THE DETERMINANTS OF AUDIT REPORT LAG: THE MEDIATING EFFECT OF AUDITOR'S RELIANCE IN JORDAN

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THE DETERMINANTS OF AUDIT REPORT LAG: THE MEDIATING EFFECT OF AUDITOR'S RELIANCE IN JORDAN

By

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ABSTRACT

The association between corporate governance mechanisms and the reliance decision, and the impact of such decision on the timeliness of financial reporting is the subject of increasing public and regulatory interest. This study focuses, first, on examining the relationships between the effectiveness of board and audit committee and external auditor's reliance on the internal audit work. Second, it examines the impact of the reliance decision on the audit report lag. The data are obtained using secondary-data and survey-questionnaire methods. The sample size comprises 87 companies listed in Amman Stock Exchange (ASE) for the year 2009. The internal and external auditors of these companies are surveyed with a 34% response rate. Multiple regression results reveal a significant and positive relationship between the effectiveness of the audit committee and reliance decision. In addition, audit committee meetings with external auditor and audit committee’s review of internal audit function results have also a significant and positive association with reliance decision. Findings of this study also support the positive relationship between the overall quality of internal audit function and reliance decision. Regarding the impact of reliance decision on audit report lag, a significant but negative relationship between external auditor's reliance on the work of internal audit function and audit report lag is documented. This study supports the belief that the Jordanian external auditors are aware of the importance of relying on the internal audit work and evaluating the quality of this work before making the reliance decision as required by ISA 610. However, companies in Jordan still need to improve their internal audit function and support it with the necessary resources. Further, regulators in Jordan should mandate the companies to have an effective internal audit function.

Keywords: Board of Directors, Audit Committee, Internal Audit Function, Reliance Decision, Audit Report Lag.
ABSTRAK


Kata kunci: Lembaga Pengarah, Jawatankuasa Audit, Fungsi Audit Dalaman, Keputusan Untuk Kebergantungan, Kelewatan Laporan Audit.
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CHAPTER ONE
INTRODUCTION

1.0 Introduction

This chapter introduces the research agenda of this study, outlines the background of the research problem, research questions, research objectives, research significance and finally, it explains the organization of the remaining chapters.

1.1 Background of the Research Problem

The traditional view considers an audit as the yearly review of the company's accounts (Elliott, Dawson & Edwards, 2007). However, the financial audit evolved in the twentieth century as business practices become more complex (Arter, 2000). Basically, the main purpose of the audits is referred to as the trust of the users of the financial statements which lead to the improvement of the capital market's efficiency (Hellman, 2006).

Moreover, the auditing profession, both internal and external, has come under increasing scrutiny since the highly publicized collapse of Enron, WorldCom's massive fraud, the failure of Anderson, and other major accounting scandals in the early 2000s (Guner, 2008).

Despite the different role of internal and external auditors, they both share the same broad purpose of serving the public by helping to ensure the highest standard of regularity and propriety for the using of resources and in promoting efficient, effective and economical administration (Morill & Morill, 2003). For instance, internal auditors are responsible for assisting management in guaranteeing an effective control system and in making sure that the company's operations are carried out efficiently, economically and effectively. On the
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