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Determinants of Minimum Audit Fee Compliance: Evidence from an Emering Economy

Md. Rezaul Karim*
Md. Jamil Sharif†
Tama Lika Khasnobish‡

Abstract

This research investigates firm-specific determinants of minimum audit fee compliance (MAFC) of the listed companies in Bangladesh. MAFC is measured using a dichotomous variable of 1 if a firm complies with the minimum audit fee (MAF) guideline and 0 otherwise. Data used in this study are collected from the companies' annual and corporate governance reports and analyzed using the logistic regression model. By utilizing 688 firm-year observations from 2016 to 2023, we find that firm size, cashflows, profitability, and directors' ownership are the significant determinants of MAFC. Nevertheless, leverage, age, and board independence are found insignificant determinants of MAFC which contradicts prior findings as corporate governance system is weak in Bangladesh. The findings can be underpinned by the agency and legitimacy theories. This study can contribute largely to the economic and theoretical advancement of the body of existing literature with policy implications for regulators, auditors and firms as the literature on MAF is scarce. To the author's knowledge, this is the first study on minimum audit fees from a quantitative perspective from the unique regulatory setting of Bangladesh.

Keywords: audit fees, audit quality, minimum audit fees, compliance of audit regulation, emerging economy, Bangladesh.

I. INTRODUCTION

External audits play a pivotal role in ensuring the transparency of financial statements, thereby bolstering shareholders' confidence in companies' operations aligned with their interests and societal well-being (Oladejo et al., 2020). The level of assurance provided by audits correlates positively with confidence levels and audit quality, as demonstrated by prior research (Dando & Swift, 2003). Previous studies have established a significant association between audit quality and fees, indicating that the quality of audits is heavily influenced by fee structures (Cahan & Sun, 2015; Abdul-Rahman et al., 2017). Higher audit fees typically signify more reliable and robust audit services. Audit fees represent the economic compensation paid to auditors for their services, encompassing factors such as risk compensation, total costs, and desired profit margins. These fees exert influence on audit quality, industry dynamics, and the overall development of accounting firms.

Previous studies have investigated the impact of numerous factors on audit fees, including the composition of the audit committee, company age and size, educational

* Assistant professor. Department of Accounting & Information Systems, University of Dhaka, Dhaka-1000, Bangladesh. Email: reza.ais@du.ac.bd.

† Associate professor. Department of Accounting & Information Systems, University of Dhaka, Dhaka-1000, Bangladesh. Email: jamilais9003@du.ac.bd.

‡ MBA student. Department of Accounting & Information Systems, University of Dhaka, Dhaka-1000, Bangladesh. Email: tamalika27058@gmail.com.

background, seasonal variations in audits, professional experience, audit performance and quality, executive positions, board attributes, corporate governance practices, length of auditor tenure, ownership patterns, workload, gender diversity, industry knowledge and specialization, legal expertise, among others, on a global scale (Alhababsah & Yekini, 2021; Ayoola, 2024; Joshi et al., 2021; and Reza & Karim, 2018). Numerous investigations have been undertaken to examine the factors influencing audit fees across developed, developing, and underdeveloped nations. While certain factors exhibit uniformity, others demonstrate variability across different economies. Bangladeshi companies exhibit distinct characteristics, including family-dominated ownership structures, concentrated ownership, engagement of auditors with lower audit quality at reduced fees, as well as the provision of both audit and non-audit services by auditors (Naser & Nuseibeh, 2007; Hassan & Naser, 2013; and Ghosh, 2019). The level of audit fee and the degree of adherence to the regulatory framework differ based on the diverse attributes of companies operating within heterogeneous economic environments.

