

The Awareness of External Auditors and the Management of Kuwaiti Listed Companies on Determinants of Audit Fees: An Exploratory Study

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Abstract

This paper explored the factors that influence audit fees determinants in the Kuwait audit market. A questionnaire was distributed to a number of audit firms operating in the Kuwaiti market and Kuwaiti companies listed on the Kuwait Stock Exchange (KSE). The results indicated that all factors show a Likert-scale score of greater than 2.5, suggesting that all the factors included in the questionnaire influence the audit fee determinants. Among the 25 factors included in this study, audit firm brand name, time spent completing a given job and auditors experience were the most important factors influencing audit fees determinants in the Kuwait audit market from audit firm and companies perspective. In contrast, company age, client company location and audit firm location were the least important factors influencing the determinants of audit fee in Kuwait from audit firm and companies perspectives. The results of the t-test revealed that there are significant differences in the mean ranking of some of the factors assumed to determinant the audit fee in Kuwait audit market between the two groups of respondents (audit firms and companies). The findings presented in this study may help professional accounting associations and both audit firms and companies to better understand the factors influencing audit fee determinants in Kuwait audit market.

Keywords: audit fees, Kuwait, Kuwait Stock Exchange, audit firms

1. Introduction

External auditors play an essential role in the business environment. They provide reasonable assurance to interested users of financial statements in whether the audited financial statements reflect faithfully and clearly the actual financial situation of the company. In addition to that, they provide if the financial statements are free from material misstatement. Indeed, in the Kuwaiti setting, the role of external auditors is not limited to certifying financial statements. External auditors are also legally required to examine and report on a company's compliance with Kuwaiti's Commercial Companies Law and the company's Articles of Association. More specifically, auditors of Kuwaiti companies function as an *attorney* for the shareholders (*as shareholder's agents*), they are responsible for the correctness of the particulars contained in their reports, ascertaining and certifying the financial statements, ascertaining the full compliance with the International Financial Reporting Standards (IFRSs) and full implementation of all local legal requirements by the companies (Alanezi & Albuloushi, 2011).

Thus, Kuwaiti regulatory bodies and stakeholders depend on the auditors' opinions as being independent and neutral party when they inspect the quality of the audit work and the companies' annual reports credibility (Alanezi & Albuloushi, 2011). In this regard, many researchers indicate the importance of this by stating that the role of the external auditor is considered a mechanism by which the regulatory bodies could enforce companies' compliance with the IFRSs (for e.g., Glaum & Street, 2003; Verriest, 2011).

To that end, because of the important role play by the audit function in the Kuwaiti business environment, the audit fees paid by companies to their auditors are without a doubt of interest to both companies and external auditors. Choosing external auditors would be effected by audit fees (Naser & Nuseibeh, 2007). Indeed, audit fees charged to clients would be influenced by characteristics of audit firms and audited company. Thus, the objective of the current study is to explore the audit fees determinants in Kuwait from two respective; audit firm

and company's management.

An increasing number of countries have issued laws requiring companies to disclose audit fees. The primary motivation behind these laws is the belief that larger payments to auditors create conflicts of interest that compromise auditor objectivity, leading to lower quality accounting statements (Chang, Chen, Duh, & Ittner, 2013). However, unlike most Anglo-American countries, there is no legal requirement for KSE listed companies to disclose in their annual reports the amount of audit fees payable to the company's auditor. It is argued that disclosure of auditor fees allows investors and other financial statement users to evaluate potential conflicts of interest in the firms they are evaluating (Chang et al., 2013).

Conducting an in-depth study on the audit fees determinants need disclosing audit fees publicly. Since the data on this subject is unpublished to the interested users or hard to get officially due to the no law governed this issue in Kuwait to date. Consequently, we were unable to get the required information in formal or informal ways. Thus, the main purpose of this study is to survey using a questionnaire the awareness of auditors and the management of Kuwaiti companies listed on the KSE of the factors that influence the determination of audit fees.

The findings of the current research will provide a vital insight into the determinants of audit fees from an emerging market like Kuwait and in turn, could reinforce auditor independency and the efficiency of the audit process. Watts and Zimmermann (1986) indicate that one of the main characteristics of the auditor's independence is a rational audit fee for service introduced to the client which is determined before the start of the engagement. In addition, knowing such information will help audit firms and the management of Kuwaiti companies in negotiating and to determine the appropriate audit fees to be charged (Al-Harshani, 2008). Moreover, in case of initial audit engagements, the audit fees may not reflect the normal fee to be charged, thus this study provide the basis of audit fees determinations in such engagements to both the auditors and companies. Finally, this study helps in deciding whether outcomes drawn from other developed markets is similar to the conclusions drawn from the current study. In other words, this study provide a further evidence whether specific 'traditional' determinants of audit fees, as determined in previous studies from different developed countries are appropriate in Kuwait.

The rest of this study is organised as follows. Section two presents an overview of auditing in Kuwait. Section three presents a review of the relevant literature. Section four describes data collection procedures and statistical techniques adopted in this study. Section five reports the findings of this study and the final section offers a summary and conclusion and discusses the study's limitations and policy implications.

