclusions can be drawn regarding factors that affect audit fees. The first finding concerns the internal audit function, which shows a positive

and significant effect on audit fees. A well-functioning internal audit system tends to lead to higher audit fees, as it may prompt external auditors to provide higher audit quality through more comprehensive investigations into the internal audit's performance. This result supports the demand-side perspective, which argues that better internal audit resources increase the demand for higher audit quality, thereby increasing audit fees.

In contrast, the effectiveness and gender diversity of the audit committee do not show a significant influence on audit fees. All proxies for audit committee effectiveness (size, frequency of meetings, and accounting expertise) and gender diversity are found to have no effect on audit fees. This may be due to the fact that external auditors tend to place greater emphasis on internal control systems rather than the structural characteristics of the audit committee when determining audit pricing. As a result, these four audit committee characteristics do not significantly influence audit fees. The lack of support for the expected impact of audit committee characteristics suggests a rejection of both the supply and demand side perspectives, where stronger or more diverse audit committees do not necessarily translate into better oversight or increased audit effort demands.

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