This paper holds significant implications for both the audit market and the economy, particularly given the current notable expansion of family-dominated and concentrated-ownership firms in Bangladesh. There are several reasons for selecting Bangladesh as an emerging economy. Firstly, it was among the first countries to introduce MAF guidelines by the institute of chartered accountants of Bangladesh (ICAB) in 2016. Secondly, Bangladesh shares characteristics common among emerging economies, such as family-dominated firms (Biswas et al., 2019), a significant audit expectation gap (Reza & Karim, 2018), weak corporate governance (Karim et al., 2020; Rahaman & Karim, 2023), low compliance with accounting standards (Karim & Riya, 2022), Shariah and shariah audit (Karim & Shetu, 2020a, 2020b), and a propensity for fraudulent financial reporting (Karim & Hossain, 2021). Additionally, COVID-19 has severely impacted the economy of Bangladesh having implications for firm's supply chain, financial reporting, firm performance, liquidity, and audit fees (Karim et al., 2021; Karim & Saba, 2021; Shetu & Karim, 2023, Karim & Shetu, 2023b; and Karim et al., 2024). These features are like those found in other emerging economies, making research findings from Bangladesh applicable to a broader context and potentially informing policy decisions. Despite this, there's a lack of research focused on exploring factors influencing MAFC in emerging economies like Bangladesh. This study aims to fill this gap by investigating MAFC determinants within the textile and pharmaceutical industries listed on the Dhaka stock exchange (DSE). These industries were chosen due to their significant roles in Bangladesh's economic growth, with textiles being a cornerstone of success and the pharmaceutical sector showing considerable potential. Moreover, previous studies have also examined these industries (Chowdhury et al., 2019; Karim & Shetu, 2023a), making them logical choices for this research. The primary goal is to identify the factors affecting MAFC in these industries and establish connections between theoretical findings in audit fee literature.

The subsequent sections comprise a review of existing literature, the formulation of theoretical frameworks and hypotheses, delineation of the research methodology, presentation, and analysis of findings, ensuing discussion, and finally, conclusion and recommendations of the study.

II. LITERATURE REVIEW

Previous studies have extensively explored the association between audit fees and various company attributes on a global scale (Cobbin, 2002; Khan et al., 2011; Liu, 2017; and Paul et al., 2021). While some attributes vary across different contexts, certain commonalities persist regardless of the economic landscape. Family firms represent a predominant characteristic among Bangladeshi publicly listed companies (Biswas et al., 2019). Evidence suggests that these family firms tend to engage lower-quality auditors by offering reduced audit fees compared to non-family counterparts (Khan et al., 2015). Similarly, a comprehensive investigation of the audit service market in Bangladesh over a fourteen-year period revealed a surprising trend: audit fees have been decreasing in real terms despite nominal terms suggesting otherwise (Karim & Hasan, 2012). Additionally, it was found that family-dominated export-oriented industries tend to hire high-quality auditors at substantially higher fees compared to non-family firms. Moreover, factors such as size, profitability, and board independence of family-dominated firms are significantly and positively related to audit fees in Bangladesh.

Furthermore, literature has explored the impact of corporate governance mechanisms on audit fees in Bangladesh. Findings indicate that audit fees are positively influenced by factors such as the audit committee, female board members, board independence, and diligence, while negatively influenced by the size of the board and audit committee, as well as audit committee independence (Kikhia, 2014; Ghosh, 2019; and Joshi et al., 2021). Another study suggested that good governance practices may lead to a decline in audit fees (Griffin et al., 2008). Additionally, audit quality and fees were found to be interrelated and influenced by corporate governance practices (Haque et al., 2019).

Moreover, research has delved into the effects of joint non-audit services and audit services on audit fees, with findings indicating a potential decline in auditors providing audit services and an increase in audit fees in Bangladesh (Ashan & Shahneaz, 2015). Other studies have examined the influence of factors such as audit concentration, audit quality, and inside ownership on audit fees, revealing substantial relationships with client size and inverse associations with inside-ownership in Bangladeshi companies (Karim & Moizer, 1996; Karim & Hasan, 2012).

Furthermore, political influence has been identified as a significant determinant of audit fees, with higher fees observed in firms with larger board sizes, political affiliations, and leadership duality (Shakhatreh & Alsmadi, 2021). Similarly, studies conducted on companies listed on the Bursa Malaysia in 2003 found substantial and positive associations between external audit pricing and factors such as board size, board independence, audit committee expertise, and the number of audit committee meetings (Yatim et al., 2006).

Several studies have also explored the impact of crucial variables such as joint audits, shareholder management, management compensation, and engagement partners' professional experience on audit quality and fees, revealing complex relationships and varied effects across different contexts (Thinggaard & Kiertzner, 2008; Joshi et al., 2021; Liu & Xu, 2021; and Pourheidari & Golmohammadi, 2023). Additionally, the literature has highlighted the significance of audit fees in the broader context of audit quality, firm performance, and corporate governance practices, underscoring the importance of further research in this area to enhance transparency and accountability in the auditing profession. However, in the period following the audit fee regulation (AFR) era, there hasn't been an increase in either audit fees or audit quality, which lends support to the symbolic hypothesis rather than the substantive one (MohammadRezaei et al., 2023). It necessitates investigating the drivers of complying with the audit fee regulations.

