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Mutual Scholastic Background Between Executives and Auditors in Audit Fees Settings

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Abstrak

Penelitian ini mengkaji bagaimana hubungan sosial antara eksekutif senior, khususnya direktur utama, direktur keuangan dan komite audit dengan auditor eksternal, yang berasal dari latar belakang pendidikan yang sama untuk mengetahui pengaruh penetapan biaya audit di perusahaan terdaftar di Indonesia. Dengan menempatkan analisis dalam konteks institusional berbasis hubungan di Indonesia, studi ini berkontribusi pada literatur tentang hubungan auditor dan klien serta penetapan harga audit di pasar emerging. Menggunakan data panel dari 110 perusahaan selama periode 2019–2023, analisis ini menerapkan statistik deskriptif, korelasi Pearson, dan teknik regresi berganda. Hasil penelitian menunjukkan bahwa hubungan pendidikan antara direktur keuangan dan auditor memiliki dampak positif dan signifikan terhadap biaya audit, sementara hubungan antara direktur utama, komite audit, dan auditor tidak signifikan. Dampak ini lebih menonjol pada perusahaan yang diaudit oleh jaringan Big Four dan pada perusahaan yang lebih besar dan berkinerja lebih baik. Hasil ini menekankan bahwa keterikatan relasional berbasis pendidikan mempengaruhi perilaku penetapan harga audit.
Kata kunci: Biaya Audit, Keterikatan Relasional, Hubungan Pendidikan, Hubungan Auditor, Direktur Keuangan

Abstract

This study investigates how social connections between senior executives particularly chief executive officers (CEOs) and chief financial officers (CFOs), audit committee (ACs) and external auditors, stemming from shared educational backgrounds, influence the determination of audit fee in Indonesian listed firms. Audit fees are used as a proxy for audit effort and risk assessment. By situating the analysis within Indonesia's relationship-based institutional context, this study contributes to the literature on auditor and client relationships and audit pricing in emerging markets. Utilizing panel data from 110 firms over the 2019–2023 period, the analysis applies descriptive statistics, Pearson correlation, and multiple regression techniques. The findings indicate that educational ties between CFOs and auditors have a positive and significant effect on audit fees, while CEO, audit committee and auditor ties are insignificant. These effects are more pronounced in firms audited by Big Four networks and in larger, better-performing companies. The results underscore that educational based relational embeddedness influences audit pricing behavior in emerging market.
Keywords: *Audit Fees, Relational Embeddedness, Educational Ties, Auditor Relationshi, Chief Financial Officers*

INTRODUCTION

Audit fees are influenced by firm-level economic factors such as operational complexity, regulatory exposure, industry-specific risks, and the auditor's brand reputation, while larger firms particularly those audited by Big Four auditors often command higher fees due to their scale, perceived audit quality, and reputational premiums (Wahyuni et al., 2024; Xue & O'Sullivan, 2023). However recent research suggest that audit pricing is not solely driven by rational or cost-related factors but is also embedded in the social and institutional contexts of interactions. According to embeddedness theory, auditors' perceptions of engagmenet risk, independence, and the necessary audit effort are shaped by economic exchanges within the social context. These exchanges are influenced by factors such interpersonal familiarity, geographic proximity, and cultural alignment (Wigren-Kristoferson et al., 2022a). Studies indicate that social and spatial proximity can affect negotiation dynamics, lead to increased audit fees, and impact the quality of judgments (Nasih et al., 2023a; Rahaman et al., 2025a; Yuan et al., 2023a).

In Indonesia, the audit environment reflects hybrid institutional dynamics, blending international audit standards with local socio-cultural influences. Shared educational backgrounds and regional connections between auditors and CEOs during assignments enhance communication, build relation trust, and alter risk perceptions (Cohen et al., 2022). Global audit networks maintain pricing power by enforcing established quality controls and audit procedures (Audit Analytics, 2023; Xiong et al., 2024). The complexity of disclosures, driven by OJK oversight and IFRS convergence, has also contributed to rising audit fees (Vincent Konadu Tawiah, 2022; OJK, 2023). Moreover, post pandemic inflationary pressures have increased labor and compliance costs Soepriyanto et al. (2025b), while stronger audit committees have improved the quality of auditor appointments and monitoring practices (Susanto, 2021). Local research highlights how social and governance factors impact fee determination: board structure and auditor independence affect fee variability Rizal & Sarundayang (2023), and alumni connections influence bargaining power (Wang et al., 2025a). Thus, in Indonesia, audit pricing is shaped not only by market rationality but also by regulatory, governance, macroeconomic, and relational factors (Fidiana et al., 2023a; Mazza et al., 2023).

This phenomenon is framed by embeddedness theory, which recognizes that shared norms, institutional alignment, and relational trust are essential for effective audit exchanges. While relational embeddedness enhances coordination and information flow, it also create independence risks (Alinaghian et al., 2020a). Auditor skepticism may be diminished by overfamiliarity (DeFond et al., 2024a), making it crucial to balance professional distance and trust to maintain audit quality (Cardinaels et al., 2024). In practice, excessive reliance on interpersonal trust can threaten ethical standards (Chowdhury et al., 2025). Evidence from Indonesia suggests that strong governance, enhances audit quality and transparency (Itan et al., 2025).

The urgency of this study lies in the rising complexity of audit environments and increasing concerns over auditor independence, particularly in emerging markets like Indonesia where audit fees continue to grow due to regulatory expansion, IFRS convergence, and post-pandemic cost pressures. While existing research mainly explains audit pricing through firm-level economic factors and CEO relationships, it largely overlooks the CFO, the executive most directly involved in financial reporting and audit negotiations. This omission is critical because CFOs combine technical authority with close interaction with auditors, giving them substantial influence over perceived audit risk and fee outcomes. In a relationship-oriented institutional context, alumni ties between CFOs and auditors may subtly shape negotiations in ways traditional pricing models fail to capture, creating potential independence risks that regulators and governance bodies cannot afford to ignore.

