

# **THE EFFECTS OF COOPERATION AND COORDINATION BETWEEN INTERNAL AUDITORS AND EXTERNAL AUDITORS: A LITERATURE REVIEW**

Professor Prem Lal Joshi, (Former Professor of Accounting at Multimedia University, Malaysia, and University of Bahrain, Bahrain. Currently Editor in Chief: International Journal of Auditing and Accounting Studies (IJAAS). (Email: prem@acadjoshi.com).

## **ABSTRACT**

Presenting a comprehensive literature analysis of the results of internal auditor (IA) and external auditor (EA) coordination and collaboration is the aim of this study. A framework for analysing the literature review of the effects of these relationships on audit fees, corporate governance, internal auditing effectiveness, client services, audit quality, and fraud detection is developed. In order to pick research studies for the systematic literature review, the investigations' approach involved three steps: database recognition, study screening, and selected research study. A variety of databases, including ProQuest, SCOPUS, Direct Sciences, and others, provided the studies. The years 2001–2024 are covered by the literature search. After screening, 931 of the 956 studies that were discovered were eliminated due to their lack of relevance. In the end, 25 studies were chosen for analysis. Despite the fact that most studies show that IA and EA cooperation and coordination increase internal audit effectiveness, the same cannot be stated for audit fees and costs or audit quality due to contradictory results. Although there are some positive effect in fraud detection, client services, and corporate governance, it is unclear how this relationship has affected audit quality improvement as a result of IA and EA's cooperation and coordination. Because the results of previous research show a mixed tendency, there are still uncertainties regarding how IA and EA interactions effect audit quality and audit fees and costs. The literature review shows that there is still a study gap and that the results of this coordination and cooperation are not fully apparent, despite the fact that several studies have been carried out in various nations. More studies are needed, according to the analysis, particularly in developing nations where there are not many studies of this kind and Big 4 audit firms predominate.

Keyword: Internal auditing, External auditing, Cooperation and Coordination, Audit Quality, Audit Fees, Fraud Detection, Corporate Governance, Audit Clients Services, Effectiveness of Internal Auditing.

## 1. INTRODUCTION

Authorities and stakeholder groups have demanded greater collaboration between internal and external auditors in order to boost audit efficiency (Nkansa, 2024). In this regard, the Institute of Internal Auditors (IIA) and the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) offer guidelines for the collaboration of internal and external auditors. The internal and external auditors collaborate and coordinate in the area of internal audit work, with the EA reviewing the IA's reports and notifying them of any significant issues, as per International Auditing Standard 610. The IA reviews the EA's reports, identifies areas needing further investigation, takes appropriate action, and schedules meetings and seminars. The dependence of EA on the work of IAs has thus received more attention in recent years (Brody 2012; Pike et al. 2016). It is assumed that when internal and external auditors collaborate and coordinate, their knowledge will be integrated, with IAs learning from EAs about connected businesses and the organization's environment. Collaboration between internal and external audits is a strategic powerhouse that might transform risk management, productivity, and decision-making, claims Mojapelo (2024). It goes beyond simple compliance.

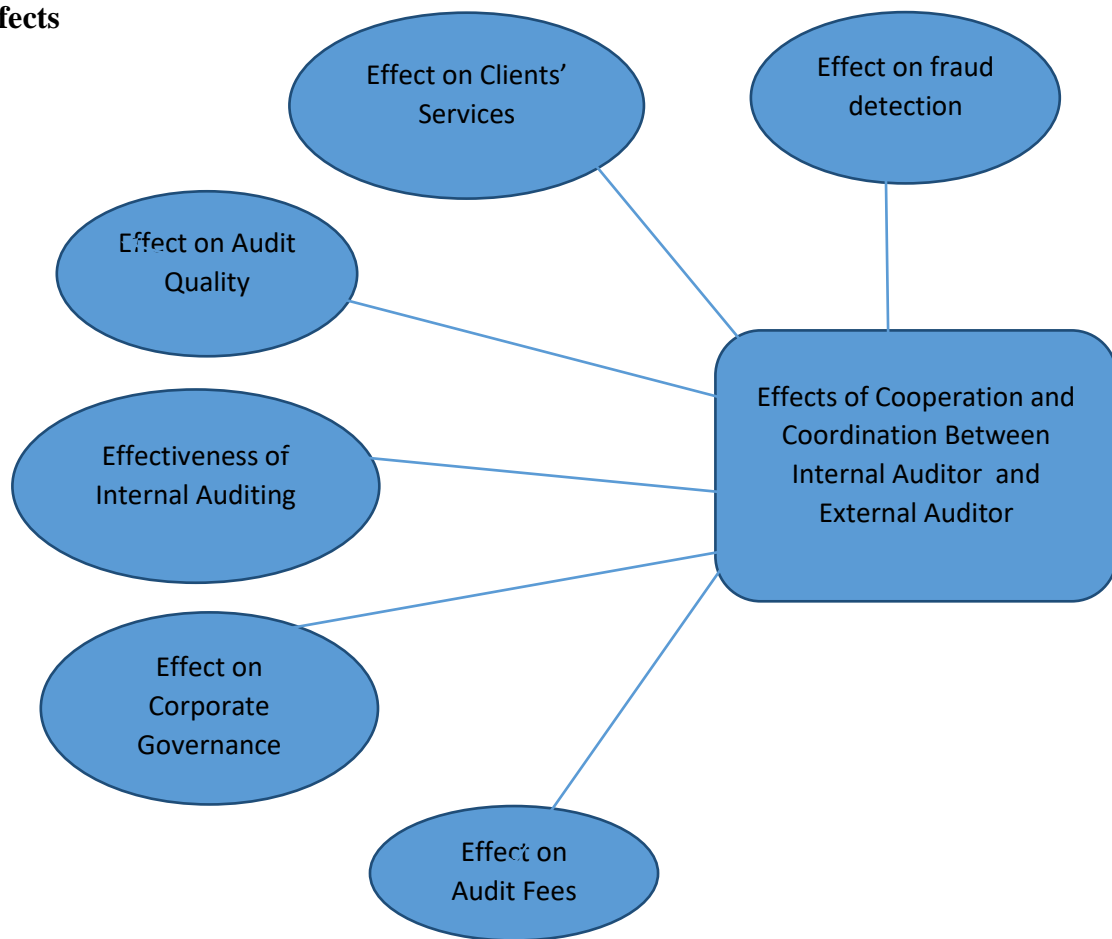
IAs and EAs have common interests and can benefit from fruitful cooperation (Brody, 2012). EAs can become more efficient and reduce the scope of their audit tasks by utilizing the work of IAs. Coordination and collaboration between them have long been regarded as crucial for the advantages of auditing for businesses and external stakeholders, according to Alzeban and Gwilliam (2014). To achieve the best results for the shared interests and objectives, this coordination and cooperation are ongoing. Maintaining the efficacy of corporate governance is facilitated by IAs' capacity to cultivate positive relationships with EAs (Gramling et al., 2004). A competent and unbiased internal audit function may significantly improve an external audit process (Al-Twaijry et al., 2004). According to Dumitrescu and Boitan (2016), the organization's processes and operations will be more effective and of higher quality if the IAs and EAs collaborate together. Accordingly, there are beliefs that their coordination and cooperation are intended to yield various benefits, as outlined by Etzioni (2014).