2. An Overview of Auditing Services in Kuwait

As mentioned previously, there are no laws in Kuwait exists require disclosing audit fees publicly to date. In other words, Kuwaiti companies listed on the KSE did not have to disclose the information related to the fees paid to external auditors under specific term "auditor's fees" in the income statement. In this regard it is worthy to give an overview of auditing function in Kuwait. The auditing function is an important consideration in advancing compliance with the IFRS-required disclosure, as there is an indication that financial information quality is directly affected by the quality of accounting standards and their effective implementation (Jara, Ebrero, & Zapata, (2011). Glaum and Street (2003) indicate the importance of this by stating that the role of the external auditor is considered a mechanism by which the regulatory bodies could enforce companies' compliance with the IFRSs. Similarly, Verriest (2011) examines the effect of audit quality on the properties of financial reporting and suggest that audit quality serves as a vital governance mechanism in explaining corporate financial transparency. In this regard, the new Kuwaiti Commercial Companies Law No. 25/2012 and its amendment by Law No. 97/2013 sheds some light on the role of the external auditor in promoting compliance with the relevant regulations by requiring that each company's accounts must be audited by at least one external auditor, whereas a company which is registered on the Kuwait Stock Exchange must have not less than two external auditors (Alanezi, Alfraih, Alrashaid, & Albolushi, 2012). This law place Kuwait among a small number of countries that require a joint auditing process involving two separate auditors to audit one company's accounts. The joint audit process appears for the first time in Kuwait in 1994, when a new amendment of old Commercial Companies Law No. 15/1960 states such requirements only for Kuwaiti companies listed on the KSE. The idea from this requirement was to ensure an efficient dual control mechanism and to strengthen auditor independence.

Moreover, the company's auditors are prohibited from participating in the incorporation, be a director of, or carry out on a permanent basis any technical, administrative or consultative duties in the company. Although not expressed as such, the notion of auditor independence is firmly entrenched in the legislation. Auditors are entitled at all times to have access to all books, registers and documents of the company and to call for any particulars deemed necessary to verify the assets and liabilities of the company. If unable to exercise the foregoing powers, the

auditor must submit a written report setting down such facts to the directors and have it referred to the shareholders general meeting (Alfraih & Alanezi, 2012).

The auditor must be present at the shareholders general meeting to give his opinion on the outcome of his duties and particularly on the company's balance sheet; he must read the audit report at the shareholders general meeting. The law also states that auditors are responsible for expressing their opinions as to whether or not they obtained all the information which they deemed necessary for the proper performance of their duties; on whether the balance sheet and the profit and loss account conform to the facts and satisfy the prescriptions of the law and the Articles of Association and reflect faithfully and clearly the actual financial situation of the company; on whether the company keeps proper accounts; on whether an inventory has been prepared in accordance with the established procedure; on whether the particulars contained in the director's report conform to the particulars shown in the books of the company; and on whether any violations to the provisions of the Articles of Association or the law have been committed during the financial year such as will affect the company's activities or financial situation and whether or not the violations (if any) still persist.

Law No. 6/1962 is considered the first law the government enacted to regulate the accounting profession. This law was replaced by Law No. 5 of 1981, which empowered the Ministry of Finance and Economics, and after that the Ministry of Commerce and Industry, to issue licenses to auditors. The law comprises 29 articles covering the requirements for registration in the Auditors Register, auditors' right and obligations, and the penalties to be imposed in the event of the external auditors violating the regulations relating to financial reporting.

Law No. 5/1981 is considered the most important development for the accounting profession in Kuwait. It increases the required experience from the three years required under Law No. 6 of 1962 to five years as a general rule, and seven years for banks, insurance companies and financial companies, no person is permitted to practice auditing without having passed the relevant auditing practice professional examination organized by the Ministry of Commerce and Industry (MCI).

Of particular importance, the auditors must audit the accounts of companies in accord with the accounting standards and with the profession's ethics as laid down by the MCI. Overall, as a result, the new requirements were expected to add more credibility to the audit report and to promote compliance with the required regulations.

3. Literature Review

Several studies have been carried out to investigate the audit fees determinants all over developed and developing markets. Prior research tried to examine whether determining the audit fees is affected by a set of audit firm attributes or by the client's company characteristics or both. Studies conducted on developed markets for example, in the USA: Simunic (1980), Francis and Simon (1997), Gist (1992), and Palmrose (1996); in the UK: Taylor and Baker (1981), Haskins and Williams (1988), Chan, Ezzamel, and Gwilliam (1993), Ezzamel, Gwilliam, and Holland (1996), Iyer and Iyer (1996), Chung and Narasimhan (2002), Ezzamel, Gwilliam, and Holland (2002), and Neimi (2002); in Australia: Francis (1984), Francis and Stokes (1986), Craswell, Francis, and Taylor (1995), and Craswell and Francis (1999); in Canada: Chung, and Lindsay (1988), and Anderson and Zeghal (1994); in Ireland: Haskins and Williams (1988); in Japan: Taylor (1997); in New Zealand: Firth (1985), and Mike and Muhammad (1997); in Norway: Firth (1997); in Italy: Cameran (2005); in France: Gonthier-Besacier and Schatt (2006); in Denmark: Thinggaard, and Kiertzner (2008) and in Netherlands: Langendijk (1997).