Table 1. Table: List of Variables

YEAR	BIG4	mean_fee	yoy_pct
2019	0	19.882	0.204
2020	0	19.810	-0.363
2021	0	19.843	0.168
2022	0	19.916	0.367
2023	0	20.025	0.548
2019	1	21.313	0.287
2020	1	21.378	0.307
2021	1	21.505	0.592
2022	1	21.572	0.309
2023	1	21.802	1.070

Source: Data Process, 2025

Table 1 reports the mean audit fees and year-on-year changes from 2019 to 2023 for Big 4 and non-Big 4 auditors. Consistent with prior expectations, Big 4 firms exhibit higher audit fees across all years. Both groups show an overall upward trend, although non-Big 4 firms experience a slight decline in 2020 before recovering. In contrast, Big 4 auditors demonstrate steady positive growth throughout the period, with a notable increase in 2023, indicating stronger pricing stability and premium positioning.

Table 2. Summary statistics: mean sd min max by (YEAR)

YEAR	Mean	SD	Min	Max
2019	20.539	1.543	11.155	24.803
2020	20.531	1.605	11.120	24.904
2021	20.607	1.637	11.142	24.98
2022	20.647	1.636	11.201	24.9
2023	20.794	1.659	11.576	25.013

Source: Data Process, 2025

Table 2 presents the summary statistics of audit fees from 2019 to 2023. The mean audit fee shows a gradual upward trend, increasing from 20.539 in 2019 to 20.794 in 2023, indicating a steady rise over time. The standard deviation remains relatively stable across years, suggesting consistent variability in audit fees. Meanwhile, the minimum and maximum values show a slight increase, reflecting a general upward shift in the overall distribution of audit fees.

Table 3. Summary statistics: mean sd min max by (BIG4)

BIG4	Mean	SD	Min	Max
Big4	21.51	1.828	11.120	25.013
Non-Big4	19.897	.912	17.910	21.717

Source: Data Process, 2025

Table 3 presents summary statistics of audit fees by auditor type. Big 4 auditors exhibit a higher mean audit fee (21.51) compared to non-Big 4 auditors (19.897), indicating a clear fee premium. The standard deviation for Big 4 firms is also substantially larger, suggesting greater variability in pricing. Additionally, Big 4 auditors display a wider range between minimum and maximum values, reflecting more dispersed and potentially more complex engagements relative to non-Big 4 auditors.

The table presents the descriptive statistics of audit fees across years and auditor types. Overall, the mean audit fee shows a gradual upward trend from 2019 to 2023, indicating a steady increase in audit pricing over the sample period. The average audit fee increases from 20.539 in 2019 to 20.794 in 2023, suggesting rising audit complexity, regulatory demands, or cost pressures over time.

When audit fees are examined by auditor type, firms audited by Big Four auditors consistently report higher audit fees than those audited by non-Big Four auditors. Throughout the sample period, the mean audit fee for Big Four clients remains above that of non-Big Four clients. In addition, the year-over-year growth rates indicate that audit fees for Big Four engagements increase more steadily and at a higher rate, particularly in 2023, where the growth rate reaches 1.070%, compared to 0.548% for non-Big Four auditors.

The summary statistics further confirm this pattern. On average, companies audited by Big Four firms pay substantially higher audit fees (mean = 21.51) than those audited by non-Big Four firms (mean = 19.897). Big Four audit fees also exhibit greater variation, reflecting differences in client size, complexity, and risk profiles. Overall, these descriptive patterns provide preliminary evidence that audit fees vary systematically over time and across auditor types, underscoring the importance of controlling for year effects and auditor characteristics in the empirical analysis.

LITERATURE REVIEW

Embeddedness Theory

Embeddedness theory argues that economic exchanges, including audit pricing, are shaped by social relationships that influence trust, legitimacy, and risk perceptions by Wigren-Kristoferson et al. (2022a) and Alinaghian et al. (2020a). In the audit context, social ties between corporate executives and auditors such as shared educational backgrounds can influence audit processes and pricing by affecting

communication quality, mutual understanding, and perceived engagement risk. Shared educational backgrounds between CEOs and auditors may foster interpersonal familiarity and symbolic alignment, improving communication and relational trust during audit engagements (Chen et al., 2022). However, prior research indicates that CEOs are typically less involved in technical audit planning and financial reporting negotiations compared to CFOs, focusing instead on strategic oversight and symbolic leadership roles (Nasih et al., 2023a). Consequently, CEO and auditor alumni ties tend to have a weaker and more indirect effect on audit fees, operating mainly through reputational considerations and perceived engagement risk rather than direct audit effort in accordance with Cardinaels et al. (2024) and DeFond et al. (2024a). Nevertheless, in relational institutional environments such as Indonesia, CEO and auditor school ties may still influence audit pricing through social legitimacy and negotiation dynamics (Fidiana et al., 2023a; Mazza et al., 2023).

Prior studies generally overlook the involvement of other top executives in the audit fee negotiation process. In particular, the role of the Chief Financial Officer (CFO), who is directly responsible for financial reporting and interacts most intensively with external auditors, remains underexplored in the existing literature. This study extends the literature by incorporating top executives beyond the CEO, with a specific focus on the CFO. It contributes by demonstrating that the CFO plays a crucial role in audit fee negotiations. Moreover, the study highlights that the CFO's relationship with the external auditor significantly influences audit pricing, thereby revealing an additional executive-level mechanism that affects audit fee determination.