**Research question:** What is the effect of cooperation and coordination between IAs and EAs on audit fees and costs, clients services, detection of frauds, audit quality, effectiveness on internal auditing, and corporate governance? .

Thus, using a previous literature review from 2001 to 2024, the aim of this paper is to analyse the effects of collaboration and coordination between internal and external auditors on audit fees, client services, fraud detection, audit quality, effectiveness on internal auditing, and corporate governance. Four sections make up the remainder of the paper. The framework, methods, and list of the 25 studies chosen for this literature review are all covered in Section 2. In contrast, Section 3 discusses the results of the chosen studies and how they affect the six areas of coordination and cooperation between IAs and EAs. Conclusions and recommendations for further study are provided in the final Section

## Section 2

### 2.1 Framework of areas for internal and external auditors cooperation and coordination effects



**Fig-1** (Source: framework developed by the author)

### 2.2 Methodology

Numerous academics have proposed a variety of techniques for doing a thorough literature review, including Hardies et al. (2023) and Fisch and Block (2018), just are two examples. Database recognition, study screening, and selected research studies were the three processes used to pick research studies for our systematic literature review. The years 2001–2024 are included in the literature search. Peer-reviewed articles are available through a number of databases, such as SCOPUS, ProQuest, Direct Sciences, and others. Key words and titles such as "interaction," "cooperation and coordination," "interaction," "audit fees," "audit effectiveness," "audit quality," "corporate governance," "fraud detection," "client services," and

"internal auditor" (IA) and "external auditor" (EA) were among the search phrases. In the end, 956 studies were found. After screening, 931 studies were removed because many of them lacked full texts, were duplicates, or were irrelevant. 25 studies were ultimately selected for the review.

### 2.3 Review of prior studies

The researchers' names, the year, the key findings, the direction of the effects, the sample size, and the country where the investigations were conducted are all listed in Table 1.

Table 1: List of key prior studies from 2001-2024.

Authors	Main findings	Quantitative or qualitative	Sample	Effect On	Country
Chui, Pike and Martin (2024)	External auditors collaborate with the IAF for efficient audits, varying based on competence, impartiality, and communication, resulting in more effective and efficient audits.	Qualitative	107 external auditors	Audit quality improves	USA
Mahouat et al. (2024).	The study suggests that enhancing internal audit effectiveness necessitates robust management support, competency, and independence, ensuring auditors	Quantitative	137 public sector companies	Improves Internal audit effectiveness	Morocco

	perform their duties objectively and free from conflicts of interest, and fostering cooperation between internal and external auditors.				
Al-Sukker et al. (2024)	The study investigates how senior Jordanian EAs evaluate the effectiveness of the internal auditing function (IAF) in Jordanian listed businesses. Results show that work performance significantly influences the perceived success of the IAF. The study employed a mixed strategy, considering the small sample size and the authors' assertion of significant influence.	Quantitative & qualitative	35 external auditors and 9 interviews	Positive effect on IA effectiveness	Jordan

Maa, Adwa., & Jalilb (2024)	The interaction between EA and the IAF negatively affects earnings management i.e., audit quality. On the other hand, This study found that the interaction between the AC and the IAF is significantly and negatively correlated with earnings management,	Quantitative	340 firm-year-based observations	Audit fees negatively affected.	Malaysia
Sarkar (2021)	A study of 408 Australian firms from 2017-2018 found a positive correlation between internal audit function quality and external audit fees, suggesting that higher internal audit functions increase audit fees regardless of sourcing arrangements.	Quantitative	408 listed companies (2017-2018)	Positive: audit fees increased	Australia
Al-Shaheen & Bai (2020)	The dependence of external audits	Qualitative	14 semi-structured open ended	Improves audit quality	China

	on internal audits continue to exist in China. The study emphasizes the importance of maintaining the independence, objectivity, professionalism, and authenticity of internal auditing in China to enhance audit quality and efficiency.		questionnaire from 7 audit firms		
Azzam et al. (2020)	Participants viewed collaboration between internal and external auditors positively, indicating that objectivity enhances collaboration, thereby improving the quality of financial reporting.	Quantitative	312 external auditors	Favourable impact on audit quality	Jordan
Putra & Mulya (2020)	The quality of internal audit significantly impacts the effectiveness of good corporate governance,	Quantitative	85 employees	Effective IA leads to improvement in corporate governance	Indonesia

	which is influenced by factors such as independence, professional capability, scope of work, and examination.				
Regoliosi & Martino (2019)	The study indicates that collaboration enhances the reliability of controls and partially prevents duplication of work.	Quantitative	224 external auditors & CAE	Internal audit effectiveness improves but mixed evidence on audit fees	Italy
Poltak, Sudarma, & Purwanti (2019)	The study found that internal audit effectiveness is positively impacted by collaboration and coordination between internal and external auditors, and that management support moderates this effectiveness.	Quantitative	Functional auditors was 91 people (internal and external )	Positive effect on internal audit effectiveness	Indonesia
Sierra-García, Ruiz-Barbadillo, & Orta-Pérez (2019)	The results show that fees are higher in businesses with internal auditing	Quantitative	Companies listed on the Madrid Stock Exchange with 965 firm-year	Impact on audit fees	Spain