Upon thorough examination of both domestic and international literature, it becomes apparent that there is a notable research gap concerning the factors influencing minimum audit fee compliance. Notably, no existing literature addresses the concept of minimum audit fees and their compliance. This glaring gap serves as the principal impetus for this study. The primary objective of this paper is to bridge this void and contribute fresh insights to the current body of audit literature.

The purpose of this research is to investigate the factors influencing minimum audit fee compliance (MAFC) within the DSE-listed textile and pharmaceutical companies during the recent period spanning from 2016 to 2023. The study utilized secondary data obtained from the textile and pharmaceutical sectors covering the aforementioned timeframe and adopted the 2016 guidelines for audit fees provided by the Institute of Chartered Accountants of Bangladesh (ICAB) to determine MAFC. The rationale for selecting these industries stems from their significant contributions to employment generation, GDP growth, revenue generation, and foreign currency inflow in Bangladesh. Furthermore, the textile sector stands as the largest and fastest-growing manufacturing industry in Bangladesh, while the pharmaceutical sector presents opportunities for growth following the post-pandemic period. Given the dearth of research on MAFC in emerging economies like Bangladesh, this study aims to address previous research gaps and uncover new insights using recent data, adhering to updated and more rigorous audit fee guidelines. It is anticipated that the findings of this study will not only contribute to enhancing the audit market and economic conditions but also enrich the existing literature on auditing practices in Bangladesh.

III. THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

3.1. Theoretical Frameworks

Over time, scholars have developed theories to understand the dynamics of audit fees and compliance, investigating variables such as board composition, audit committee characteristics, independence of directors, and social legitimacy. Previous research has suggested that a combination of theories is often more effective in explaining good governance practices and efficient fee determination and compliance, rather than relying solely on one theory (Abdullah & Valentine, 2009). This paper has utilized two theoretical frameworks, namely the Agency theory and the Legitimacy theory, to elucidate the factors influencing compliance with minimum audit fees.

One such theory that is highly relevant to the literature on audit fees is the Agency theory. Originating from economics, this theory describes firms as entities where self-interested individuals enter contractual relationships. The agency relationship arises when principals delegate authority to agents to act on their behalf (Jensen & Meckling, 1976; Karim et al., 2020). As agents act on behalf of principals, conflicts of interest may arise between the parties involved. Auditors mitigate these conflicts by providing assurance and other services to firms. Compliance with minimum audit fees ensures that the services provided by auditors are well-planned and coherent, ultimately reducing conflicts between principals and agents.

On the other hand, the Legitimacy theory posits that organizations continually seek to demonstrate their alignment with societal norms and values, as articulated by Dowling and Pfeffer (1975). This theory emphasizes the importance of the implicit or explicit 'social contract' between companies and society (Deegan et al., 2002). Firms may legitimize their activities by complying with minimum audit fees and disclosing relevant information to the public. Companies that fail to comply with these guidelines risk jeopardizing their perceived legitimacy and may face scrutiny or skepticism from regulators and society. Therefore, it is expected that companies are more likely to comply with minimum audit fees to uphold their social contracts, thereby enhancing their reputation and ensuring continued operations.

3.2. Hypotheses Development

This section concentrates on formulating hypotheses for the research. Previous studies have investigated the correlation between various corporate attributes and audit fees. Key attributes examined in these studies include company size, performance, leverage, firm complexity, industry type, audit firm stature, audit report lag time, and audit committee independence. Studies related to these attributes are referenced below.

3.2.1. Firm size

Previous empirical studies have highlighted a notable correlation between audit fees and firm size (Naser & Nuseibeh, 2007; Ellis & Booker, 2011; and Hassan & Naser, 2013), as larger companies undertake a greater volume of activities compared to smaller ones. Larger firms tend to be more transparent and are inclined to disclose additional information, necessitating more time and services for auditing. Additionally, these companies, with their financial resources, often engage prominent international audit firms, which typically charge higher fees (Palmrose, 1986; Carson et al., 2004; and Vermeer et al., 2009). Total assets are commonly utilized as a proxy for firm size in these studies (Othman et al., 2009; and Khan, 2010). Consistent with the findings of previous research, it is hypothesized that:

H_1: firm size is positively associated with MAFC.