In addition to the studies conducted in the developed markets, there were studies carried out in the emerging markets for instance, includes, in Kuwait: Al-Harshani (2008) and Al-Shammari, Al-Yaqout, and Al-Hussaini (2008); in Jordan: Naser and Nuseibeh (2007), in Bahrain: Joshi & Al-Bastaki (2000); in Qatar: Kutob & Al-Khater (2004); in Bangladesh: WaresulKarim and Moizer (1996); in Indonesia: Basioudis and Fifi (2004); in China: Ji-hong (2007). in Hong Kong: Simon, Teo and Trompeter (1992), Sandra and Patrick (1996), and Defond, Francis and Wong (2000); in India: Simon, Ramanan, and Dugar (1986) and Dugar, Rahmanan, and Simon (1995); in Malaysia: Simon, Teo, and Trompeter (1992); in Singapore: Low, Tan, and Koh (1990) and Simon et al. (1992); in South Korea: Taylor, Simon, and Burton (1999); in Nigeria: Soyemi and Olowookere (2013); in South Africa: Simon (1995); in Pakistan: Simon, and Taylor (1997) and Ulhaq and Leghari (2015); in Lebanon: El-Gammal (2012); and in the United Arab of Emirates: Hassan and Naser (2013).

To gain insight to the Kuwaiti experience, it is useful to examine those studies of the *audited company characteristics* or *audit firm attributes* thought to influence audit fees determinants. To that end, a summary outline of most relevant prior studies to the present study are provided, noting and evaluating the methods used and findings of that past research, with a view to identifying similarities and differences in the findings. Controversies in past research are thus exposed and their relevance to the corporate setting in Kuwait developed.

It furnishes a basis for current study and assists in establishing an appropriate research methodology and research procedure.

Since the seminal work of Simunic (1980) in USA, many studies have investigated audit pricing. Anderson, and Zeghal (1994) conducted a study by examining Canadian audit fees across time, audit firm and industry. The results supported the existence of differentiated audit services in the Canadian audit market, and were consistent with DeAngelo's (1981) size interpretation of audit quality. Although no significant differences in the pricing of audit services across time were identified, the data provided evidence of significant pricing differences across (pre-merger) Big Eight audit firms in the small auditee market. In contrast to previous studies, a significant positive association between internal and external audit costs is observed, suggesting a complementary, rather than a substitute, relationship.

In the same line, Sandra and Patrick (1996) examined the audit fee determinants in Hong Kong. A model of factors associated with the structure of audit fees was developed to test the relationship between the determinants of audit fees and a number of variables: auditee size, auditee risk, complexity of audit, auditor identity, and the timing of audit. They found that auditee size, complexity, Big Six, a longer audit delay and auditee risk were the main determinant of audit fees.

Joshi and Al-Bastaki (2000) carried out a study of audit fees determinants from 38 companies listed in Bahrain. The outcomes of this study confirmed that audit fees were significantly associated with the size, risk, profitability and complexity of the clients. In addition, non-audit services, the extent of market concentration, and audit services in the unregulated market were also other factors influencing the audit fees determinants in Bahrain.

From Anglo-American practices, Simon and Taylor (2002) conducted a paper on the market for audit services in Ireland. The findings indicate broad similarities in the market for audit services in Ireland and countries previously studied. In addition to extending the results of prior studies of the audit services market to a country not previously examined in detail, this study makes an additional contribution by examining whether the large audit-firm fee premium is a general phenomenon or is attributable to specific audit firms. The results suggest that the large audit-firm fee premium documented in many countries may be attributable to only a few large accounting firms rather than to all large accounting firms.

Cameran, (2005) highlighted the determinants of audit fees in the Italian audit market. A fee model for the Italian market was developed. Results showed that the size, the complexity of auditee, and audit risk have an impact on the audit fee paid by Italian clients. Moreover, auditor size is also relevant. After performing further tests, it was found that large auditor premium could be attributed only to KPMG. So although the Italian Antitrust Authority condemned all the Big Six at that time, the results supported the idea that these auditors as a group did not accrue a general premium.

In the same vein, Gonthier and Schatt (2007) examined factors influencing audit fees in France quoted firms. The results of the study revealed that most factors influence audit fees determinants in France quoted firms were firm size, firm risk, and the presence of two of the Big-4 firms.

From Middle Eastern countries, Naser and Nuseibeh (2007) investigated the impact of corporate size, the status of the audit firm, corporate complexity, profitability, risk, corporate accounting year end and the lag between the audit report and the end of the accounting year on the audit fees determinants for Jordanian firms listed on the Amman Stock Exchange. A cross-sectional linear ordinary least squares (OLS) regression was employed to determine which of the variables best explained the determinants of audit fees in Jordan. The results suggested that corporate size, status of the audit firm, industry type, degree of corporate complexity and risk were the basis for determinants of audit fees. In contrast, the corporate profitability, corporate accounting year-end (YEND) and time lag between YEND and the audit report date were insignificant determinants of audit fees.

Thinggaard and Kiertzner (2008) examined the association between the audit fees paid by all 126 non-financial companies listed on the Copenhagen Stock Exchange in 2002 and the consultancy fees. The findings indicated that *de facto* joint audits, where both auditors have significant stakes in the audit, reduce audit fees compared with audits where one auditor is dominant, albeit only for larger companies. There results confirmed previous findings of a positive association between other fees and audit fees. In addition, they found, that the core audit fee determinants model to be well specified for the Danish data, although small companies seem to differ somewhat from large companies. Further, they found no additional Big Four effect from the appointment of a second Big Four auditor.

In the Kuwaiti audit market, there were two studies examined audit fees determinants. Al-Harshani (2008)

investigated factors influencing the amount of external audit fees in Kuwait. He used multivariate regression analysis to test the effect of audit client size, client complexity, client risk, and the size of the audit firm on the amount of audit fees for a sample from six audit firms during 2006 performed in the Kuwaiti audit market. The findings showed that the amount of external audit fees was significantly influenced by the audit client size, liquidity ratio, and profitability ratio. In contrast, no evidence provided of a significant relation between audit fees and the number of audit locations, or the size of the audit firm.