	departments. Furthermore, there is a complementary interaction between internal and external audits.		observations		
Silva , Inacio, & Vieira (2019)	The study reveals that the competencies and characteristics of internal auditors, their activities, and communication with external auditors significantly influence the decision to use internal audit work. Portuguese external auditors do not perceive audit quality and fees as impacted, while Spanish respondents believe audit quality improves but does not affect fees.	Qualitative	131 respondents for Portugal and 149 respondents for Spain.	Does not improve audit quality	Portugal & Spain
Jabbar (2018)	Audit integration between external and	Quantitative	110 internal, external and academicians	Audit quality performance improves and audit	Iraq

	internal auditors offers benefits like avoiding duplication, saving time, and providing comprehensive coverage. However, management's ignorance often leads to cautious communication and cooperation, as external auditors aim to uncover mistakes.			expectation gap is changing	
Argento et al. (2018)	The study reveals that as external auditors utilize the work of internal auditors, they potentially compromise objectivity and professionalism. However, external auditors are aware of the implications for audit quality, relying on internal auditors' reports. The study	Quantitative and Qualitative	8 semi-structured interviews with external auditors; 41 usable responses	Audit quality improves; reduces audit costs	Sweden

	highlights the balance between their perspectives on efficiency, independence, professionalism, and audit quality.				
Abbot et al. (2016)	What is the effect of internal audit competence (independence) on financial reporting quality?" is "it depends on the independence (competence) of the internal auditor.	Quantitative	900 non-bank members of the FORTUNE 1000 (in terms of total sales).	Audit quality effect depends on internal auditor independence	USA
Dumitrescu & Boitan, (2016).	The study explores Romania's key provisions for promoting cooperation between internal and external auditors, aiming to enhance system quality and effectiveness while reducing testing and fees, and identifying Romanian auditors' perceptions of	Qualitative	14 internal auditors and 23 external auditors	Audit fees is reduced	Romania

	cooperation and coordination..				
Drogalas et al. (2016)	The study reveals a positive correlation between the consulting function, internal audit quality, and the audit committee in relation to corporate governance.	Quantitative	235 corporations	Positive effect on corporate governance	Greece
Salehi (2016)	The study reveals that the effectiveness of an internal audit department is influenced by various factors such as competency, department size, interactions between auditors, independence, and management support.	Quantitative	355 internal audit manager and 272 other internal audit staff	Communication between IA and EA impacts IA effectiveness	Iran
Mat Zain, Zaman&Mohamed (2015)	The study reveals a positive correlation between IAF quality and audit fees, with	Quantitative	Matched survey of both external and internal auditors	IA quality improves; audit fees is reduced due to interactions	Malaysia

	a reduction in fees due to external auditors' reliance on IAF, suggesting that higher quality IAF leads to increased external auditor reliance on internal auditors' work.				
Alzeban & Gwilliam, (2014)	Management support for internal audit (IAE) significantly influences both management and internal auditors' perceptions of its efficacy, including hiring qualified employees, allocating funds, improving external auditor relationships, and creating a separate division	Quantitative	203 managers and 239 internal auditors from 79 public sector companies	Positive effect on the internal auditing effectiveness	Saudi Arabia
Brody (2012)	If the external auditor conducted less work and the internal auditor's work was more	Quantitative	48 auditors at the senior rank and 48 auditors at the manager rank from Big4 and one	Positive effect on audit fees	USA

	relied upon, the external audit fees would be reduced.		national firm.		
Garcia-Perez de Lema (2012)	The study reveals that high collaboration between external and internal auditors significantly enhances the likelihood of high-quality financial reporting in companies i.e. audit quality.	Qunatitative	Bank directors	Positive effect on audit quality	Spain
Suwaidan & Quasim (2010)	The study findings reveals that external auditors in Jordan prioritize the objectivity, competence, and work performance of internal auditors, reducing external auditors' efforts due to cooperation and firm size influencing audit fees.	Quantitative	100 external auditors	Positive effect on audit fees	Jordan
Ho & Hutchinson (2010)	The findings suggest that	Quantitative	Annual reports of	Effect on audit fees	China

	reliance of EAs on IAs work reduces audit fees		Hong Kong listed companies & questionnaire-based perceptions		
Felix et al. (2001)	The study found that the contribution of internal audit to external audit work significantly influences audit fees, with a negative relationship. The availability and quality of internal audit also significantly influence its contribution.	Quantitative	70 non-financial services Fortune 1000 firms included internal and external auditors	Audit fees is significantly impacted but with negative relationship	USA

### 3. DISCUSSION

Given the increasing significance of interactions between IAs and EAs, scholars like Sawyer et al. (2005) and Wood (2004) have argued that IAs and EAs need to collaborate, appreciate, and leverage one another's abilities. By better coordinating and working together, they can boost the effectiveness and efficiency of auditing operations and benefit from each other's efforts. To increase audit efficiency, regulators and stakeholder organizations have pushed for greater cooperation. Relationships with other corporate governance parties both influence and are influenced by the coordination and collaboration among auditors. According to Endaya (2014), this interaction lowers audit fees while simultaneously improving audit effectiveness and efficiency. Mutual cooperation reduces job duplication and increases control reliability. One important aspect influencing how much EAs rely on IAS is their level of commitment to professional standards (Mustapha & Lee, 2020).

Interestingly, 48% of the research conducted in developed countries was included in this study, whereas 52% of the studies included in this review came from developing nations. The following part provides a thorough analysis of the findings of the pertinent research and how they affect each of the six areas listed in the framework:

### **3.1 Effect of cooperation and coordination between internal and external auditors on audit quality**

The effect of EAs interactions with IAs may be either positive or negative on audit quality. Effective collaboration can yield several benefits for both the auditors and the client they serve, including increased efficiency without sacrificing effectiveness, according to recent studies (Endaya, 2014). Due to their greater familiarity with the business and its surroundings, IAs are seen as a significant source of information. Azzam et al. (2020) studied 312 EAs in Jordan with an 85% response rate, taking this into consideration. Their results demonstrate that the collaboration between internal and external auditors to improve the calibre of financial reporting was positively viewed by the auditors, a favourable and noteworthy impact of objectivity in raising the degree of collaboration between internal and external auditors, which raised the standard of financial reporting. Additionally, the technical proficiency of the internal audit's work and professional care have improved, which has a beneficial impact on the quality of financial reporting. They suggest that EAs should rely on internal audit works, which could lead to enhanced financial reporting quality.