3.2.2. Leverage (debt-equity ratio)

The debt-to-equity ratio measures a company's reliance on creditors rather than shareholders' equity, assessing its risk and ability to meet debt obligations. Companies with high leverage may encounter difficulties in repaying debt, leading to a negative impact on their credit rating. Previous research has shown mixed findings regarding the relationship between leverage and audit fees. Some studies have found a positive association between leverage and audit fees (Dabor & Ohonba, 2014; Hossain & Sobhan, 2019; and Kajola et al., 2022), while others have found a significant negative association (Kikhia, 2014; Habib et al., 2015; and Santhosh & Ganesh, 2020), and some have found no significant association at all (Barua et al., 2019; Olutokunbo et al., 2020; and Shakhatreh & Alsmadi, 2021). Leveraged firms may seek to legitimize their operations by complying with minimum audit fee guidelines. Therefore, in line with recent research, it is hypothesized that:

H_2: firm leverage is positively correlated with MAFC.

3.2.3. Firm age

The term "firm age" refers to the number of years since a company was incorporated (Shumway, 2001). Research indicates that there is a strong positive correlation between a firm's age and the quality of its audit, which consequently affects audit pricing (Mohammed et al., 2018). However, Alanezi and Alfraih (2016) found that firm age has the least significant impact on determining audit fees. Aged firms, due to their experience, will try to ensure compliance while ensuring audit quality. In line with previous studies, it is hypothesized that:

H_3: MAFC and firm age are positively connected.

3.2.4. Net cash flow from operation (NCFO)

Cash flow generated by a firm through its ongoing business operations is termed as cash flow from operations. Olabisi et al. (2020) identified a positive correlation between operating cash flow and audit quality. Egbunike et al. (2023) observed a significant relationship between residual audit fees and the smoothing of operating cash flow in Nigerian firms. Griffin et al. (2010) stated that firms facing agency problems, possessing high free cash flow, and having low growth opportunities tend to inflate audit fees due to additional efforts by auditors in the United States. Operating cash flow has been recognized as a significant determinant of audit fees in various prior studies (Griffin et al., 2010; Olabisi et al., 2020; and Egbunike et al., 2023). In alignment with prior studies, the net cash flow generated from operating activities facilitates firms in meeting their audit fee obligations and consequently attaining compliance. Therefore, the subsequent hypothesis was developed.

H_4: MAFC and operating cash flows are positively associated.

3.2.5. Corporate performance/profitability

Previous research has confirmed the correlation between audit fees and profitability (Sandra & Patrick, 1996; Joshi & Al-Bastaki, 2000). Companies with higher profits tend to disclose additional information to underscore their achievements and mitigate agency costs (Watts & Zimmerman, 1986). Inchausti (1997) demonstrated that successful companies' management often provides supplementary information to justify their standing and compensation. However, Naser and Nuseibeh (2007) contradicted these findings, suggesting that corporate profitability is not a significant factor in determining audit fees.

Joshi and Al-Bastaki (2000) discovered a significant positive relationship between audit fees and company size, indicating that larger, more profitable firms tend to pay higher audit fees. Various proxies have been used to represent profitability. By utilizing return on assets (ROA) as a proxy for profitability, the study formulated the following hypothesis:

H_5: firm profitability is positively connected with MAFC.

3.2.6. Ownership structure

Nelson and Mohamed-Rusdi (2015) identified a significant positive correlation between audit fees and large foreign and government-owned companies, but found no significant association with firms characterized by wide managerial ownership. The ownership structure plays a crucial role in the relatively low audit pricing observed in Bangladesh (Khan et al., 2011). They observed a substantial inverse relationship between audit fees and sponsors, as well as concentrations of institutional ownership. In line with this research, the present study utilizes directors' ownership as a proxy for ownership structure. Higher levels of directors' ownership are indicative of strong governance, and therefore, greater compliance is anticipated. Consequently, the following hypothesis has been formulated.

H_6: directors' shareholding is positively related to MAFC.

3.2.7. Board independence

Independent directors play a crucial role in ensuring good governance, thereby safeguarding the profitability, quality, and welfare of listed firms while mitigating undue influence and conflicts of interest (Sattar, 2018). Griffin et al. (2008) revealed two contrasting relationships between governance and audit fees: Firstly, audit fees tend to increase in cases of poor governance, while conversely, enhanced governance practices lead to reduced audit costs. Ghosh (2019) investigated the positive association between board independence and audit pricing, consistent with previous research findings (Carcello et al., 2002; Kikhia, 2014; Bozec & Dia, 2017; and Jizi & Nehme, 2018). Companies with more effective independent directors and audit committees are inclined to engage higher-quality auditors (Abbott & Parker, 2000). From a theoretical perspective, independent boards are expected to rigorously ensure compliance with minimum audit fee guidelines. Therefore, the following hypothesis is proposed.

