

# THE RELATIONSHIP BETWEEN INTERNAL AUDITING AND EXTERNAL AUDIT FEES: EVIDENCE FROM KUWAIT

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**Abstract:** Although audit pricing has been one of the most studied topics in the audit literature for more than three decades now, to date, very little research has been conducted on this important issue in the Middle East Region. One important question in this line of audit research has been related to whether audit fees are influenced by the contribution of client's internal auditing (IA) to the external audit work. Much of existing research investigating this issue has been conducted in well-developed English-speaking countries, with almost no empirical evidence provided about this issue within the context of other parts of the world. The purpose of the current study is to examine this issue using data from the Kuwaiti audit market. In particular, the current study uses a sample of audit engagements performed in the Kuwaiti market, to examine whether external audit fees are influenced by the contribution of the client's internal audit function. The results show that IA contribution in the external audit work is negatively related to the amount of external audit fees.

**Keywords:** audit fees, internal auditing, audit markets, Kuwait.

## I. INTRODUCTION

Due to the growing competition in audit markets, and the increasing complexity in the required audit procedures, one of the major challenges external audit firms have been facing in recent years is the need to be cost-efficient and at the same time preserve adequate audit quality. One way for audit firms to achieve that has been through the utilization of audit client's internal audit (IA) in the performance of the external audit work. The contribution of the client's IA department to external audit work can be beneficial not only for audit firms but also for audit clients as well. That is true since this kind of cooperation is expected to result in some synergic outcomes including high audit

quality and cost efficiency (Gramling *et al.*, 2004; Sarens, 2009). Audit clients are expected to cherish such cooperation since it can lead to reducing the cost of their external audit (Zain *et al.*, 2015). In addition, and especially in light of the recent emphasis on the promotion of effective and strong corporate governance and control, having a better understanding of how internal and external audit interact is very useful for the enhancement of integrity and reliability of corporate financial reporting (Spira and Page, 2003; Goodwin-Stewart and Kent, 2006).

The impact of IA contribution to external audit work on audit fees has been an interesting research issue for several audit researchers.