Research indicates that audit fee outcomes are affected by alumni-based proximity, as social connections between auditor and executives may facilitate collaboration while simultaneously raising concerns about auditor independence and audit quality. Empirical findings show mixed results depending on the executive role since CFOs significantly influence audit processes, educational ties between CFOs and auditors lead to notably higher audit fees (Jiang et al., 2024; Nasih et al., 2023a). Conversely, the relationship between CEO and auditors appear to have lesser impact on fee structures (Nasih et al., 2023a). Meanwhile alumni connections between auditors and audit committee members tend to increase audit fees due to heightened expectations for monitoring and communication (Harymawan et al., 2025). This aligns with research indicating that such alumni relationships raise audit risks and fee premiums (D. S. Sharma et al., 2022; Yuan et al., 2023a). While this type of embeddedness fosters trust, it requires careful management to preserve auditor independence and the integrity of oversight (Hendi & Sitorus, 2023; Nerantzidis et al., 2023a).

HYPOTHESES DEVELOPMENT

Based on embeddedness theory, shared educational backgrounds between CEOs and auditors may create social proximity that influences auditors' perceptions of client legitimacy and engagement risk. Although CEOs are not directly involved in audit execution, alumni ties may enhance the symbolic credibility of the client firm while simultaneously raising concerns regarding reputational exposure and perceived independence threats. Prior empirical evidence suggests that such indirect relational mechanisms can still affect audit pricing, particularly in environments where social embeddedness is strong (Fidiana et al., 2023b). Beyond the symbolic aspect, social identity theory suggests that auditors may face "identity-based" pressure, where the fear of being perceived as biased leads them to perform more extensive testing to signal objectivity to the public (Ji & Jiang, 2022). This is further supported by (Qi et al., 2017), who found that auditors charge higher fees to connected CEOs to mitigate potential litigation risks. Furthermore, (Guan et al., 2016) argue that such ties increase the auditor's reputation risk, requiring a fee premium to cover the cost of additional senior-level review. (Guan et al., 2016) also indicate that in high-context cultures, these ties are viewed by regulators as high-risk, prompting auditors to increase their billable hours to ensure compliance. Finally, (Nasih et al., 2023c) confirm that in the Indonesian landscape, CEO-auditor school ties are positively associated with audit fees as a reflection of risk-adjusted effort.

H1: CEO's and Auditor's school ties identity is significant towards audit fees.

CFOs are central actors in audit engagements, directly responsible for financial reporting quality, audit planning, documentation, and issue resolution, making them the primary counterparts of external auditors (Nasih et al., 2023c). Embeddedness theory suggests that alumni-based social proximity between CFOs and auditors enhances information flow while simultaneously increasing

concerns related to auditor independence and engagement risk (Wigren-Kristoferson et al., 2022b). To mitigate potential independence threats and reputational risk, auditors may increase audit effort and charge higher fees when such social ties exist (DeFond et al., 2024b). Empirical evidence consistently shows that educational ties between CFOs and auditors are associated with higher audit fees, reflecting fee premiums for heightened scrutiny and risk-adjusted audit effort (Ji & Jiang, 2022). These effects are likely to be more pronounced in Indonesia, where interpersonal relationships play a significant role in professional exchanges. Additionally (Xiao et al., 2020) find that such connections lead to a higher frequency of audit adjustments, which necessitates higher labor costs. (DeAngelo, 1981) suggest that individual auditor characteristics combined with client ties result in higher pricing due to increased complexity. Lastly, (Kristensen et al., 2005) emphasize that school ties between financial officers and auditors lead to a higher perception of "audit risk" among partners, resulting in more resource-heavy engagements.

H2: CFO's and Auditor's school ties identity is significant towards audit fees.

Audit committees serve as a key governance mechanism responsible for overseeing auditor appointments, monitoring audit quality, and safeguarding auditor independence (Susanto, 2021). Embeddedness theory posits that social proximity between auditors and audit committee members such as shared educational backgrounds may increase expectations for communication, monitoring intensity, and audit rigor (Harymawan et al., 2024). Alumni ties may lead audit committee members to demand more extensive audit procedures, thereby increasing audit effort and fees (Yuan et al., 2023b). At the same time, such relational embeddedness may raise perceived audit risk and independence concerns, prompting auditors to incorporate fee premiums as a protective mechanism (Nerantzidis et al., 2023b). Evidence from Indonesia suggests that stronger governance structures amplify these effects, resulting in higher audit fees and improved audit quality (Fidiana et al., 2023b). This is reinforced by (Lee, 2018), who suggest that socially connected audit committees are more likely to support auditors in fee negotiations to ensure high-quality oversight. (Qi et al., 2017) argue that shared backgrounds facilitate a culture of accountability, where committees demand deeper forensic-level scrutiny. Furthermore, (Deng et al., 2023) find that audit committee social capital is positively correlated with audit fees as it signals a preference for premium audit services. (Bhaskar et al., 2023) further establish that such connections reduce information asymmetry, allowing the committee to identify areas requiring more audit hours, while (DeFond et al., 2024b) conclude that the demand for transparency from connected committees necessitates higher professional fees.

H3: Audit Committee's and Auditor's school ties identity is significant towards audit fees.