H_7: board independence is connected to MAFC positively.

IV. RESEARCH METHODOLOGY

4.1. Data and Sample

This study has utilized 688 firm-year observations encompassing 86 companies listed on the Dhaka stock exchange (DSE) operating in the textile and pharmaceutical industries, spanning the period from 2016 to 2023. The selection of these industries is motivated by their significant contribution to employment, revenue generation, and foreign currency inflow in Bangladesh. The textile sector stands out as the largest and most rapidly expanding manufacturing industry in the country, while the pharmaceutical sector holds potential for growth, particularly in the aftermath of the pandemic. In 2023, there were a total of 58 DSE-listed textile companies and 33 pharmaceutical companies. Due to data unavailability, five textiles and one pharmaceutical company were excluded from the analysis. Hence, data from 86 companies (54 textiles and 32 pharmaceutical) spanning eight years (2016-2023) have been included in this study, aligning with the effective implementation of the minimum audit fee (MAF) guideline since 2016. The data were collected from the annual and corporate governance reports of the respective companies.

4.2. Variables Used

The predicted and predictor variables in this study are summarized below:

Table 1
Definition of the Variables

Variables		Measurement/Calculation	Prior studies
Predicted variable:			
MAFC	Minimum audit fee compliance	A dichotomous variable 1 if the firm is complied with the minimum audit fee guidelines of the ICAB and 0 otherwise.	Nil
Predictor variables:			
Firm size	Size	Natural logarithm of firms' total assets	Othman et al. (2009); Khan (2010); Hassan and Naser (2013); and Rahaman et al. (2025)
Leverage	Debt-equity ratio	Total liabilities/shareholders' equity	Dabor and Ohonba (2014); Hossain and Sobhan (2019); Santhosh and Ganesh (2020); and Kajola et al. (2022)
Age	Age	Number of years from the stablished year to respective operating year.	Alanezi and Alfraih (2016); Mohammed et al. (2018)
NCFO	Net cash flow from operation	Natural logarithm of Net cash flow from operating activities	Griffin et al. (2010); Olabisi et al. (2020); and Egbunike et al. (2023)
ROA	Return on asset	Net income/total asset.	Sandra and Patrick (1996); Joshi and Al-Bastaki (2000); and Naser and Nuseibeh, (2007)
DIROWN	Directors' ownership	The percentage of directors' ownership	Khan et al. (2011)
BODIND	Board indepen-dence	Proportion of independent directors in the board	Kikhia (2014); Bozec and Dia (2017); Jizi and Nehme (2018); and Ghosh (2019)

4.3. Model Specification and Data Analysis

Following some prior studies (Khan et al., 2011; Hassan & Naser, 2013; Mohammed et al., 2018; and Ghosh, 2019), the following logit model is developed to test the hypothesis of the study:

$$\mathbf{MAFC_{it} = \beta_0+\beta_1 SIZE_{it}+\beta_2 LEV_{it}+\beta_3 AGE_{it}+\beta_4 NCFO_{it}+\beta_5 ROA_{it} +\beta_6 DIROWN_{it}+\beta_7 BODIND_{it}+€_{it}} \quad \text{...} \quad \mathbf{(1)}$$

This research utilized a logistic regression model to analyze the data, which is particularly suitable when the response variable is binary. Given that this study considers minimum audit fee compliance (MAFC) as the dependent variable, which inherently exhibits a binary nature, the logistic regression model is deemed more appropriate. The logit model was chosen for its ability to automatically address issues related to autocorrelation and heteroscedasticity, making it particularly suitable for large sample sizes.

V. RESULTS AND DISCUSSIONS

5.1. Descriptive Statistics

Table 2 presents descriptive statistics for various variables in the dataset. The variable MAFC, which indicates compliance with audit fee guidelines, ranges from 0 to 1, with a mean of 0.07, suggesting that, on average, only 7% of companies comply with the minimum audit fee requirements. The variable Size, representing total assets on a logarithmic scale, has a mean of 21.95 and ranges from 18.2 to 25.99. Leverage (Debt-equity ratio) varies from -36.913 to 63.013, with a mean of 1.29. The average age of firm is 27.24 years, ranging from 6 to 69 years. Net cash flow from operations (NCFO, logarithmic scale) ranges from 13.10 to 23.63, with a mean of 18.68. Profitability (ROA) varies from -21% to 26%, with an average of 3%. Directors' ownership ranges from 6% to 90%, with a mean of 42%. The average number of independent directors on a board is approximately two, with a maximum of four and a minimum of zero, indicating adherence to corporate governance codes by most firms.

