

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

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AUDITOR'S RELIANCE IN JORDAN**

By

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**Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
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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

Perkaitan di antara mekanisma tadbir urus korporat dan kebergantungan juruaudit luaran terhadap fungsi audit dalaman serta implikasinya ke atas ketepatan masa laporan kewangan merupakan subjek yang menarik minat orang awam serta pengawal selia berkaitan. Kajian ini tertumpu kepada dua aspek utama. Pertama, untuk menyiasat hubungkait di antara keberkesanan lembaga pengarah dan jawatankuasa audit serta kebergantungan juruaudit luaran terhadap kerja-kerja juruaudit dalaman. Kedua, kajian ini mengenalpasti kesan tahap kebergantungan juruaudit luaran tersebut ke atas kelewatan laporan audit. Data kajian diperolehi menggunakan pendekatan data sekunder dan soal selidik. Sampel kajian terdiri daripada 87 syarikat yang tersenarai di 'Amman Stock Exchange' (ASE) pada tahun 2009. Kadar maklumbalas diterima adalah sebanyak 34%. Keputusan analisis regresi berganda menunjukkan hubungan yang signifikan dan positif di antara keberkesanan jawatankuasa audit dan tahap kebergantungan juruaudit luaran. Bilangan mesyuarat di antara jawatankuasa audit dalaman dan juruaudit luaran serta semakan fungsi audit oleh juruaudit dalaman juga menunjukkan hubungan yang positif terhadap tahap kebergantungan juruaudit luaran. Dapatan kajian ini juga menyokong hubungan positif di antara kualiti keseluruhan fungsi audit dalaman dan tahap kebergantungan juruaudit luaran terhadap laporan audit dalaman. Kajian turut mendapati bahawa terdapat hubungan yang signifikan tetapi negatif di antara tahap kebergantungan juruaudit luaran terhadap laporan juruaudit dalaman dan kelewatan laporan audit. Hasil kajian ini menjelaskan bahawa juruaudit luaran bagi syarikat-syarikat di Jordan menyedari kepentingan untuk mempertimbangkan laporan juruaudit dalaman serta keperluan untuk menilai kualiti laporan tersebut seperti yang digariskan oleh ISA 610. Walau bagaimanapun, syarikat di Jordan masih perlu memperbaiki fungsi audit dalaman mereka dan disokong oleh sumber yang bersesuaian. Lanjutan daripada itu, pengawal selia yang berkaitan di Jordan perlu memastikan syarikat melaksanakan fungsi audit dalaman yang berkesan.

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

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LIST OF ABBREVIATIONS

IAF	Internal Audit Function
BOD	Board of Directors
AC	Audit Committee
OECD	Organization for Economic Cooperation and Development
ARL	Audit Report Lag
ISA	International Standard on Auditing
ASE	Amman Stock Exchange
ROSC	Report on the Observance of Standards and Codes
JSC	Jordan Securities Commission
IFRS	International Financial Reporting Standards
IR	Inherent Risk
IIA	Institute of Internal Auditors
SAS	Statement on Auditing Standards
AS	Auditing Standard
AICPA	American Institute of Certified Public Accountants
IFAC	International Federation of Accountants
POB	Public Oversight Board
SOX	Sarbanes Oxley
BRC	Blue Ribbon Committee
PCAOB	Public Company Accounting Oversight Board
CEO	Chief Executive Officer
ACPA	Arabic Certified Public Accountant
OLS	Ordinary Least Square
VIF	Variance Inflation Factors

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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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