

ABSTRACT

The purpose of this study is to examine the direction of the relationship between a firm's internal audit function and its external auditor fees. Firms with active internal audit functions have higher audit fees, as a consequences higher complexity of external auditor duties.

This study is replication of Singh and Newby research in 2009 and uses secondary data from annual reports of non-financial companies which listed on Bursa Efek Indonesia in 2010-2011. This study used purposive sampling method and used multiple linear regression as the analysis instrument. Before being conducted the regression test, it is examined by using the classical assumption tests.

The results of this study indicate that internal audit function significantly influence the external auditor's fees. It means that higher responsibility of external auditor on determine the relevances of internal audit function related to firm's internal control structure and its influences to financial statement or misstatement potential of financial statements, therefore resulting in higher audit fees.

Keywords : internal audit, audit fee, external auditor