

examining the relationship between audit fees and IA contribution in a setting that has not been explored before.

After controlling for some key factors related to external audit fees, the results show a negative relationship between external audit fees and IA contribution in the external audit work. The empirical evidence provided in the current study is supportive of IA as a substitute of substantive audit procedures performed to carry out the external audit work. The results provided by the current study should be of value to audit firms interested in comparing the level of their coordination with their clients' IA to that in the market. The current study's findings may also be informative to firms' audit committees when supervising the coordination between the external audit team and the firm's IA department. Empirical findings offered in the current study should also be of use to audit regulators, especially in the Kuwaiti market, for better understanding and supervision of the relationship between external auditors and their clients' IA functions.

The major contribution of this study is that it complements prior related research by carrying out an investigation of the relationship between audit fees and IA in a developing market's settings. This research endeavor, therefore, is valuable as it is, to the author's knowledge, the first to provide empirical evidence about this important research issue from the Middle Eastern region.

II. LITERATURE REVIEW

The relationship between audit fees and IA contribution has been an issue of interest for several audit researchers for the last thirty years. Understanding the interaction between internal and external auditing is important as both functions serve as monitoring mechanisms

for corporations (Stein *et al.*, 1994; Felix *et al.*, 2001; Goodwin-Stewart and Kent, 2006; Singh *et al.*, 2013). In addition, investigating the relationship between internal and external audit functions is of value as it has some economic implications for companies and external audit firms (Singh *et al.*, 2013). Empirical findings obtained about this relationship have been mixed and inconclusive, though. While results obtained by some prior studies suggest a negative relationship between audit fees and IA contribution (e.g., Felix *et al.*, 2001), evidence reported in other studies show a positive relationship (e.g., Goodwin-Stewart and Kent, 2006; Hay *et al.*, 2008).

The professional audit guidance encourages external auditors to rely on work performed by the audit client's IA function when it is of adequate quality. In particular, International Standard on Auditing 610, *Using the Work of Internal Auditors*, maintains that "the external auditor shall consider the nature and scope of the work that has been performed, or is planned to be performed, by the internal audit function and its relevance to the external auditor's overall audit strategy and audit plan" (IFAC, p. 7). Using the work of internal auditors can be useful in conducting more efficient and effective external audit. That is true since using such a work would help lowering the cost of performing the external audit work, and enables the external audit team to make use of internal auditors' familiarity and understanding with the client's activities and operations.

The impact of external auditors' use of IA work and external audit fees has been a subject of investigation by several researchers. Existing related research reports findings revealing a positive, negative, and no relationship between using IA work and audit fees. Researchers suggesting a significant positive association between IA contribution and audit fees interpret