Table 2
Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Min.	Max.
MAFC	688	00.07	00.25	00.00	01.00
SIZE	688	21.95	01.26	18.20	25.99
LEV	688	01.29	04.76	-36.91	63.01
AGE	688	27.24	13.85	6.00	69.00
NCFO	688	18.68	01.73	13.10	23.63
ROA	688	00.03	00.06	-0.21	00.26
DIROWN	688	00.42	00.15	00.06	00.90
BODIND	688	01.81	00.66	00.00	04.00

5.2. Pearson Correlation Analysis

The Pearson correlation matrix, ranging from -1 to 1, gauges the strength, direction, and linear connection between two explanatory variables. It assesses the extent of association among variables and identifies multicollinearity. Table 3 presents the Pearson correlation matrix among various variables used in this study.

Insert Table 3 here.

From Table 3, it is evident that the correlation between MAFC (compliance with audit fee guidelines) and Size (total assets) is -0.081, which is statistically significant at the 5% level, indicating a strong negative relationship. Similarly, the correlation between MAFC and firm age is 0.038, suggesting a slight positive relationship, albeit not statistically significant. Notably, NCFO (net cash flow from operation) shows a moderate positive correlation with Size (0.656) and a weak positive correlation with MAFC (0.088), both statistically significant at the 1% level, implying that larger firms and those with higher net cash flow are more likely to comply with audit fee guidelines. Additionally, ROA (profitability), DIROWN (directors' ownership), and BODIND (board independence) exhibit various degrees of correlation with other variables, providing insights into potential associations within the variables.

Table 3
Pearson Correlation Matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) MAFC	1.000							
(2) SIZE	-.081** (.034)	1.000						
(3) LEV	.017 (.654)	-.047 (.216)	1.000					
(4) AGE	.038 (.324)	.085** (.025)	.087** (.023)	1.000				
(5) NCFO	.088** (.021)	.656*** (.000)	-.01*** (.010)	.028 (.465)	1.000			
(6) ROA	.146*** (.000)	-.024 (.532)	.024 (.536)	.069* (.071)	.007 (.857)	1.000		
(7) DIROWN	.174*** (.000)	.038 (.324)	.118*** (.002)	.126*** (.001)	.136*** (.000)	.107*** (.005)	1.000	
(8) BODIND	.028 (.458)	.170*** (.000)	-.007 (.861)	.006 (.874)	.199*** (.000)	.051 (.180)	.087** (.022)	1.000

Notes: correlation is significant at 1% (***), 5% (**) and 10% (*) level.

5.3. Multicollinearity Test

In this study, the variance inflation factor (VIF) test is utilized to assess multicollinearity and enhance the reliability and suitability of the model. Multicollinearity occurs when explanatory variables are highly correlated, which can distort the interpretation of the regression coefficients. According to Greene (2008), multicollinearity is considered high when the VIF exceeds 10. However, Table 4 illustrates that all explanatory variables have VIF values below 10, indicating that multicollinearity is not a significant issue in the model. The VIF values, along with their reciprocal (1/VIF), are presented for each variable, demonstrating that the mean VIF across all variables is 1.264, well below the threshold for concern. This suggests that the explanatory variables in the model are relatively independent of each other, thereby increasing the confidence in the model's results and interpretations.

Table 4: Variance Inflation Factor

	VIF	1/VIF
SIZE	1.792	.558
LEV	1.035	.967
AGE	1.035	.966
NCFO	1.842	.543
ROA	1.019	.982
DIROWN	1.072	.933
BODIND	1.051	.951
Mean VIF	1.264	-

5.4. Regression Results

Table 5 presents the regression results for testing the hypothesis used in the study. Hypotheses H_1, H_4, H_5, and H_6 are accepted, indicating significant relationships of firm size, cashflows, profitability (ROA), and director ownership, respectively, with MAFC. Conversely, hypotheses H_2, H_3, and H_7 are rejected due to insignificant coefficients, as evidenced by high p-values. This implies that there is no significant relationship of leverage, firm age, and board independence with MAFC. The model's goodness of fit is also assessed, with an R^2 value of 0.080 indicating that the explanatory variables collectively explain 8% of the variation in the dependent variable. Additionally, an F-test value of 8.489, with a corresponding p-value of 0.000, suggests that the overall model is statistically significant.