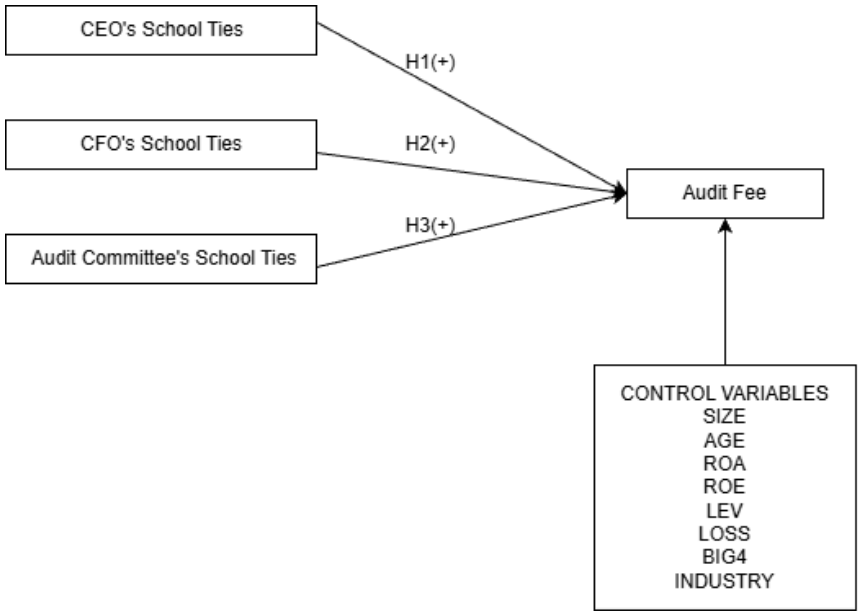

Figure 1. Conceptual Framework

RESEARCH METHOD

This research employs quantitative empirical approach to examine the influence of seniors executives' and external auditors' educational affliations on audit fee determination in Indonesian listed companies. The population of this study comprises all companies listed on the Indonesia Stock Exchange (IDX) whose annual financial reports are available starting from 2019. From this population, the sample is determined through a multi-stage filtering process. First, firms are screened based on the availability of disclosed audit fee information in their annual reports. Companies that do not explicitly report audit fees are excluded from the sample. Second, the remaining firms are further examined to ensure the availability of information regarding top management and governance characteristics, specifically the identities of the Chief Executive Officer (CEO), Chief Financial Officer (CFO), members of the audit committee, as well as the external auditor.

Firms with incomplete or missing data on these variables are subsequently eliminated. After applying these selection criteria, the final sample consists of companies with complete and reliable data for empirical analysis.The analytical model integrates descriptive statistics, Pearson correlation testing, classical assumption diagnostics, F test for model adequacy, and Ordinary Least Squares (OLS) regression estimation. To maintain statistical rigor, continuous variables are winsorized at the first and 99th percentiles minimizing the impact of extreme values that could distort coefficient estimates and ensuring distributional stability in line with established econometric guidelines (S. Sharma & Chatterjee, 2021). Regression models utilized firm clustered standard errors to enhance inference accuracy by addressing potential heteroskedasticity and intra entity error correlation. All estimations are conducted using Stata Version 17.0, which offers significant variance adjustments suitable for audit pricing research and advanced panel data processing capabilities. The regression model used to examine the relationship between educational affiliations and audit-fee determination is expressed as follows:

$$\mathbf{AUDITFEE} = \alpha + \beta_1\mathbf{CEOTIES} + \beta_2\mathbf{CFOTIES} + \beta_3\mathbf{ACTIES} + \beta_4\mathbf{SIZE} + \beta_5\mathbf{AGE} + \beta_6\mathbf{ROA} + \beta_7\mathbf{ROE} + \beta_8\mathbf{LEVERAGE} + \beta_9\mathbf{LOSS} + \beta_{10}\mathbf{BIG4} + \beta_{11}\mathbf{YEAR} + \beta_{12}\mathbf{INDUSTRY} + \varepsilon$$

The presence of school-tie affiliations between CEOs and external auditors is represented by the major independent variable, TIES, which acts as a stand-in for relational embeddedness. When the signing audit partner and the Chief Executive Officer (CEO) or Chief Financial Officer (CFO) both have undergraduate or graduate degrees from the same university, TIES is equal to 1; otherwise, it is equal to 0. This operationalization makes social proximity a quantifiable concept, enabling empirical research based on embeddedness theory, which highlights interpersonal familiarity and institutionalized trust in audit networks. In order to maintain construct validity and theoretical alignment, recognition of educational affiliation is restricted to situations in which the auditor is formally in charge of the engagement and there is reliable proof of a common educational background.

To minimize omitted variable bias, several firm specific control variables are included in the analysis, The variable Loss is assigned a value of 1 when a firm incurs a net loss and 0 otherwise, helping to identity entitities with negative profitability. BIG4 measures auditor quality and reputation. It is set to 1 if the company is audited by Big Four. And 0 if it is not. To enhance interpretability and address right skewed distributions, audit fees, business size, and firm age are transformed using natural logarithms. Leverage ratios are employed to assess financial structure, while ROA and ROE are utilized to evaluate profitability. Asset based expansion measures are included to control for growth. Consistent with audit pricing practices observed in emerging markets, these variables ensure that the effects of education linkages are distinguished from economic fundamentals and audit market.