Al-Shammari et al. (2008) also used multivariate regression analysis to investigate the determinants of audit fees in Kuwait. These determinants were: client size, risk, complexity of client operations, profitability, industry and auditor. The results indicated that the level of audit fees was positively associated with client size and complexity of client operations. However, risk, profitability, industry and auditor were not significant. Both of these studies focus on the empirical issue of determinants of audit fees using only client-specific attributes and both of these studies used multivariate regression analysis to investigate the determinants of audit fees in Kuwait. Since no Kuwaiti law exists obligates Kuwaiti companies listed on the Kuwait Stock Exchange (KSE) to disclose audit fees in the company's income statement under a separate heading thus far. In addition, since the data on this subject is unpublished to the interested users, it should interpret the findings of the two Kuwaiti studies with caution. However, the objective of the current study is to explore the audit fees determinants in Kuwait from two perspectives; client-specific attributes and audit firm characteristics. In addition, the current study using a questionnaire to survey the awareness of auditors and the management of Kuwaiti companies listed on the KSE of the factors that influence the determination of audit fees.

The current study follows partially the El-Gammal (2012) study's general structure who examined the determinants of audit fees in Lebanon from two perspectives; the external auditor and client's representatives (accountants, financial controllers and internal auditors). Eighty respondents were surveyed. He found that external auditors and client representatives ranked the audit firm is one of the big-4, as the most important factor determine the audit fees. In contrary, the least important factor was the audit firm size. In addition, the outcomes reveal there were no differences between two groups of respondents in regard the degree of importance of each determinant of audit fees.

A recent study by Hassan and Naser (2013) who conducted a study to examine factors influencing audit fees paid by non-financial companies listed on Abu Dhabi Stock Exchange (ADX). Data were collected from the 2011 annual and corporate governance reports published by the Emirati non-financial companies listed on ADX. Backward regression analysis was employed to assess the link between audit fees and certain company's characteristics. The outcomes indicated a direct relationship between audit fees and each of corporate size, business complexity and audit report lag variables. While, negative relationship found between audit fees and each of industry type and audit committee independence. Further, the results showed that audit fees were not significantly influenced by company's profitability, risk, and status of audit firm.

In a recent study, Soyemi and Olowookere (2013) provided empirical examination of client attributes which significantly explain variations in the amount of external audit fees charged by bank auditors in Nigeria. An audit fee model was used to investigate the effect of bank size, risks and complexities on audit fees for top ten (10) publicly quoted commercial banks, which constitute over 70% of the total assets of the industry. Multiple OLS regression was adopted as the estimation technique on the panel data gathered through content analysis of annual reports and accounts of these banks over a 4-year post consolidation periods covering 2009-2012. The findings from this study revealed that bank size was also an important factor that is priced by bank auditors having shown a positive and significant influence accounting for 63% variations. Risk proxied by capital adequacy and non-performing loans ratios was insignificant but positive and negative respectively; while only the number of branches used to operationalise complexities associated with bank audit displayed a negative and significant influence. The massive deployment of Information Technology (IT) in the industry, especially for the rendering of returns by branches of these banks to their head offices could account for this result.

In a very recent study, Ulhaq and Leghari (2015) conducted a study in Pakistan audit market. This study examines a sample of 150 firms during the period 2007-2011 to explore audit fee determinants and relationship between audit fee and audit quality in Pakistan. Using the Simunic (1980) model, the results of their study reveals that client's size of business, complexity of business and international recognition and affiliation of audit firms (Big four firms) are significant determinants of audit fees in Pakistan.

In summary, most of the prior research are based on that, the researcher had an access to the audit fees figure which is normally published in the annual reports of most of the audited companies in developed countries except one study (El-Gammal, 2012) that used a questionnaire to get the required information.

The main purpose of the above studies was to develop a model to investigate the determinants of audit fees paid by companies. Most of these studies used multiple regression analysis to test the association between audit fees and client characteristics. Client size and complexity were the most determinants variables of audit fees (Taylor, et al., 1981; Anderson & Zenghal, 1994; Simon & Taylor, 2002; Al-Shammari et al., 2008). However, the prior literature suggests that there is no general consensus amongst the researchers as to what *factor* or *set of factors* is likely to influence the audit fees determinants. Consequently, the literature is unable to supply a commonly accepted single *set of factors* most influencing audit fees determinants.

The above review of prior studies of the audit fees determinants indicates that they have been the focus of the investigating and examining of the relationship between a set of *audited company-specific characteristics* or audit firm attributes (singly and collectively) and audit fees. Several studies have examined and contrasted the relationship between the audited company-specific characteristics and the audit fees in different countries. Evidence of the association between audit fees and particular audited corporate-specific characteristics (in particular, profitability and size of the audit firm) has been equivocal.

Most of the previous studies used audit fees as a dependent variable and the various separate or grouped *company-specific characteristics* and audit firm attributes as the independent variables. Whereas the latter varied, there was clearly considerable commonality. The determinants most commonly used were: company size, liquidity, profitability, complexity, business sector type, audit firm size and company risk.

Different approaches were employed to analyse the data statistically. Most of the studies used multivariate regression analysis to investigate the determinants of audit fees except one study (El-Gammal, 2012) that used a questionnaire to get the required information and used different statistical tests rather than multivariate regression analysis. It is very clear from the previous literature that many of the prior studies differ only in sample size, the year of study, the type and number of client-specific characteristics investigated and the country (or countries) on which the studies were carried out.