The relationship between financial reporting quality and internal or external audit was examined in a few research studies (Badolato et al., 2014; Abdallah, 2018) with mixed results. Empirical research has shown a positive correlation in the working relationship between internal and external auditors and the effectiveness of the internal auditing function (Alzeban & Gwilliam, 2014). The same findings were reported by Pike et al. (2016), who found that coordination between internal and EAs improve organizational compliance with SOX-related requirements and increases the efficiency of internal control review. According to Zgarni et al. (2016), improving the overall quality of financial reporting is the main objective of both internal and external corporate governance players.

Chui, Pike, and Martin (2024), in a qualitative study, show that coordination has the potential to enhance audit quality by ensuring a thorough and effective examination of internal controls over financial reporting. This is more likely to be achieved when EAs are involved in the development of the IAF's work.

Garcia-Perez de Lema (2012) finds that the likelihood of having high-quality financial reporting is more accentuated in companies where the collaboration between external and internal auditors is very high. While Silva, Inacio, and Vieira (2019) study in the Portuguese context reveals that the cooperation and coordination between IAs and EAs do not improve audit quality. Similarly, Abbot et al. (2016) reports that effect on audit quality depends on Audit quality effect depends on IA's independence.

The study by Al-Shaheen and Bai (2020) in China reveals the ongoing dependence of external audits on internal audits. It emphasizes the importance of maintaining independence, objectivity,



professionalism, and authenticity in internal auditing. To a certain extent, external audit relies on internal audit to save time and improve efficiency in order to improve audit quality in China.

Khelil et al. (2018) have qualitatively investigated the vital role that the working relationship between internal and external auditors has in promoting moral courage among IAs. The quality of external audits may be negatively impacted by tight collaboration between internal and external auditors, as they are perceived as lacking independence and professionalism (Argento et al., 2018).

### **3.2 Effect on corporate governance**

Researchers contend that for corporate governance to be successful, four stakeholders—the audit committee, senior management, external auditors, and internal auditors—must cooperate and coordinate (Gramling et al., 2004). Collaboration between internal and external audits can improve company governance because they are both vehicles of corporate governance. According to Endaya (2014), corporate governance parties contribute to preserving the efficacy of corporate governance.

The internal control framework, which aims to reduce risk and governance concerns, and governance procedures are also examined by internal auditors. As part of the business's external financial reporting cycle, the objective of external audit work is to support the EA's yearly opinion on the financial statements. Pike et al. (2016) describe similar findings, showing that coordination between internal and external auditors improves organizational compliance with SOX-related rules (2002) and increases the efficiency of internal control review.

To achieve the best results for the shared interests and objectives, this coordination and cooperation are ongoing. Maintaining the efficacy of corporate governance is facilitated by internal auditors' capacity to cultivate positive relationships with external auditors (Gramling et al., 2004). The degree of operational coordination and cooperation between auditing firms and internal audit departments was examined by Regoliosi and Martino (2019). According to the results, mutual cooperation reduces job duplication and increases control reliability. Given the growing importance of the internal auditing role and the difficulties that today's EAs face, the authors assert that the findings are highly relevant to internal auditing as a corporate governance tool.

Drogalas et al. (2016) investigated the interaction between the internal auditing function and external auditors in the context of corporations listed on the Athens Stock Exchange. Their study concentrated on the consulting function of internal audit as well as the assessment of audit quality. Using a survey questionnaire methodology, data was gathered, and regression analysis was used for analysis. The findings indicate that internal audit's consulting function, internal audit quality, and the audit committee are all positively correlated with corporate governance.

Putra and Mulya (2020) investigated how the quality of internal audits, as determined by the independence, professional skills, scope of work, and examination of auditors, affected the efficacy of sound corporate governance. According to the report, internal audits are anticipated to encourage businesses to create a strong corporate governance framework to the greatest degree feasible, enabling the company's objectives to be more focused and operational activities to proceed effectively.

### **3.3 Effect on audit fees**

For both internal and external auditors, as well as the customers they serve, there are numerous advantages to efficient coordination and collaboration. Audit fees are reduced, and audit effectiveness and efficiency are increased (Endaya, 2014). According to AICPA (1997), Broye (2009), and PCAOB (2010), external auditors' fees will fall, and their reliance on the client's internal control will increase when the internal auditor plays a substantial role in bolstering internal control.

Previous studies have mixed results on the impact of coordination and cooperation on reducing external auditor fees (Schneider, 2009; Argento et al., 2018; Sierra-García, Ruiz-Barbadillo, & Orta-Pérez, 2019; Maa, Adwa, & Jalilb, 2024). However, studies by Sarkar (2021) in Australia and Mat Zain, Zaman, and Mohamed (2015) in Malaysia have shown a positive effect on audit fees. Sarkar's (2021) study findings also show an increase in audit fees in Australian context.

The findings of Ho and Hutchinson's (2010) study, which examined the relationships between IAs and EAs in the Hong Kong environment, indicate that EAs rely on the roles played by internal audit, which in turn results in reduced fees. Larger internal audit functions and specific internal audit activities are associated with lower external audit fees. Similarly, the results of Brody's (2012) study indicate that if the IA's work were relied upon more, the EA would do less work, which would result in cheaper external audit fees.

Suwaidan and Quasim (2010) used a sample of 100 external auditors to examine how external auditors perceive the significance of several elements that could affect their dependence on an internal auditor for their external audit. The effect of this dependency on audit fees is also investigated using a cross-sectional multiple regression analysis. The findings show that external auditors in Jordan rank internal auditors' objectivity, skill, and output as critical elements influencing their judgments to rely on them. A mean score of 4.353 was discovered for "objectivity," followed by 4.188 for "competence" and 4.156 for "work performance." The most significant variable in explaining the variation in audit fees paid by the sample companies, according to the results of the multiple regression analysis, is the size of the audited company. The dependent variable is determined to be inconsequential.