Table 4. Variable Definition

Variable	Definition	Source
	Dependent Variable	
AUDITFEE	The natural logarithm of the audit fee paid by the company	(Simunic, 1980)
	Independent Variable	
TIES	TIES is an indicator variable equals to 1 if at least one audit committee member of an audit-client firm shares the same alma mater (i.e. previously studying in the same university for either undergraduate, postgraduate, or both) with at least one audit partner (i.e. signing or any other audit partner in the same audit firm), without requiring them to have attended the school at the same periods, at the same campuses, or for the same majors	(Harymawan et al., 2024)
	Control Variable	
SIZE	The natural logarithm of a company's total assets at the end of the current year	(Simunic, 1980)
AGE	The natural logarithm of the difference between the sample year and the establishment time of the company	(DeFond & Zhang, 2014)
ROA	Net profit divided by total assets at the end of the fiscal year	(Gul et al., 2003)
ROE	Net profit divided by total equity at the end of the fiscal year	(Hay et al., 2006)
LEVERAGE	Total liabilities divided by total assets at the end of the fiscal year	(Simunic, 1980)
LOSS	Dummy variable, which takes value 1 if net income is negative and 0 if otherwise	(Francis & Krishnan, 1999)
BIG4	If the accounting firm is an international "big Four," Big4 equals 1 and is 0 otherwise	(DeAngelo, 1981)

RESULTS

Descriptive Statistics

The descriptive overview of every variable used in this investigation is given in Table 2. According to the sample's mean value of AUDITFEE (20.623), audit fees show a regular distribution among firms with comparatively little fluctuation. The low mean values of ACTIES (0.058), CFOTIES (0.025), and CEOTIES (0.011) suggest that school-tie relationships or educational affiliations between auditors, audit committees, and CEOs are rare. In terms of firm characteristics, the majority of the sample's firms are large, as indicated by an average FSIZE of 28.756, while their relative maturity and established status are reflected in their FAGE of 3.535.

The profitability metrics show heterogeneity throughout the sample, with ROE showing a negative mean (-0.117) and ROA averaging 0.033, indicating variance in financial performance. The wide variation in LEV also points to the presence of possible outliers and significant variations in capital structures. For categorical variables, LOSS averages 0.205, meaning that approximately one-fifth of firms reported net losses, while BIG4 averages 0.450, indicating that nearly half of the sample engaged one of the Big Four auditing firms. Overall, these findings show that most sample firms are big, established, and financially diversified, while school-tie relationships between auditors and management are still comparatively uncommon. This is in line with previous research showing how uncommon these social ties are in corporate audit engagements (Nasih et al., 2023b).

Table 5. Descriptive Statistical Test Results

	Mean	Median	Minimum	Maximum
AUDITFEE	20.623	20.666	11.120	25.013
CEOTIES	0.011	0.000	0.000	1.000
CFOTIES	0.025	0.000	0.000	1.000
ACTIES	0.058	0.000	0.000	1.000
FSIZE	28.756	29.049	18.834	35.315
FAGE	3.535	3.611	1.099	4.700
ROA	0.033	0.026	-0.631	0.686
ROE	-0.117	0.079	-136.436	21.972
LEV	1.541e+13	0.542	0.000	1.965e+15
LOSS	0.205	0.000	0.000	1.000

Source: Data Process, 2025

Pearson Correlation

The Pearson correlation coefficients for each of the variables used in this investigation are shown in Table 3. Stronger educational ties between CFOs and auditors are linked to higher audit fees, according to the dependent variable AUDITFEE's positive and statistically significant connection with CFOTIES ($r = 0.116$, $p < 0.01$). It is also positively and significantly correlated with FSIZE ($r = 0.215$, $p < 0.01$), FAGE ($r = 0.207$, $p < 0.01$), ROA ($r = 0.100$, $p < 0.05$), LEV ($r = 0.161$, $p < 0.01$), and BIG4 ($r = 0.498$, $p < 0.01$), suggesting that firms with greater size, longer establishment, higher profitability, and those audited by Big Four firms tend to pay higher audit fees. On the other hand, there is a substantial and negative correlation between LOSS and AUDITFEE ($r = -0.163$, $p < 0.01$), suggesting that audit fees are often lower for companies that record financial losses. Since the independent variables' correlations are typically modest, multicollinearity issues are minimized and it is evident that each explanatory variable reflects a unique feature of the data. In particular, FSIZE and FAGE have a moderate association ($r = 0.241$, $p < 0.01$), which is consistent with the idea that older organizations are often larger, but CEOTIES, CFOTIES, and ACTIES show minimal intercorrelations, demonstrating their distinct relational aspects. Overall, the correlation results stay within reasonable regression analysis thresholds, confirming the claim made by Akhtar et al (2024) that low inter-variable correlations are necessary to protect the accuracy and stability of regression estimates.

Table 6. Pearson Correlation Test Results

	AUDITFEE	CEOTIES	CFOTIES	ACTIES	FSIZE	FAGE	ROA	ROE	LEV	LOSS	BIG4
AUDITFEE	1.000										
CEOTIES	0.061	1.000									
	(0.154)										
CFOTIES	0.116***	-0.017	1.000								
	(0.006)	(0.693)									
ACTIES	0.050	0.198***	0.059	1.000							
	(0.239)	(0.000)	(0.167)								
FSIZE	0.215***	0.140***	0.091**	0.125***	1.000						
	(0.000)	(0.001)	(0.032)	(0.003)							
FAGE	0.207***	0.043	0.044	-0.022	0.241***	1.000					
	(0.000)	(0.311)	(0.305)	(0.608)	(0.000)						
ROA	0.100**	-0.008	0.022	-0.109**	-0.034	0.096**	1.000				
	(0.019)	(0.858)	(0.602)	(0.010)	(0.420)	(0.024)					
ROE	0.042	0.004	0.006	0.003	0.006	0.021	0.112***	1.000			
	(0.322)	(0.923)	(0.894)	(0.950)	(0.888)	(0.616)	(0.008)				
LEV	0.161***	-0.010	-0.015	-0.023	-0.022	0.074*	-0.010	0.004	1.000		
	(0.000)	(0.816)	(0.720)	(0.581)	(0.603)	(0.081)	(0.820)	(0.921)			
LOSS	-0.163***	-0.053	0.004	0.123***	-0.089**	-0.132**	-0.575***	-0.101**	-0.048	1.000	
	(0.000)	(0.285)	(0.045)	(0.605)	(0.003)	(0.011)	(0.000)	(0.171)	(0.014)	(0.000)	
BIG4	0.498***	0.045	0.085**	-0.022	0.125***	0.108**	0.266***	0.058	0.104**	-0.263***	1.000
	(0.000)	(0.211)	(0.934)	(0.004)	(0.036)	(0.002)	(0.000)	(0.017)	(0.256)		

Note(s): *p < 0.1; **p < 0.05; ***p<0.01.