Based on the above background, the purpose of the present study is to expand prior literature by surveying, using a questionnaire, the awareness of auditors and the management of Kuwaiti companies listed on the KSE of the factors that influence the determination of audit fees. To do so, the research tries to answer the following questions:

- 1) What are the most important determinants of audit fees in Kuwait?
- 2) What are the most important determinants of audit fees in Kuwait from auditors' perspective?
- 3) What are the most important determinants of audit fees in Kuwait from the management of Kuwaiti companies' perspective?
- 4) Are there any significant differences between auditors and the management of Kuwaiti companies view in respect to the important determinants of audit fees in Kuwait?

4. Research Methods

4.1 The Questionnaire

Consistent with prior studies (Langendijk, 1997; Cameran, 2005; Gonthier & Schatt, 2006; Thinggaard & Kiertzner, 2008; El-Gammal, 2012; Hassan & Naser, 2013; Soyemi & Olowookere, 2013), a questionnaire was developed to explore the determinants of audit fees. It consists of two parts: Part 1 consists of questions asking the participants about their filed work; Part 2 contains 25 questions focusing on the factors that determine the audit fees. Participants' answers were based on five-point Likert scale, ranging from not importance (1) to very importance (5). The content of the questionnaire was validated by two academic members in Kuwait University and the Public Authority for Applied Education and Training and three auditors.

4.2 Data Collection

The population used in this study consisted of participants of audit firms and participants of Kuwaiti companies listed on the Kuwait Stock Exchange. The questionnaire was administered during the period from June to November of 2014. Two hundred and Fifty questionnaires were distributed to most audit firm working in Kuwait and to all Kuwaiti companies listed on the Kuwait Stock Exchange. Of the 250 questionnaire distributed, usable responses totaled 120, with a response rate of 48%, which is considered appropriate for statistical analysis. Of the participants 36.7% were audit firms, and 63.3% were companies.

4.3 Reliability Analysis

To assess the reliability and internal consistency of Part 2 of the questionnaire, a common measure of scale

reliability called Cronbach's alpha was used. According to Nunnally (1978) and DeVellis (2003), a Cronbach's alpha coefficient of 0.7 or higher is considered acceptable by most social science researchers. In the current study, the Cronbach's alpha coefficient was 0.87, indicating the overall reliability of the questionnaire.

5. Results and Discussion

Table 1 describes the demographics of the questionnaire respondents. Panel A shows that the total sample is 120 comprised of 44 participants from audit firms (36.7%) and 76 participants from companies (63.3%). Panel B shows the number of participants according to the type of audit firms. 36 participants from local audit firms (81.8%) and 8 participants from audit firms affiliated with Big-4 (18.2%). This result indicated that the number of local audit firms without affiliation is more than the number of audit firms affiliated with Big-4 in the audit market in Kuwait. Despite the number of audit firms affiliated with Big-4 is small (8 out of 44), these firms dominated the audit market in Kuwait. Most big companies and banks in Kuwait audit market choose audit firm affiliated with Big-4 to audit their accounts.

Table 1. Descriptive statistics of the sample

Panel A: Number of Participants in the Sample		
Type of Participant	Frequency	Percentage
Audit Firm	44	36.7
Company	76	63.3
Total	120	100.0
Panel B: Number of Participants according to the type of Audit Firm		
Audit Firm	Frequency	Percentage
Local	36	81.8
Affiliated with Big-4	8	18.2
Total	44	100.0
Panel C: Number of Participants according to the type of industry		
Industry	Frequency	Percentage
Manufacturing	7	9.2
Real Estate	23	30.3
Investment	21	27.6
Services	15	19.7
Financial (Banks & Insurance)	10	13.2
Total	76	100.0

Table 2 provides the means and standard deviations of the 25 factors expected to influence the audit fees determinants in the Kuwait audit market. The results shows that all factors showed a Likert-scale score of greater than 2.5, which might suggest that all the factors included in the questionnaire influence the audit fees determinants. Among the 25 factors included in this study, audit firm brand name ($M = 4.62$), time spent completing a given job ($M = 4.51$) and auditors experience ($M = 4.51$) were the most important factors influencing audit fees determinants in the Kuwait audit market from audit firm and companies perspectives. The current findings are consistent partially with the research of El-Gammal (2012) conducted in Lebanon who found the "audit firm brand name" the most factor influence the determinants of audit fees in Lebanon. In contrast, company age ($M = 3.17$), client company location ($M = 3.23$) and audit firm location ($M = 3.31$) were the least important factors influencing the determinants of audit fees in Kuwait. This result related to the "client company location" and "audit firm location" factors can be attributed to the fact that Kuwait as a country is geographically is small and almost all companies and audit firms are located in the capital city, Kuwait, and can be reached within a small amount of time. These results are also consistent with the study of Al-Harshani (2008) who found no evidence provided of a significant relation between audit fees and the number of audit firm locations in Kuwait. Based on the current results, in order to engage in the audit work, both audit firms and companies should give more attention to the factors suggested by the current study which determinants of audit fees in Kuwait.