Hazami-Amma (2019) looks at 2,160 internal auditors' responses to a 2009–2013 Institute of Internal Auditors Research Foundation survey on the internal auditing profession. The results

showed that low external audit fees corresponded with a high-quality internal audit function (IAF). The study's findings support the substitution effect. Additionally, the authors discovered that audit fees will rise when internal audit labour hours rise, suggesting a mutually reinforcing relationship between these factors.

Silva, Inacio, and Vieira (2019) conducted a study on the relationship between internal and external audits and their impact on external audit fees. They surveyed 131 Portuguese and Spanish 149 external auditors, respectively. The results showed that while Portuguese auditors consider the influence of internal audits to be minimal, it does not significantly affect substantive tests, the quality of external audits, or external audit fees. Similarly, Felix et al. (2001) conducted a study on the impact of audit fees on the contribution of internal auditors to external audit work. They created two questionnaires; one was sent to external auditors and the other to audited companies. The study found a negative correlation between audit fees and internal audit's contribution to external audit work, and that the degree of internal audit contribution depends on its availability and quality.

### **3.4Effect on the effectiveness of internal auditing**

The effectiveness of the internal audit can be achieved by personalizing different interests, roles, and responsibilities that are complementary between the IA, the IA, and management. These same interests are primarily in organizational governance and the effectiveness of financial internal controls that result in mutual dependence so that coordination and cooperation occur, which can increase the effectiveness of internal audit.

Aspects of financial reporting were also encompassed in the growing focus on internal audit's function as a crucial corporate governance tool (Abbott et al., 2016). There could be financial savings when the external auditor may rely on the work of internal auditors (Abbott et al., 2012; Mat Zain et al., 2015). The effectiveness of internal audit is impacted by the cooperation and coordination between internal and external auditors, and management support can control this cooperation and coordination, according to research by Poltak, Sudarma, and Purwanti (2019). Their study indicates that the effectiveness of internal audits is favourably influenced by organizational independence, auditee perceptions, and the interaction between internal and external auditors.

Coordination and cooperation between internal and external auditors have been shown to be effective (Schneider, 2009; Alzeban & Gwilliam, 2014; Salehi, 2016; Badara & Saidin, 2014) and to have a favourable impact on the effectiveness of internal auditing. Coordination and collaboration are being undertaken to ensure adequate audit coverage, minimize job duplication, and lower audit costs. Additionally, it assisted in avoiding unnecessary recurring mistakes. Similarly, the results of Shamsuddin's (2014) study show that interactions between internal and external parties will improve audit effectiveness and efficiency and assist management in providing high-quality public services.

Using 187 questionnaires and interviews, Regoliosi and Martino (2019) examined the degree of operational cooperation and activity coordination between internal audit functions and auditing firms in an Italian environment. Although there isn't complete consensus regarding the value of the internal audit results for the IA activities, the results indicate that cooperation amongst parties improves the dependability of controls and, at least in part, prevents duplication of effort. Given the increased focus on internal audit's function as a crucial corporate governance tool and the new difficulties EAs are facing due to increased audit obligations, these findings are especially pertinent.

Usman, Rohman, and Ratmono (2023) claim that previous research has not sufficiently explained how EAs choose to rely on internal audit work, which impacts audit efficiency, because it has only looked at the relationship between IAs' characteristics, the level of reliance on EAs, and audit efficiency separately. The study's findings indicate that audit efficiency is significantly impacted by the extent to which EAs depend on internal audit work. In the empirical studies carried out by Al-Twaijry et al. (2004) and Oussii and Boulila (2018), evidence was provided in which the researchers found that EAs' reliance can reduce audit costs.

The study results carried out by Usman, Yoshida, and Ratmono (2023) in a sample of 164 external auditors (BPK) from 34 representative offices throughout Indonesia indicate that the connection between audit efficiency and the degree of EAs reliance is moderated by the institutional environment. Similar findings were also reported by Pike et al. (2016). Al-Garni (2008) suggests that a lack of collaboration between internal and external auditors can reduce the influence of management, competency, and independence on the efficacy of internal audits, suggesting that effective collaboration is crucial.

A study by Al-Shaheen and Bai (2020) has demonstrated that China's reliance on internal audits for external audits is still present. Furthermore, the study demonstrated that external auditing must provide professionalism, independence, and authenticity, while internal auditing must preserve independence and impartiality. To a certain degree, external audit depends on internal audit to increase efficiency and save time, which in turn improves audit quality in China.

Last but not least, Al-Sukker et al. (2024) examine how senior Jordanian EAs assess the efficacy of the IAF in Jordanian listed businesses in relation to internal auditor objectivity, competence, and work performance. Work performance has the biggest impact on how successful IAF is perceived, according to the results of 35 completed questionnaires and nine interviews with senior EAs. Additionally, it was discovered that every variable had a strong impact, with direct ramifications for initiatives aimed at enhancing the IAF's perceived efficacy. Despite the small sample size and the constraints of the authors' assertion of significant influence, the researchers employed a mixed strategy in their investigation.

### **3.5 Effect on clients services**

Collaboration and coordination between internal and external auditors have many benefits, claims Endaya (2014) and Fowzia (2010). This includes detecting fraud and improving internal audit features, which will lower auditing costs; collaboration and coordination affect services for auditing clients (Ho & Hutchinson, 2013). Because internal and external auditors coordinate and work together, external audits rely on the work done by internal audits, which reduces audit coverage, sample size, and process. It also minimizes work duplication, which makes clients less agitated and uneasy while services are being provided.

Khelil and Khelif (2022) reinforce the perspective of Balafoutas et al. (2020) by asserting that IAs are under pressure to serve several clients with contradictory expectations, such as management, audit committees, and informal social groupings.

Since internal and external auditors have similar goals, effective coordination and collaboration may be advantageous. As a result, they can achieve their objectives and provide audit clients with exceptional service (Endya, 2014). Better service for the client company and information exchange are the results of the two parties' coordination and cooperation (Argento et al., 2018).