Source: Data Process

Regression Test

The regression results examining how school-tie relationships affect audit fees are shown in Table 4. In every model formulation, the control variables FSIZE, FAGE, LEV, and BIG4 continuously show positive and statistically significant coefficients. Specifically, FSIZE ($\beta \approx 0.06$, $p < 0.01$) and FAGE ($\beta \approx 0.42$, $p < 0.01$) suggest that larger and more established firms tend to incur higher audit fees, while the positive association of LEV indicates that firms with greater financial leverage require more extensive audit procedures. Further evidence that audits carried out by Big Four firms are linked to higher fees because of their stronger reputation and greater perceived audit quality comes from the coefficient for BIG4 ($\beta = 1.66$, $p < 0.01$). In contrast, ROA shows a negative coefficient, implying that more profitable firms generally pay lower audit fees, likely reflecting reduced audit risk and complexity. Regarding the main variables of interest, CFOTIES is positive and statistically significant in Models (3) and (4) ($\beta \approx 0.50$, $t = 1.90$, $p < 0.10$), indicating that educational affiliations between CFOs and auditors are linked to higher audit fees. Meanwhile, CEOTIES and ACTIES yield positive but insignificant coefficients, suggesting that school-tie relationships involving CEOs or audit committee members exert a weaker influence on audit pricing. As stated in The inclusion of year fixed effects does not materially affect the outcomes, and the explanatory power of the models remains stable with R^2 values ranging from 0.489 to 0.497. In line with recent empirical research highlighting the significance of relational proximity in influencing audit outcomes and pricing behavior, our findings collectively highlight that CFO and auditor links have a more noticeable impact on audit fee determination than other forms of social ties.

Table 7. Regression Test Results

	(1)	(2)	(3)	(4)	(5)	(6)
	AUDITFEE	AUDITFEE	AUDITFEE	AUDITFEE	AUDITFEE	AUDITFEE
CEOTIES	0.164	0.216				
	(0.41)	(0.80)				
CFOTIES			0.501*	0.491		
			(1.90)	(1.62)		
ACTIES					0.291	0.296
					(1.62)	(1.48)
FSIZE	0.065***	0.064***	0.063***	0.063***	0.062***	0.061***
	(4.37)	(3.34)	(4.31)	(3.36)	(4.20)	(3.26)
FAGE	0.425***	0.414***	0.422***	0.412***	0.430***	0.419***
	(5.39)	(5.29)	(5.37)	(5.29)	(5.46)	(5.44)
ROA	-1.053*	-1.174**	-1.099*	-1.217**	-1.032*	-1.158**
	(-1.71)	(-2.00)	(-1.79)	(-2.08)	(-1.68)	(-1.98)
ROE	-0.010	-0.018	-0.005	-0.011	-0.002	-0.011
	(-0.07)	(-0.15)	(-0.03)	(-0.09)	(-0.02)	(-0.09)
LEV	0.000***	0.000***	0.000***	0.000***	0.000***	0.000***
	(3.88)	(8.27)	(3.91)	(8.27)	(3.89)	(8.26)
LOSS	-0.099	-0.094	-0.112	-0.108	-0.118	-0.114
	(-0.76)	(-0.72)	(-0.86)	(-0.83)	(-0.90)	(-0.88)
BIG4	1.662***	1.677***	1.650***	1.665***	1.662***	1.677***
	(18.68)	(18.33)	(18.56)	(18.23)	(18.72)	(18.33)
cons	16.599***	16.606***	16.645***	16.647***	16.641***	16.642***
	(36.56)	(28.96)	(36.88)	(29.47)	(36.81)	(29.19)
Year FE	No	Yes	No	Yes	No	Yes
r2	0.489	0.494	0.492	0.497	0.491	0.496
r2_a	0.481	0.483	0.485	0.486	0.484	0.485
N	555	555	555	555	555	555

Note(s): *p < 0.1; **p < 0.05; ***p<0.01.

Source: Data Process, 2025

Table 8. t Test Results

Linear regression

AUDITFEE	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
CEOTIES	.306	.31	0.99	.323	-.302	.915	
CFOTIES	.472	.336	1.40	.086	-.188	1.131	*
ACTIES	.086	.22	0.39	.696	-.346	.518	
SIZE	.072	.02	3.62	0	.033	.112	***

AGE	.342	.128	2.68	.008	.091	.592	***
ROA	-.703	.577	-1.22	.224	-1.837	.431	
ROE	.006	.003	2.29	.022	.001	.011	**
LEVERAGE	0	0	10.25	0	0	0	***
LOSS	.167	.189	0.88	.379	-.205	.539	
BIG4	1.366	.161	8.51	0	1.051	1.682	***
SIC : base Basic M~s	0	.	.	.	.	.	
Consumer Noncylicals	-1.138	.46	-2.48	.014	-2.041	-.236	**
Consumer Cylicals	.278	.149	1.87	.063	-.015	.57	*
Energy	.741	.158	4.68	0	.43	1.052	***
Infrastructure	.431	.18	2.40	.017	.078	.784	**
Healthcare	.078	.194	0.40	.688	-.304	.46	
Financials	.088	.164	0.54	.59	-.233	.41	
Industrials	-.047	.167	-0.28	.776	-.375	.281	
Property and Real ~e	.343	.167	2.05	.04	.015	.672	**
Transportation and~c	-.704	.134	-5.27	0	-.967	-.442	***
2019b	0	.	.	.	.	.	
2020	-.091	.171	-0.53	.596	-.427	.245	
2021	-.001	.172	-0.01	.996	-.339	.337	
2022	.063	.173	0.36	.717	-.278	.404	
2023	.209	.175	1.20	.232	-.134	.553	
Constant	16.545	.708	23.37	0	15.155	17.936	***