Table 2. Rank of factors influencing audit fees determinants by participants of audit firms and companies

No.	Factors	Rank*	Mean	Std. Deviation
1	Audit firm brand name	1	4.62	0.630
2	Audit firm location	23	3.31	1.029
3	Audit firm size	8	4.23	0.738
4	Competition between audit firms	13	3.93	0.943
5	Time spent completing a given job	2	4.51	0.754
6	Audit firm age	15	3.88	0.925
7	Doing non-audit services to the client	18	3.65	0.977
8	Industry specialization	19	3.63	1.059
9	Affiliated with Big-4 auditing firms	7	4.27	0.981
10	Auditors experience	2	4.51	0.803
11	Educational background of auditors	6	4.33	0.835
12	Client size (size of audited company)	4	4.47	0.653
13	complexity of Client company	5	4.41	0.708
14	Client company location	24	3.23	1.013
15	Existence of the audit committee in the co.	14	3.90	1.017
16	Client profitability	21	3.50	1.115
17	Client industry (sector) type	20	3.56	0.997
18	Owners of the company	22	3.33	1.231
19	Fields of activity of the client company	17	3.67	1.010
20	Risks associated with the audited company	9	4.21	0.981
21	Company growth	16	3.76	0.966
22	Company's financial situation	12	3.98	0.986
23	The existence of internal auditing system co.	10	4.12	0.918
24	Number of subsidiaries of client company	11	4.00	0.949
25	Company age	25	3.17	1.084

*Ranking 1 = Highest mean.

*Ranking 25 = Lowest mean.

Table 3 provides the means and standard deviations of the 25 factors expected to influence the audit fees determinants in the Kuwait audit market from the participants from audit firms. The results shows that all factors showed a Likert-scale score of greater than 2.5, which might suggest that all the factors included in the questionnaire influence the audit fees determinants. Among the 25 factors included in this study, complexity of client company ($M = 4.57$), client size (size of audited company) ($M = 4.52$) and audit firm brand name ($M = 4.48$) were the most important factors influencing audit fees determinants in the Kuwait audit market from audit firm perspectives. Indeed, the company size and its complexity that under audited process has a direct impact on the auditors' work, and the time spent completing a given job in the auditing process. Companies with complexity require more time and effort than smaller companies, and in turn pay higher fees. The current findings are consistent with the most research done on audit fees determinants (Sandra & Patrick, 1996; Joshi & Al-Bastaki, 2000; Simon & Tylor, 2002; Cameran, 2005; Al-Harshani, 2008; El-Gammal, 2012; Soyemiand & Olowookere, 2013). They found a positive relationship between audit fees and company size and complexity. El-Gammal (2012) found the "audit firm brand name" the most factor influence the determinants of audit fees in Lebanon.

In contrast, company age ($M = 2.93$), client profitability ($M = 3.11$) and owners of the company ($M = 3.11$) were the least important factors influencing the determinants of audit fees in Kuwait from audit firms perspectives. Al-Shammari et al. (2008) found no evidence provided of a significant relation between audit fees and company profitability. Based on the current results, in order to engage in the audit work, the concerns should focus on the factors suggested by the current study such as company complexity, company size and audit firm brand which determinants of audit fees in Kuwait.

Table 3. Rank of factors influencing audit fees determinants by participants from audit firms

No.	Factors	Rank*	Mean	Std. deviation
1	Audit firm brand name	3	4.48	.634
2	Audit firm location	21	3.33	.874
3	Audit firm size	8	4.12	.705
4	Competition between audit firms	11	3.98	.975
5	Time spent completing a given job	4	4.44	.666
6	Audit firm age	14	3.67	.944
7	Doing non-audit services to the client	19	3.49	.960
8	Industry specialization	20	3.37	1.215
9	Affiliated with Big-4 auditing firms	10	4.05	1.214
10	Auditors experience	6	4.30	.939
11	Educational background of auditors	9	4.07	.867
12	Client size (size of audited company	2	4.52	.628
13	complexity of Client company	1	4.57	.587
14	Client company location	22	3.16	.949
15	Existence of the audit committee in the co.	13	3.80	.823
16	Client profitability	23	3.11	1.017
17	Client industry (sector) type	17	3.55	.951
18	Owners of the company	23	3.11	1.166
19	Fields of activity of the client company	15	3.64	.942
20	Risks associated with the audited company	7	4.21	.804
21	Company growth	17	3.55	.926
22	Company's financial situation	16	3.61	1.017
23	The existence of internal auditing system co.	11	3.98	.913
24	Number of subsidiaries of client company	5	4.33	.747
25	Company age	25	2.93	.998

*Ranking 1 = Highest mean

*Ranking 25 = Lowest mean.

Table 4 provides the means and standard deviations of the 25 factors expected to influence the audit fees determinants in the Kuwait audit market from the participants from companies. The results shows that all factors showed a Likert-scale score of greater than 2.5, which might suggest that all the factors included in the questionnaire influence the audit fees determinants. Among the 25 factors included in this study, audit firm brand name ($M = 4.71$), auditors experience ($M = 4.63$) and time spent completing a given job ($M = 4.56$) were the most important factors influencing audit fees determinants in the Kuwait audit market from companies perspectives. In contrast, client company location ($M = 3.27$), audit firm location ($M = 3.30$) and company age ($M = 3.31$) were the least important factors influencing the determinants of audit fees in Kuwait from companies perspectives.