### **3.6 Effect on fraud detection**

According to Coram, Ferguson, and Moroney (2008) internal audits are more prone to identify frauds and report within their organizations than outsourcing options can detect. However, only a limited number of studies have investigated fraud risk assessments and EAs coordination from the internal auditing perspective (Wang & Fargher, 2017). The internal audit managers and chief audit executives (CEOs) can use the fraud sensitivity results to evaluate the risk management procedures linked to internal audit quality (Trotman & Duncan, 2018) and coordinate fraud risk activities with EAs. The working connection between internal and external auditors, however, has a favourable impact on the moral fortitude of IAs to disclose unethical behaviour and management fraud, according to Khelil's (2023) research of 163 French internal auditors.

Nkansa's (2024) study examines the relationship between IAs' work and the degree of coordination with the EA about controls testing. An experimental study reveals that while a high level of EAs controls testing coordination reduces the number of substantive testing audit hours that IAs have planned, it also increases their sensitivity to fraud risk. Similarly, according to Wang and Fargher (2017), audit efficiency, audit planning, and fraud risk assessments are all impacted by internal-external audit cooperation.

## **4. CONCLUSIONS AND DIRECTION FOR FUTURE RESEARCH**

### **4.1 Conclusions**

Working together with EAs, IAs strive to improve the effectiveness of internal audits as part of their stewardship. Furthermore, in an effort to boost internal audit effectiveness, management works to promote coordination and cooperation between internal and external auditors. Collaboration and coordination between IAs and EAs enhance the effectiveness of the internal audit function, according to the majority of research findings, which show a favourable trend. This may be influenced by the calibre of the EAs as well as the size and efficiency of the internal audit departments. The scant research that is available on the effect of this dependence on fraud risk detection shows that the interplay between IAs and EAs improves fraud detection. Similar is the case for corporate governance and client services. On the other hand, it is unclear how this dependency or interaction might impact audit fees and costs due to the trend's inconsistent findings. The limited evidence is inconclusive, making it hard to predict the impact of enhancing audit quality. However, despite the fact that collaboration and coordination may lead to reduced audit fees, audit companies may nevertheless want to work together to retain their clients. While the effect on audit quality is concerned, some research indicates that audit quality is positively impacted, while others show a negative or no effect at all.

Regulators might find the link between the IA and EA to be just as valuable if the evidence collected can help clarify the elements that affect EA's choices about IA. Additional criteria that auditors can use to assess the quality of the IA and other related areas may result from this. However, IA and EA might have a complementary relationship as noted by Mat Zain et al. (2015). Because different-skilled IAs and EAs might complement one another in the audit task.

### **4.2. Future research**

To conduct audits effectively and reduce the costs, internal and external auditors must effectively communicate in an effort to collaborate and coordinate. The literature has not done enough on this subject; therefore, future research could focus on it, especially in underdeveloped nations where these issues are most prevalent. According to Mahouat et al. (2024), improving communication channels between internal and external auditors can help internal auditing become more effective. Additionally, the effects of automated remediation on internal audit performance, as well as the interactions between IAs and EAs, on IAF effectiveness may also be investigated. The influence of data analytics employed by EAs may necessitate additional investigation of its effect on audit quality and fraud detection. Future research may also examine the role that organizational culture plays as a mediating factor in the efficacy of corporate governance and the IAF when collaboration and coordination between IAs and EAs occur.

Because there is a still limited empirical research, the study of interactions between internal and external auditors and how they affect the provision of services to clients needs to be conducted to get a better idea in terms of clients satisfaction with services obtained and challenges faced on the interactions of IAs and EAs, particularly in the emerging economies. Additionally, the majority of previous research examines the coordination issue from the perspective of the EAs; however, since the interactions are reciprocal, it could be intriguing to observe how coordination influences IAs' performance, actions, and audit planning. Very little research has been done on this subject.

Overall, the study on IAs and EAs interactions and their implications on audit quality, audit fees, corporate governance, IA efficacy, client services, and fraud detection has been thoroughly examined in this review of the literature, with particular attention paid to these findings.

## REFERENCE

1. Abbott, L. J., Daugherty, B., Parker, S., & Peters, G. F. (2016). Internal audit quality and financial reporting quality: The joint importance of independence and competence. *Journal of Accounting Research*, 54(1), pp. 3-40.
2. Abbott, L. J., Parker, S., & Peters, G. F. (2012). Internal Audit assistance and external audit timeliness. *Auditing: A Journal of Practice & Theory*, 31(4), pp. 3-20.
3. Abbott, L. J., Parker, S., Peters, G. F., & Rama, D. V. (2007). Corporate governance, audit quality, and the Sarbanes-Oxley Act: Evidence from internal audit outsourcing. *The Accounting Review*, 82(4), pp. 803-835.
4. Abdallah, S. (2018). External auditor type, discretionary accruals and investors' reactions. *Journal of Accounting in Emerging Economies*, 8(3), pp.352-368.
5. Al-Garni, A. (2008). Government auditing in Saudi Arabia: Auditors' opinion in the General Audit Bureau. *Institute of Public Administration*, 48(1), pp.39-79
6. Al-Shaheen, H.F., & Bai, H. (2020). *The reliance of external audit on internal audit: In Chinese audit corporations*. Master Thesis, Kristianstac University, Sweden. Available at: <https://www.scribd.com/document/549248172/The-reliance-of-External-audit-on-internal-audit-work>.
7. Al-Sukker, A., Abdel-Qader, W., Tibbits, G., & Shbeilat, M. (2024). How external auditors evaluate internal audit effectiveness: An experimental study of the case of Jordan. *Internal Journal of Academic Research in Business and Social Sciences*, 14(8), pp.2462-2493.
8. Al-Twaijry, Abdulrahman A.M., Brierley, J.A., & Gwilliam, D.R. (2004). An examination of the relationship between internal and external audit in the Saudi Arabian corporate sector. *Managerial Auditing Journal*, 19(7), pp. 929-944.
9. Alzeban, A., & Gwilliam, D. (2014). Factors affecting the internal audit effectiveness: A survey of the Saudi public sector. *Journal of International Accounting, Auditing and Taxation*, 23(2), pp. 74-86.

