

Accounting Horizons, June 2005, pp. 69-84.

Factors Associated with U.S. Public Companies' Investment in Internal Auditing

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SYNOPSIS

Internal auditing has been the focus of much attention in recent years. This study examines factors associated with U.S. public companies' investment in internal auditing. Data from a survey administered to Chief Audit Executives of midsize U.S. public companies were supplemented with publicly-available data. Based on data from 217 companies, the results indicate that total internal audit budgets (in-house plus outsourced portions) are related to several factors associated with company risk, ability to pay for monitoring, and auditing characteristics. Specifically, we find evidence that internal audit budgets are positively related to company size; leverage; financial, service, and utility industries; relative amount of inventory; operating cash flows; and audit committee review of the internal audit budget. Total internal audit budgets are negatively related to the percentage of internal auditing that is outsourced. This study contributes to our understanding of internal audit services, and it allows companies to benchmark their investment in internal auditing.