Table 4. Rank of factors influencing audit fees determinants by participants from companies

No.	Factors	Rank*	Mean	Std. Deviation
1	Audit firm brand name	1	4.71	.615
2	Audit firm location	24	3.30	1.114
3	Audit firm size	7	4.30	.754
4	Competition between audit firms	14	3.90	.930
5	Time spent completing a given job	3	4.56	.803
6	Audit firm age	12	4.00	.898
7	Doing non-audit services to the client	19	3.74	.980
8	Industry specialization	17	3.78	.932
9	Affiliated with Big-4 auditing firms	6	4.40	.795
10	Auditors experience	2	4.63	.693
11	Educational background of auditors	4	4.48	.784
12	Client size (size of audited company)	5	4.44	.670
13	complexity of Client company	7	4.30	.764
14	Client company location	25	3.27	1.055
15	Existence of the audit committee in the co.	13	3.97	1.124
16	Client profitability	18	3.75	1.111
17	Client industry (sector) type	21	3.57	1.033
18	Owners of the company	22	3.47	1.259
19	Fields of activity of the client company	20	3.69	1.057
20	Risks associated with the audited company	9	4.22	1.083
21	Company growth	14	3.90	.972
22	Company's financial situation	10	4.21	.899
23	The existence of internal auditing system co.	11	4.20	.917
24	Number of subsidiaries of client company	16	3.80	1.008
25	Company age	23	3.31	1.116

*Ranking 1 = Highest mean;

*Ranking 25 = Lowest mean.

Table 5 provides comparison between rank of factors influencing audit fees determinants by participants from audit firms and companies. It shows that three factors out of first five factors ranked by both audit firms and companies most important factors influencing audit fees determinants in the Kuwait audit market from audit firms and companies perspectives. It can be suggested that the audit firm brand name; time spent completing a given job and size of audited company can be considered as the most important factor in affecting audit fees from view point of both the audit firms and companies perspectives.

In contrast, Table 5 shows that four factors out of last five factors ranked by both audit firms and companies least important factors influencing audit fees determinants in the Kuwait audit market from audit firms and companies perspectives. It can be concluded that the company age, client company location, owners of the company, and audit firm location can be considered as the least important factor in affecting audit fees from view point of both the audit firms and companies perspectives.

Table 5. Comparison between rank of factors influencing audit fees determinants by participants from audit firms and companies

No.	Factors	Audit firms		Companies	
		Rank*	Mean	Rank*	Mean
1	Audit firm brand name	3	4.48	1	4.71
2	Audit firm location	21	3.33	24	3.3
3	Audit firm size	8	4.12	7	4.3
4	Competition between audit firms	11	3.98	14	3.9
5	Time spent completing a given job	4	4.44	3	4.56
6	Audit firm age	14	3.67	12	4.00
7	Doing non-audit services to the client	19	3.49	19	3.74
8	Industry specialization	20	3.37	17	3.78
9	Affiliated with Big-4 auditing firms	10	4.05	6	4.4
10	Auditors experience	6	4.30	2	4.63
11	Educational background of auditors	9	4.07	4	4.48
12	Client size (size of audited company)	2	4.52	5	4.44
13	complexity of Client company	1	4.57	7	4.30
14	Client company location	22	3.16	25	3.27
15	Existence of the audit committee in the co.	13	3.80	13	3.97
16	Client profitability	23	3.11	18	3.75
17	Client industry (sector) type	17	3.55	21	3.57
18	Owners of the company	23	3.11	22	3.47
19	Fields of activity of the client company	15	3.64	20	3.69
20	Risks associated with the audited company	7	4.21	9	4.22
21	Company growth	17	3.55	14	3.90
22	Company's financial situation	16	3.61	10	4.21
23	The existence of internal auditing system co.	11	3.98	11	4.20
24	Number of subsidiaries of client company	5	4.33	16	3.80
25	Company age	25	2.93	23	3.31

Table 6 represents the t-test results which revealed that there are significant differences in the mean ranking of some of the factors assumed to determinant the audit fees in the Kuwait audit market between the two groups of respondents (audit firms and companies). In investigating the influence of industry specialization factor, the results reveal that there is significant difference ($p < 0.05$) between the view point of both the audit firms and companies perspectives. The finding imply that companies consider industry specialization factor ($M=3.78$) more important in determining audit fees compared to audit firms ($M=3.37$). This finding could be explain on the ground that companies tend to pay premium for specialized audit firms more than non-specialized audit firms.

In exploring differences in the important of auditors experience and educational background of auditors, the results presented in table 6 show that there is significant difference ($p < 0.05$) between the view point of both the audit firms and companies perspectives. The findings show that company consider auditor experience and educational background of auditors factors ($M=4.63$, $M=4.48$, respectively) more important in determining audit fees in the Kuwait audit market compared to audit firms ($M=4.30$, $M=4.07$, respectively).

In examining the influence of complexity of client company in determining audit fees in the Kuwait audit market, the results reveals that there is significant difference ($p < 0.05$) between the view point of both the audit firms and companies perspectives. The finding indicate that audit firms consider complexity of client company factor ($M=4.57$) more important in determining audit fees in the Kuwait audit market compared to companies ($M=4.30$). Indeed, the more complexity of client company, the more audit work is needed to provide reasonable assurance to interested users of financial statements in whether the audited financial statements reflect faithfully and clearly the actual financial situation of the company. This could leads to the audit fees to be higher.

In testing the influence of client company profitability in determining audit fees in the Kuwait audit market, the results reveals that there is significant difference ($p < 0.05$) between the view point of both the audit firms and companies perspectives. The outcome show that companies consider profitability of client company factor ($M=3.75$) more important in determining audit fees in the Kuwait audit market compared to audit firms ($M=3.11$). On the other words, if the company is recognized profit, this could imply that companies tend to pay premium for

audit firms more than less profit companies.