10. American Institute of Certified Public Accountants (AICPA). (1997,1991). *The auditor's consideration of the internal audit function in an audit of financial statements (Statement on Auditing Standards No. 65)*. New York: AICPA.
11. Argento, D., Umans, T., Håkansson, P., & Johansson, A. (2018). Reliance on the internal auditors' work: experiences of Swedish external auditors. *Journal of Management Control*, 29, pp.295–325.
12. Azzama, M.J., Alrabba, H.M., AlQudah, A.M., & Mansur, H.M.A. (2020). A study on the relationship between internal and external audits on financial reporting quality. *Management Science Letters*, 10, pp. 937-942.
13. Badara, M.S., & Saidin, (Siti Zabedah. (2014). Empirical evidence of the moderating effect of effective audit committee on audit experience in the public sector: Perception of internal auditors. *Mediterranean Journal of Social Sciences*, 5(10), pp. 176-184.
14. Belafoutas, Czermack, S., Eulerich, M., & Fornwegner, H. (2020). Incentives for dishonesty: An experimental study with internal auditors. *Economic Inquiry*, 58 (2), pp. 764–779.
15. Bierstaker, J., Chen, L., Christ, M. H., Ege, M., & Mintchik, N. (2013). Obtaining assurance for financial statement audits and control audits when aspects of the financial reporting process are outsourced. *Auditing: A Journal of Practice & Theory*, 32(Supplement 1), pp.209-250.
16. Brody, R.G. (2012). External auditors' willingness to rely on the work of internal auditors: The influence of work style and barriers to cooperation. *Advances in Accounting*, 28(1), pp. 11-21.
17. Broye, G. (2009). Honoraires d'audit et comités d'audit: le cas de la France. *Comptabilité Contrôle Audit*, 1(Tome 15), pp. 199–224.
18. Christ, M.H., Eulerich, M., Krane, R., & Wood, D.A. (2021). New frontiers for internal audit research, *Accounting Perspective*, 20(4), pp. 449-475.
19. Chui, L., Pike, B.J., & Martin, K. (2024). External Auditor's Reliance Decision on the Internal Audit Function: A Qualitative Analysis on the Coordination Process . *Journal of Risk and Financial Management*, 17(7), pp. 1-7.
20. Coram, P., Ferguson, C., & Moroney, R. (2008). Internal audit, alternative internal audit structures and the level of misappropriation of assets fraud. *Accounting and Finance*, 48(4), pp. 543-55.
21. Drogas, G., Arampatzis, K., & Anagnostopoulou, E. (2016). The relationship between corporate governance, internal audit and audit committee: Empirical evidence from Greece. *Corporate Ownership & Control*, 14 (1), pp. 569-577.
22. Dumitrescu, D., & Boitan, N. (2016). Cooperation And Coordination Between Internal And External Auditing. *Annals - Economy Series*, Constantin Brancusi University, Faculty of Economics, 14(1), pp. 87-92.
23. Endaya, K.A.(2014). Coordination and cooperation between internal and external auditors. *Research Journal of Finance and Accounting*, 5 (9), pp.75-80.
24. Etzioni, A. (2014). Humble decision-making theory. *Public Management Review*, 16(5), pp. 611–619.



25. Felix, W.L., Jr., Audrey A. Gramling, A.A. Jr., & Maletta, M.J. (2001). The contribution of internal audit as a determinant of external audit fees and factors influencing this contribution. *Journal of Accounting Research*, 39(3), pp. 513-534.
26. Fisch, C., & Block, J.H. (2018). Six tips for your (systematic) literature review in business and management research. *Management Review Quarterly*, 68(2), pp.103-106.
27. Fowzia, R. (2010). Co-operation between internal and external auditors: A comparative study on nationalized and foreign banks in Bangladesh. *World Journal of Management*, 2(2), pp. 22-35.
28. Gramling, A., Maletta, M.J., Schneider, A., Church, B.K. (2004). The role of the internal audit function in corporate governance: A synthesis of the extant internal auditing literature and directions for future research. *Journal of Accounting Literature*, 23(1), pp. 94-244.
29. Gras-Gil, E., Marin-Hernandez, S., & Garcia-Perez de Lema, D. (2012). Internal audit and financial reporting in the Spanish banking industry. *Managerial Auditing Journal*, 27(8), pp. 728-753.
30. Hardies, K., Ohlrogge, F., Mentens, J., & Vandennieuwenhuysen, J. (2023). A Guide for accounting researchers to conduct and report systematic literature reviews. *Behavioral Research in Accounting*, 36(1), pp. 1-23.
31. Hazami-Ammar, S. (2019). Some evidence on the impact of internal audit on external audit fees: Data provided by the Institute of Internal Auditors are subject to restrictions, *Journal of Corporate Accounting & Finance*, 30(2), pp.64-81.
32. Ho, S., & Hutchinson, M. (2010). Internal audit department characteristics/activities and audit fees: Some evidence from Hong Kong firms. *Journal of International Accounting, Auditing and Taxation*, 19(2), pp. 121-136.
33. Jabber, N.S. (2018). The implications of internal and external auditing integration on the auditing performance and its impact on expectation gap: an exploratory study in the Iraqi environment. *Academy of Accounting and Financial Studies Journal*, 22(3), pp. 1-15.
34. Khelil, I. (2023). The working relationship between internal and external auditors and the moral courage of internal auditors: Tunisian evidence. *Arab Gulf Journal of Scientific Research*, 41 (4), pp. 462-477.
35. Khelil, I., Hussainey, K., & Noubbigh, H. (2016). Audit committee – internal audit interaction and moral courage. *Managerial Auditing Journal*, 31(4-5), pp. 403–433.
36. Khelil, I., & Khlif, H. (2022). Internal auditors' perceptions of their role as assurance providers: a qualitative study in the Tunisian public sector. *Meditari Accountancy Research*, 30(1), pp. 121-141.
37. Mahouat, N., Gharrafi, M., El Idrissi Zineb., Haoudi, W., Boumour, R., Abdelaziz, B., & Zaim, M. (2024). Impact of cooperation between Internal and external auditors on internal audit effectiveness in Moroccan public companies: Analysis using the Structural Equation Modeling (SEM). *Pakistan Journal of Life and Social Sciences*, 22(2), pp.7046-7059.
38. Maa, Yei Leng., Sulaimanb, Noor Adwa., & Jalilb, Azlina Abdul . (2024). Malaysian government-linked companies and earnings management: The interaction effects of internal and external audit governance mechanisms on earnings management. *Gadjah Mada International Journal of Business*, 26 (3), pp. 285-310.

