

Firms' Internal Audit Function and Quality of Its Financial Reporting in Sri Lankan Listed Companies

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Abstract

The purpose of this paper is to investigate the relationship between firms' internal audit function and the quality of its financial reporting. The paper uses questionnaires sent to internal audit departments in listed companies in Sri Lanka. Financial reporting quality recognized as the dependent variable and internal audit function identified as the independent variable. Independent variable measures using twelve variables; time and resources devoted to (1) financial auditing, (2) operational auditing, (3) compliance auditing, (4) management auditing, (5) Specialization of internal auditor in financial audits, (6) Internal auditor training and knowledge of accounting regulations, (7) Review of the management and financial information systems, (8) Review of the accuracy and reliability of the accounting records and financial reports, (9) external audit requests information, studies from the internal auditor, (10) periodic meetings between internal and external auditors, (11) external auditor provides important information for the internal auditor to develop its work, (12) internal auditors collaborate with external auditors in annual audit. The collected data analyses using two analysis techniques; (1) regression analysis, (2) Univariate and multivariate analysis. The findings of the study are important to regulators, management, boards of directors, and investors should all be aware of the findings. These findings help to enhance the transparency, integrity, and quality of financial reporting. Previous empirical researchers have examined at the quality of financial reporting with different variables in the corporate governance such as board of directors, audit committee, and external audit, and hard to find studies on relationship between firms' internal audit function and the quality of its financial reporting.

Key words: Internal auditing, Corporate governance, Financial reporting quality, Sri Lankan listed companies.