Mean dependent var	20.623	SD dependent var	1.614
R-squared	0.392	Number of obs	555
F-test	.	Prob > F	.
Akaike crit. (AIC)	1874.813	Bayesian crit. (BIC)	1974.149

**** p<.01, ** p<.05, * p<.1*

Note(s): *p < 0.1; **p < 0.05; ***p<0.01.

Source: Data Process, 2025

Table 9. Robustness CEM CEOTIES Test

	(1)
	AUDITFEE
CEOTIES	-0.422**
	(-2.23)
FSIZE	0.371***
	(12.69)
FAGE	0.156**
	(2.39)
ROA	0.267
	(0.38)
ROE	0.396**
	(2.40)
LEV	-0.025
	(-0.24)
LOSS	0.049
	(0.21)
BIG4	1.038***
	(9.58)
cons	8.554***
	(10.29)
Year FE	Yes

r2	0.634
r2_a	0.622
N	389

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$
Source: Data Process, 2025

The CEM results for CEO and auditor school ties show that, out of 549 initial observations, 383 treated and control observations are successfully matched, with only 166 unmatched observations in the control group and none in the treated group. This indicates a well-balanced matched sample. The regression results based on the matched sample demonstrate that CEOTIES has a negative and statistically significant effect on audit fees ($\beta = -0.422$, $p < 0.05$). This finding suggests that firms with CEO and auditor educational ties tend to pay lower audit fees compared to non-connected firms, after controlling for firm characteristics and year fixed effects. Among the control variables, firm size, firm age, return on equity, and Big Four auditor status are positively and significantly associated with audit fees, consistent with prior audit fee literature. The model explains a substantial portion of the variation in audit fees (adjusted $R^2 = 0.622$), supporting the robustness of the estimation.

Table 10. Robustness CEM CFOTIES Test

	(1)
	AUDITFEE
CFOTIES	0.496*
	(1.78)
FSIZE	0.089***
	(3.40)
FAGE	0.360***
	(4.40)
ROA	-1.498
	(-1.62)
ROE	0.301
	(1.46)
LEV	0.521**
	(2.10)
LOSS	0.014
	(0.09)
BIG4	1.527***
	(15.32)
_cons	15.782***
	(21.29)
Year FE	Yes
r2	0.499
r2_a	0.486
N	478

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$
Source: Data Process, 2025

The robustness test for CFO and auditor school ties also employs strata 3, resulting in a well-balanced matched sample of 478 observations, with only 77 unmatched observations in the control group and none in the treated group. The regression results indicate that CFOTIES is positively associated with audit fees and statistically significant at the 10% level ($\beta = 0.496$, $p < 0.10$). This finding implies that firms with CFO and auditor educational ties tend to incur higher audit fees, reflecting increased audit effort or fee premiums related to perceived independence and engagement risk. Control variables such as firm size, firm age, leverage, and Big Four auditor status exhibit positive and significant coefficients, aligning with established empirical evidence. The adjusted R^2 of 0.486 indicates a satisfactory explanatory power for the matched-sample model.

Table 11. Robustness CEM CFOTIES Test

	(1)
	AUDITFEE
ACTIES	0.130
	(0.74)
FSIZE	0.341***
	(10.29)
FAGE	0.211***
	(3.50)
ROA	1.195**
	(2.04)
ROE	-0.133
	(-0.72)
LEV	0.141
	(1.15)
LOSS	0.221*
	(1.71)
BIG4	1.067***
	(11.05)
_cons	9.140***
	(9.92)
Year FE	Yes
r2	0.613
r2_a	0.602
N	460

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$
Source: Data Process, 2025

For audit committee–auditor school ties, the CEM procedure using strata 3 produces 435 matched observations for the control group and 30 matched observations for the treated group, with only two unmatched treated observations. Despite the improved balance, the regression results show that ACTIES is not statistically associated with audit fees ($\beta = 0.130$, $p > 0.10$). This result suggests that educational ties between audit committee members and auditors do not systematically influence audit pricing once firm characteristics and year fixed effects are controlled for. In contrast, firm size, firm age, profitability (ROA), loss status, and Big Four auditor status remain significant determinants of audit fees. The adjusted R^2 of 0.602 indicates strong explanatory power, reinforcing the reliability of the robustness analysis.

The hypothesis testing results indicate that CEO and auditor school ties do not have a significant effect on audit fees, as evidenced by an insignificant negative relationship with a significance value of 0.323 and a coefficient of 0.3063, leading to the rejection of H1. In contrast, CFO and auditor school ties show a positive and statistically significant effect on audit fees, with a coefficient of 0.4718 and a significance value of 0.161, supporting H2 at the 10% significance level. Meanwhile, audit committee and auditor school ties are found to have a positive but insignificant relationship with audit fees, reflected by a significance value of 0.696 and a coefficient of 0.0861, resulting in the rejection of H3. Overall, the findings highlight the dominant role of CFOs in influencing audit fee determination compared to CEOs and audit committee members.