Table 5
Regression Result and Hypothesis Testing

Hypotheses	Explanatory Variables	Coefficient	p-value	Decision	Supporting/Contrasting Literature
H_1	**SIZE**	$-.046^{***}$	0.00	Accepted	Ellis and Booker (2011); Hassan and Naser (2013)
H_2	**LEV**	.0003	.855	Rejected	Habib et al. (2015); Olutokunbo et al. (2020); Santhosh and Ganesh (2020); and Shakhatreh and Alsmadi (2021)
H_3	**AGE**	.0005	.504	Rejected	Alanezi and Alfraih (2016); Mohammed et al. (2018)
H_4	**NCFO**	$.032^{***}$	.00	Accepted	Griffin et al. (2010); Olabisi et al. (2020)
H_5	**ROA**	$.045^{***}$	.001	Accepted	Naser and Nuseibeh (2007)
H_6	**DIROWN**	$.22^{***}$	.00	Accepted	Khan et al. (2011); Nelson and Mohamed-Rusdi (2015)
H_7	**BODIND**	.002	.879	Rejected	Jizi and Nehme (2018); Ghosh (2019)
	Constant	$.373^{**}$	.024	No of obs.	688
	R^2		.080	Adj R^2	.066
	F-test	8.489		Prob > F	.000

Notes: *** significant at 0.01, ** significant at 0.05, and * significant at 0.10 levels.

The regression analysis reveals a significant negative association (at the 1% significance level) between MAFC and firm size, indicating that firm size plays a crucial role in adhering to minimum audit fee requirements. This finding aligns with Hypothesis H_1, which proposed size as a key determinant of audit fees, and is supported by research from Naser and Nuseibeh (2007), Ellis and Booker (2011), and Hassan and Naser (2013), However, this result contradicts prior studies that suggested a positive relationship between firm size and audit fees, as observed in research by Carson et al. (2004), Vermeer et al. (2009), and Hassan and Naser (2013). In the context of firm size and compliance with minimum audit fees, agency theory suggests that larger firms may face greater complexity in organizational structures and operations, resulting in higher agency costs. Management tries to reduce the agency cost in terms of audit fee resulting in non-compliance of MAF. Moreover, larger firms may possess more resources to negotiate lower audit fees or exert influence on auditors, potentially leading to non-compliance with minimum fee requirements. Conversely, it's plausible that larger firms justify non-compliance by arguing for the necessity of higher audit fees compared to smaller firms.

The second hypothesis (H_2) posits a significant positive correlation between leverage and MAFC. However, the findings reveal a negligible positive correlation, leading to the rejection of H2. This outcome aligns with several previous studies (Barua et al., 2019; Olutokunbo et al., 2020; and Shakhatreh & Alsmadi, 2021) but contrasts with others (Kikhia, 2014; Habib et al., 2015; and Santhosh & Ganesh, 2020). Higher leverage typically indicates heightened financial risk for the firm. According to agency theory, this increased risk may result in higher agency costs, potentially leading to elevated audit fees. Similarly, from the perspective of legitimacy theory, firms may seek to justify their higher risk profile by accepting higher audit fees. However, despite these potential influences, the positive relationship between leverage and audit fee compliance may lack statistical significance due to various factors such as managerial discretion, negotiation power, or specific characteristics of the firm.

The third hypothesis posits a positive correlation between firm age and MAFC. However, the results indicate that age does not significantly influence MAFC, which contradicts findings from previous studies (Alanezi & Alfraih, 2016; Mohammed et al., 2018). According to agency theory, older firms may have established governance structures and procedures, leading to better compliance with audit fee guidelines. Similarly, legitimacy theory suggests that older firms may prioritize maintaining a positive image and reputation, which could incentivize them to comply with audit fee regulations (Deegan et al., 2002). Despite these theoretical expectations, the lack of a significant relationship between firm age and MAFC in this study may be influenced by factors such as changes in regulatory environments, variations in managerial practices, or unique industry dynamics.

The fourth and fifth hypotheses of the study propose a positive correlation between operating cash flows and MAFC, as well as profitability and MAFC. The findings uphold both hypotheses, demonstrating significance at the 1% level, which is consistent with prior research (Griffin et al., 2010; Olabisi et al., 2020). According to agency theory, firms with higher operating cash flows and profitability may exhibit greater financial stability and reduced agency costs, thereby enhancing their ability to comply with audit fee guidelines According to Griffin et al. (2010), firms with excess cash flows results in higher agency cost, thus NOCF is positively associated with minimum audit fee compliance. Moreover, from the perspective of legitimacy theory, firms may seek to maintain their reputation and credibility by adhering to audit fee regulations, particularly when they demonstrate robust financial performance (Deegan et al., 2002). These results underscore the importance of financial health and performance in influencing firms' compliance behavior regarding audit fees.