39. Mat Zain, M., Zaman, M., & Mohamed, Z. (2015). The effect of internal audit function quality and internal audit contribution to external audit on audit fees. *International Journal of Auditing*, 19(3), 134-147.
40. Mojapelo, M.J. (2024, 17 November). *Audit synergy: Unlocking the power of collaboration between internal and external auditors*. Retrieved on 22 December 2024 from: <https://www.linkedin.com/pulse/audit-synergy-unlocking-power-collaboration-between-iwxlf/>
41. Morais, G., & Franco, M. (2019). Deciding factors in cooperation and trust between internal and external auditors in organizations: An exploratory analysis. *International Journal of Auditing*, 23 (2), pp. 263-278.
42. Mubako, G., & Muzorewa, S. C. (2019). Interaction between internal and external auditors—insights from a developing country. *Meditari Accountancy Research*, 27(6), pp. 840–861.
43. Munro, L., & Stewart, J. (2011). External auditors' reliance on internal auditing: further evidence. *Managerial Auditing Journal*, 26(6), pp.464-481.
44. Mustapha, M., & Lee, Y. K. (2020). Sourcing arrangement of internal audit services: does it matter to the external auditors. *International Journal of Business Continuity and Risk Management*, 10(2-3), pp.99–111.
45. Nkansa, P. (2024). Does external auditor coordination influence internal auditor effort? *Advances in Accounting*, 65, p. 100684.
46. Oussii, A.A., & Boulila, N.B. (2018). Audit committee effectiveness and financial reporting timeliness: The case of Tunisian listed companies. *African Journal of Economic and Management Studies*, 9(1), pp. 34-55.
47. Pike, B. J., Chui, L., Martin, K. A., & Olvera, R. M. (2016). External auditors' involvement in the internal audit function's work plan and subsequent reliance before and after a negative audit discovery. *Auditing: A Journal of Practice and Theory*, 35(4), pp.159–173.
48. Poltak,H., Sudarma, M., & Purwanti, L. (2019). The determinants of the effectiveness of internal audits with management support as the moderating variable. *International Journal of Multicultural and Multireligious Understanding*, 6(1), pp. 33-51.
49. Prawitt, D. F., Sharp, N. Y., & Wood, D. A. (2011). Reconciling archival and experimental research: Does IA contribution affect the external audit fees? *Behavioral Research in Accounting*, 23(2),pp. 187–206.
50. Public Company Accounting Oversight Board (PCAOB). (2010). *The auditor's consideration of the internal audit function in an audit of the financial statements (AU Section 322 (PDF))*. Retrieved on 22 December 2024 from:<https://pcaobus.org/oversight/standards/archived-standards/pre-reorganized-auditing-standards-interpretations/details/AU322>.
51. Putra, F. A. A., & Mulya, H. (2020). Effect of internal audit quality on the effectiveness of good corporate governance (Case study at PT Jasa Raharja). *Dinasti International Journal of Management Science*, 2(2), pp.203–217.
52. Regoliosi, C., Martino, D. (2019). A study of the interactions between internal audit functions and external auditors in Italy. *Corporate Ownership & Control*, 16 (20), pp. 38-47.

53. Oussii, A. A., & Boulila, N. (2018). Audit report timeliness: Does internal audit function coordination with external auditors matter? Empirical evidence from Tunisia. *Euro Med Journal of Business*, 13(1), 60–74.
54. Salehi, (2016). Investigation factors affecting the effectiveness of internal auditors in the company: Case study Iran. *Review of European Studies*, 8 (2), pp. 224-235.
55. Sarkar, H. F. (2021). *Impact of the quality of internal audit function and the internal audit outsourcing/co-sourcing on external audit fees: Evidence from listed companies in Australia*. Doctoral Thesis, Edith Cowan University, Australia. Available at: <https://ro.ecu.edu.au/theses/2470/>.
56. Sawyer, L. B., Dittenhofer, M. A., & Scheiner, J. H. (2005). *Sawyer's Internal Auditing (5th Edition)*. Florida: The Institute of Internal Auditors.
57. Schneider, S. (2009). The nature, impact and facilitation of external auditor reliance on internal auditing. *Academy of Accounting and Financial Studies Journal*, 13(4), pp. 41-54.
58. Shamsuddin, A. (2014). Factors that determine the effectiveness of internal audit functions in the Malaysian public sectors. *International Journal of Business, Economics and Law*, 5(1), pp. 9-17.
59. Sierra-García, Ruiz-Barbadillo, & Orta-Pérez. (2019). Analysis of the influence of the internal audit function on audit fees. *Spanish Accounting Review*, 22(1), pp. 100-111.
60. Silva, A., Inácio, H., & Vieira, E. (2019). The Influence of Internal Audit on External Audit: Evidence From Portugal and Spain. : *Organizational Auditing and Assurance in the Digital Age*, pp. 1-25., USA: IGQ Global
61. Usman, R., Rohman, A., & Ratmono, D. (2023). The relationship of internal auditors' characteristics with external auditors' reliance and its impact on audit efficiency: Empirical evidence from Indonesian government institutions. *Cogent Business & Management*, 10(1), pp. 1-17.
62. Trotman & Duncan, (2018). Internal audit quality: Insights from audit committee members, senior management and internal auditors. *Auditing A Journal of Practice & Theory*, 37(4), pp. 235–259..
63. Wang, I.Z., & Fargher, N. (2017). The effects of tone at the top and coordination with external auditors on internal auditors' fraud risk assessments. *Accounting and Finance*, 57 (4) (2017), pp. 1117-1202.
64. Wood, D. A. (2004). *Increasing Value through Internal and External Auditor Coordination*. (Prepared for the IIA Research Foundation Esther R. Sawyer Scholarship Award) Florida: The IIA Research Foundation.
65. Zgarni, I., Hlioui, K., & Zehri, F. (2016). Effective audit committee, audit quality and earnings management: Evidence from Tunisia. *Journal of Accounting in Emerging Economies*, 6 (2), pp. 138-155.