While the relationship between audit fees and both client's profitability and liquidity is expected to be negative, it is expected to be positive with client's financial leverage³.

Test variable

As indicated, the current study is interesting mainly at examining whether IA contribution in the external audit work affects the amount of external audit fees. The IA variable is added to the research model to examine this research question. Similar to prior related research (Felix *et al.*, 2001), this variable is measured as external auditor's assessment of the percentage (from 0% to 100%) of external audit work performed by the client's internal audit staff. If IA contribution is positively (negatively) related to the amount of external audit fees, we would expect this variable's regression coefficient to show a positive (negative) sign.

IV. RESULTS AND ANALYSIS

Descriptive statistics:

Panel A of Table 1 demonstrates the descriptive statistics related to the study's variables. As shown, the mean total assets of the audited firms included in the sample is KD123,698,961, ranging from as low as KD301,441 to KD772,016,000. The mean of the external audit fees for the study's sample is about KD4,854. Table 1 also shows that audited firms included in the sample has a mean quick ratio of 2.48, a financial leverage of 0.25 and a mean ROA of -0.6. Panel A of Table 1 also shows that, on average, the audit firms of the sampled firms were tenured for about 2.4 years. This table also shows that, on average, internal auditors contributed in about 28 percent of the external audit work in the sample of audit engagements. Panel B of Table

1 shows some statistics about the categorical variables included in the research model. As shown from this section of Table 1, external audit firms concurrently provided non-audit services in only 11 percent of the sample of audit engagements, while providing only audit services in about 89 percent of the audit engagements. Panel B in Table 1 also shows that 40 percent of sample of audit engagements were performed by one of the Big4 audit firms, while the rest were performed by non-Big4 audit firms.

Table 2 shows the Pearson correlations among the study's independent variables. As shown in this table, the correlations among the study's independent variables are not substantially high, with the highest correlation coefficient value less than 0.60. However, and to check for any possibility of multicollinearity among the study's independent variables, the Variance Inflation Factors (VIF) were computed, and are shown in Table 3. As the results demonstrate, the highest VIF value reported equals 2.543, which is less than the critical value of 10 (Neter *et al.*, 1983). Hence, multicollinearity does not appear to be a problem in this case.

Empirical Results:

Table 3 shows the results of the audit fees regression model of the current study. As indicated, this regression model regresses the natural log of the total amount of external audit fees (FEE) on a measure of IA contribution in the external audit work (IA), in addition to proxies for client's size (SIZE), client's complexity (LOCATE), client liquidity (OUICK), client's financial leverage (LEVER), client's profitability (ROA), concurrent provision of non-audit services (NAS), external auditor's type (BIG4), and audit firm's tenure in years (TENURE). As Table 3 shows, the model is significant with F-statistic of 3.244 (p-value < .000), and R-square of about 0.54.

³ Some related studies, however, produced mixed results and conclusions about the relationship between audit fees and client's liquidity and profitability ratios.