In examining differences in the important of company growth and company's financial situation, the results presented in Table 6 show that there is significant difference ($p < 0.05$) between the view point of both the audit firms and companies perspectives. The findings show that company identify company growth and company's financial situation factors ($M=3.90$, $M=4.21$, respectively) more important in determining audit fees in the Kuwait audit market compared to audit firms ($M=3.55$, $M=3.61$, respectively)

In exploring differences in the important of number of subsidiaries of client company, the results presented in Table 6 show that there is significant difference ($p < 0.05$) between the view point of both the audit firms and companies perspectives. The findings show that audit firms consider number of subsidiaries of client company factor ($M=4.33$) more important in determining audit fees in the Kuwait audit market compared to companies ($M=3.80$). Indeed, the number of subsidiaries of client company, the more audit work required and this in turn could determine the audit fees. However, Table 6 also shows that there is insignificant difference in the mean ranking of the rest of the expected determinants of audit fees between the two groups of respondents (audit firms and companies).

Table 6. The independent t. test between audit firms and companies

No.	Factors	Audit firms	Companies	t	P-value
		Mean	Mean		
1	Audit firm brand name	4.48	4.71	-1.907	.060
2	Audit firm location	3.33	3.30	.170	.865
3	Audit firm size	4.12	4.30	-1.252	.213
4	Competition between audit firms	3.98	3.90	.393	.695
5	Time spent completing a given job	4.44	4.56	-.782	.436
6	Audit firm age	3.67	4.00	-1.851	.067
7	Doing non-audit services to the client	3.49	3.74	-1.366	.175
8	Industry specialization	3.37	3.78	-1.901	.044*
9	Affiliated with Big-4 auditing firms	4.05	4.40	-1.880	.063
10	Auditors experience	4.30	4.63	-1.976	.052*
11	Educational background of auditors	4.07	4.48	-2.586	.011*
12	Client size (size of audited company)	4.52	4.44	.685	.494
13	complexity of client company	4.57	4.30	2.054	.042*
14	Client company location	3.16	3.27	-.533	.595
15	Existence of the audit committee in the co.	3.80	3.97	-.894	.373
16	Client profitability	3.11	3.75	-3.059	.003*
17	Client industry (sector) type	3.55	3.57	-.112	.911
18	Owners of the company	3.11	3.47	-1.519	.132
19	Fields of activity of the client company	3.64	3.69	-.253	.801
20	Risks associated with the audited company	4.21	4.22	-.045	.964
21	Company growth	3.55	3.90	-1.917	.058*
22	Company's financial situation	3.61	4.21	-3.301	.001*
23	The existence of internal auditing system co.	3.98	4.20	-1.272	.206
24	Number of subsidiaries of client company	4.33	3.80	2.965	.004*
25	Company age	2.93	3.31	-1.886	.062

*significant if P-value < 0.05 .

6. Conclusions, Limitations and Future Research

The objective of the current study was to determine the important factors that determine audit fees in Kuwait audit market. The results showed that all factors showed a Likert-scale score of greater than 2.5, which might suggest that all the factors included in the questionnaire influence the audit fees determinants. Among the 25 factors included in this study, audit firm brand name, time spent completing a given and auditors experience were the most important factors influencing audit fees determinants in the Kuwait audit market from audit firm and companies perspectives. In contrast, company age, client company location and audit firm location were the least important factors influencing the determinants of audit fees in Kuwait from audit firm and companies

perspectives. In addition, the results of the current study show that complexity of client company, client size (size of audited company) and audit firm brand name were the most important factors influencing audit fees determinants in the Kuwait audit market from audit firm perspectives. In contrast, company age, client profitability and owners of the company were the least important factors influencing the determinants of audit fees in Kuwait from audit firms perspectives.

Furthermore, audit firm brand name, auditors experience and time spent completing a given job were the most important factors influencing audit fees determinants in the Kuwait audit market from companies' perspectives. In contrast, client company location, audit firm location and company age were the least important factors influencing the determinants of audit fees in Kuwait from companies' perspectives.

Moreover, the results of the t-test revealed that there are significant differences in the mean ranking of some of the factors assumed to determinant the audit fees in the Kuwait audit market between the two groups of respondents (audit firms and companies).

The findings presented in this study may help professional accounting associations and both audit firms and companies to better understand the factors influencing audit fees determinants in the Kuwait audit market. The findings of the current research will provide a vital insight into the determinants of audit fees from an emerging market like Kuwait and in turn, could reinforce auditor independency and the efficiency of the audit process. Watts & Zimmermann (1986) indicate that one of the main characteristics of the auditor's independence is a rational audit fee for service introduced to the client which is determined before the start of the engagement. In addition, knowing such information will help audit firms and the management of Kuwaiti companies in negotiating and to determine the appropriate audit fees to be charged (Al-Harshani, 2008). Moreover, in case of initial audit engagements, the audit fees may not reflect the normal fee to be charged, thus this study provide the basis of audit fees determinations in such engagements to both the auditors and companies.

Regulatory agencies can benefit from the findings of this study in the development of law in Kuwait can enforce companies to publish its audit fees figure in their annual reports and set standards to audit fees pricing to be charged.

The findings of the current study are subject to a number of limitations. First, the questionnaire was only distributed to a number of audit firms and companies. There is thus an opportunity to extend the scope of this study to include all audit firms work in Kuwait and all Kuwaiti companies listed on the Kuwait Stock Exchange. Doing this could validate the results of this study and explore whether these outcomes are generalizable. Second, in-depth interviews with external auditors and companies management could understand the Kuwait audit market and the factors that could influence the audit fees determinants.

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