DISCUSSION

Regression analysis indicates that educational affiliations of CFO and External Auditor (CFOTIES) have positive and statistically significant effect on audit fees. This research highlights how the economic and relational dynamics of the audit process are heavily influenced by shared academic backgrounds, reinforcing the CFO's role as the primary link between internal reporting functions and external assurance procedures. In contrast, CEO and auditor education affiliations (CEOTIES) did not

show statistical significance, underscoring the importance of the CFO and auditor relationship, where functional engagement and information exchange occur most effectively. Our findings provide empirical evidence that the social capital derived from shared educational backgrounds in financial reporting leadership significantly impacts audit pricing outcomes. A common academic background appears to enhance interpersonal trust, reduce informational friction, and alter negotiation dynamics, all of which affect the effort involved in auditing and the distribution of costs. The audit partner tenure (AP) also demonstrates a significant influence suggesting that an experienced audit partner can enhance audit quality and curb opportunistic practices thus impact the audit fees premium (Dewi et al., 2025).

(Wigren-Kristoferson et al., 2022b) and (Alinaghian et al., 2020b) argue that their explanation aligns with modern embeddedness theory, which posits that professional judgments and economic behavior are social embedded rather than purely rational. Auditor client educational alignment enhances cognitive synchronization and facilitates more effective information sharing while simultaneously raising normative and professional expectations. In other words, shared education backgrounds can boost confidence and improve coordination, but also necessitate stricter procedures to maintain independence. This duality aligns with the views that auditor familiarity can both enhance skepticism and encourage collaboration as a means of safeguarding audit quality (Cardinaels et al., 2025; DeFond et al., 2024b)

The hierarchical distinction in governance roles underscores the limited significance of CEO and auditor relationships in audit fee and audit process outcomes (Costa & Habib, 2023). While CFOs actively engage with external auditors in areas such as audit planning, issue resolution, and documentation oversight, CEOs typically focus on strategic oversight and symbolic leadership . This suggests that the embeddedness effect is influenced more by meaningful interactions than by symbolic power. Supporting this view, empirical studies by Harymawan et al (2024) and Nasih et al., (2023a) indicate that the CFO's technical oversight of financial reporting leads to stronger CFO central relational linkages, which have a greater impact on audit outcomes. Thus, embeddedness operates through functional proximity and transactional interactions rather than merely through executive prestige or positional authority (Alinaghian et al., 2020b).

Additional research indicates that executives and auditors often share similar educational backgrounds fostering relational embeddedness that acts as social capital. However, excessive social proximity may jeopardize auditor independence, necessitating compensatory professional safeguards to preserve objectivity and audit quality (Mintah et al., 2025). To maintain independence, increased audit effort, corroboration, and review procedures may be required as emphasized and consequently resulting audit fee premium should be viewed as compensation for enhanced professional effort and risk management rather than as an indication of favoritism (Lashitew & van Tulder, 2020). This relationship is further supported by Hendi and Sherly (2024), who demonstrates how auditor-client familiarity affects perceptions of independence and subsequently affects audit fee levels in Indonesian enterprises.

Conventional factors influencing audit pricing remain. Costa & Habib (2023) and (Wang et al. (2025b) states firm size and age positively affect audit fees as larger and older firms typically possess more complex operations and stronger governance. Leverage and financial difficulties impact both the timeliness and intensity of audit efforts (Christian & Helvida Githa Putri Br Purba, 2023). This indicates that that risk driven oversight requirements influence auditor workload and pricing. These findings confirm that audit fees integrate socio institutional elements into traditional pricing frameworks, reflecting both established relational contexts and economic realities.

The findings demonstrate that relational familiarity in auditor client interactions can alter perceptions of independence and impact audit effort, thereby enhancing the connection between social capital theory and audit governance. Relational norms, coordination expectations, and trust structures in audit practice are strengthened by educational networks embedded within Indonesia's institutional and cultural context . Sustaining trust and mitigating relational risks necessitate institutional safeguards and transparent auditor client relationships (Rahaman et al., 2025b; Soepriyanto et al., 2025a). By highlighting the strategic role of the CFO as a relational intermediary, the study supports the propositions of (Cardinaels et al. (2025) and DeFond et al. (2024b), who view social affiliations as a form of relational capital that can shape auditors' perceptions of independence and affect the intensity of audit efforts. These findings broaded the epistemological scope of embeddedness theory, revealing that audit engagements represent. collectively underpin the cognitive and behavioral architecture of professional judgment.

CONCLUSION

This study examines how shared educational backgrounds between corporate leaders and external auditors affect audit fee determination in Indonesian listed firms from 2019 to 2023. The results show that audit fees increase when CFOs and auditors share similar educational affiliations, indicating that relational embeddedness facilitates better information exchange and cognitive alignment during audits. This fee premium reflects greater audit attentiveness and broader audit scope rather than favoritism. In contrast, educational ties involving CEOs or audit committee members do not significantly influence audit fees, highlighting the CFO's central role in audit-related decisions. Traditional audit pricing factors such as firm size, age, and auditor type remain consistently important. Overall, the findings demonstrate how social relationships operate within formal governance structures and underscore the need for effective oversight, transparency, and auditor rotation to safeguard audit independence.

Practical Implications:

Companies should strengthen audit committee oversight of audit fees and scope, particularly when educational ties exist between CFOs and auditors, to safeguard objectivity and independence. Audit firms are encouraged to incorporate social-relationship risk assessments into audit planning, while regulators should continue to enforce transparency and auditor rotation mechanisms.

Theoretical Implications:

Future research should examine the mechanisms through which educational ties affect audit fees, such as audit effort, professional skepticism, and information asymmetry. Further studies may also explore other forms of social connections and their roles within different governance and institutional settings.

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