

## Internal Audit Function Contributions to the External Audit

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**Abstract :** Consistent with prior experimental and survey studies, we find that IAFs that spend more time directly assisting the external auditor is associated with lower external audit fees. Interestingly, we do not find evidence that external auditors reduce fees based on work previously performed by the IAF. We also find that the time spent assisting the external auditor has a greater negative effect on external audit fees than the time spent performing tasks upon which the auditor may rely but that are not performed as direct assistance to the external audit. Our results also show that previous proxies used to measure this relation is either not associated with or are negatively associated with our direct measures of how the IAF can contribute to the external audit and are highly positively associated with the size and the complexity of the organization. Thus, we conclude the disparate experimental and archival results may be attributable to issues surrounding the construct validity of measures used in previous archival studies and that when measures similar to those used in experimental studies are employed in archival tests, the archival results are consistent with experimental findings. Our research makes four primary contributions to the literature. First, we provide evidence that internal auditing contributes to a reduction in external audit fees. Second, we replicate and provide an explanation for why previous archival studies find that internal auditing has either no association with external audit fees or is associated with an increase in those fees: prior studies generally use proxies of internal audit contribution that do not adequately capture the intended construct. Third, our research expands on survey-based research (e.g., Oil Libya sh.co.) by separately examining the impact on the audit fee of the internal auditors' work, indirectly assisting external auditors and internal auditors' prior work upon which external auditors can rely. Finally, we extend prior research by using a new, independent data source to validate and extend prior studies. This data set also allows for a sample of examining the impact of internal auditing on the external audit fee and the use of a more comprehensive external audit fee model that better controls for determinants of the external audit fee.

**Keywords :** internal audit, contribution, external audit, function

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