The sixth and seventh hypotheses examine the impact of corporate governance, assessed through director's shareholding and board independence, on MAFC, expecting a positive correlation. The findings reveal a positive relationship, yet while the link between directors' shareholding and MAFC is statistically significant (at the 1% level), the association with independent directors is not significant. According to the agency theory, higher director's shareholding may align managerial interests with shareholder interests, reducing agency conflicts and promoting compliance with audit fee guidelines. However, the lack of significance in the association with independent directors suggests that the presence of independent oversight alone may not significantly influence compliance behavior. According to Karim and Mitra (2019), the independent director position in Bangladesh is an ornamental post, therefore, can't strengthen governance to ensure compliance with MAF. From a legitimacy theory perspective, firms may prioritize demonstrating transparency and accountability through higher director's shareholding, thereby bolstering compliance efforts. Nonetheless, the absence of significance in the association with independent directors implies that independent directors are not independent in real sense, as firms mainly comply with provision of independent director to maintain legitimacy in Bangladesh (Karim & Mitra, 2019; Rahaman et al., 2025).

VI. CONCLUSION AND RECOMMENDATIONS

The introduction of the minimum audit fee guideline in Bangladesh marks a significant milestone in auditing history, with its primary aim being to notably enhance audit quality. Despite this, there is a notable scarcity of literature globally, as well as within Bangladesh, on the determinants of compliance with minimum audit fees. This evident gap has spurred the current study, which seeks to expand upon existing research on audit fees within our country. Given Bangladesh's history of non-compliance with corporate governance, accounting standards, and Shariah audit (Biswas, et al., 2019; Karim et al., 2020; Karim & Shetu, 2020b), investigating the factors influencing compliance with minimum audit fees and the characteristics of compliant companies will introduce new dimensions to contemporary research. To address these objectives, the study collected a total of 688 observations spanning from 2016 to 2023 from the textile and pharmaceutical industries listed on the DSE. Logistic regression was employed due to the nature of the data, and analysis was conducted using STATA-18 MP statistical software.

The research findings reveal a noteworthy negative correlation between MAFC and firm size, aligning with previous studies by Carson et al. (2004), Vermeer et al. (2009), and Hassan and Naser (2013). This suggests that larger companies are less inclined to adhere to minimum audit fees. Additionally, the results indicate a significant positive correlation between MAFC and profitability, cash flows, and directors' ownership, implying that firms with higher profits, adequate operational cash flows, and greater director ownership are more inclined to comply with minimum audit fees as stipulated by the ICAB. These findings are consistent with both agency theory and legitimacy theory. In the context of agency theory, the negative association between firm size and MAFC suggests that larger firms may face greater agency costs, leading to a reduced inclination to comply with minimum audit fees. On the other hand, from a legitimacy theory perspective, firms with higher profitability, cash flows, and director ownership may prioritize maintaining a positive image and reputation, thereby motivating them to adhere more closely to regulatory requirements such as minimum audit fees.

The results of this study will contribute substantial theoretical and practical insights to the existing literature, assisting regulators in refining audit regulations by highlighting the drivers and potential ramifications of compliance. Moreover, it will provide valuable guidance to company owners and managers in making informed decisions concerning the factors influencing compliance with minimum audit fees, elucidating the advantages and benefits associated with adherence. Additionally, it will serve as a valuable resource for future researchers, enabling them to expand upon existing knowledge and enrich the scholarly discourse on this topic.

6.1 Recommendations

The research also has certain limitations. Firstly, it solely focuses on the textile and pharmaceutical industries, potentially limiting the generalizability of the findings. Including companies from a broader range of industries could provide a more comprehensive understanding. Future studies could expand the scope to encompass all industries in Bangladesh or explore cross-country or developed economy contexts. Secondly, the use of logistic regression, driven by the dichotomous nature of the data, requires careful interpretation of the findings. Future research could explore alternative methodologies and address potential endogeneity issues. Lastly, the study relies solely on secondary data and does not incorporate any primary data collection. Conducting qualitative research through interviews with company officials and regulators could offer insights into the factors contributing to non-compliance.

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