

EXTERNAL AUDITORS' JUDGMENT TO RELY ON INTERNAL AUDITORS: EVIDENCE FROM SRI LANKA

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Abstract

There is mixed evidence regarding internal auditor impacts on internal audit over external audit and also it is observed that there is a dearth of research in the Sri Lankan context. Accordingly, it is questioned whether to external auditors should rely on internal auditors in performing financial statements audits. Hence, the objectives of this study are examining the perceived level of internal auditor's contribution to financial statement audits and determining the significant factors that affect to the external auditor's reliance on internal auditors. A convenient sample of external auditors has been selected to represent all the audit firms in Sri Lanka including Big, medium and small, and 83 usable responses were received (response rate 83%). The study used mean value, frequency analysis and one sample *t*-test analysis to examine the perceived level of internal auditors' contribution to financial statement audits and used mean ranking, one sample *t*-test and correlation analyses to determine the significant factors affect to the external auditors' judgments to rely on internal auditors. The findings of the study indicated a moderate level (mean value of 3.40 in 1 to 5 Likert scale) of perceived level of internal auditor's contribution to financial statement audits. Further, based on both correlation and mean ranking analysis (including one sample *t*-test) it was identified that independence of the audit committee, level of co-operation between internal and external auditors, independence of internal auditors, internal auditors' objectivity and interaction with internal audit function were commonly identified significant factors which are considered by the external auditors in their reliance on internal auditors. The findings are expected to have significant policy implication.

Key Words –External auditors, Independence, Level of Co-Operation, Reliance on Internal auditors

1. Introduction

In the complex business environment, the internal audit function has becoming an essential part of the organization. Internal auditors usually assist management in ensuring that there is a proper internal control system in place and that the operations of the company are carried out efficiently, economically and effectively (Haron et al. 2004).

“Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to the interested users” (American Accounting Association-AAA 2011,pp.249). Simply, auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. It should be done by a competent and independent person. Those criteria should be referred to both internal auditors and external auditors.

External auditors are considered the truth and fairness of the financial statements (SLAuS 200). Further they want to add more value to their output while reducing the cost. In such a dynamic and complex environment, aim of the cost reduction is difficult to achieve easily. Therefore they always tend to get the support from other’s work. Especially they rely on internal auditors in order to evaluate the internal control system of the company and specific works of internal auditors to ensure that it is capable of preventing and detecting material miss-statement from occurring (ISA 610). Through rely on the competency and the expertise of the internal auditor, the external auditors can reduce the budgeted audit hours for compliance test and the substantive procedures (Haron et al. 2004).

Previous researchers have come out with mixed evidences with regards to the external auditor’s reliance on internal auditor’s works. A prior researcher has found that external auditors can rely on the work of internal auditors in many respects in carrying out their external audit duties as both auditors are concerned that proper controls are in place (Haron et al. 2004). On the other hand, previous research has done in Saudi Arabia has been found that a significant negative relationship by considering the level of co-operation in between internal auditors and external auditors and a lack of close relationship between the internal and external auditors was also mentioned in the interview responses, and was explained in terms of the external auditors not requesting the assistance of internal auditors. However, exceptions to this with internal audit in the banking sector being singled out as being of a higher quality due to the higher standards of internal control needed in the financial services sector (Abdulrahman, Al-Twajjry & Gwilliam 2004). Moreover, Jayasinghe (2018) an external audit manager of a Big audit firm has stated that ‘he never rely on internal auditors but never ignored internal audit function also considered about internal audit function as only for the purpose of risk assessment process’.

Since the previous research studies conducted in developed countries have provided evidence that there may be a positive relationship or a negative relationship between internal auditors and external auditors, it is worthwhile to study what factors will be significantly impact on that relationship. The results of previous research (Haron et al. 2004) indicate that the “work performed” and “competency” of internal auditors were important criteria for external auditors to judge the reliance of internal audit work. Further, “Independence” of internal auditors was not significant in their ratings. This could be due to the fact that the external auditors view internal auditors as employees of the organization and thus their “independence” is not seen as an important element affecting the decision that they have made. Another

previous research has found that Internal Auditors' competent work performance impacts on the adjusting the external audit procedures & Internal auditors' objective is not impacted on the external auditors' judgments (Loren & Margheim 1986). In order to decide whether or not to rely on internal auditor's work external auditor will give priority to objectivity, technical expertise, due professional care and communication (ISA 610).

As far as the researchers observed, there is a dearth of studies in Sri Lankan context regarding this problematic area. Therefore, based on this observed dearth and mixed evidence the researchers focused on examine the perceived level of internal auditors' contribution to financial statements audits and determine the significant factors affect to the external auditors' judgment to rely on internal auditors.

In the second section of this article it will be discussed the research problem in detail, objectives of the study and the prior literature related to the underlined research area, third section will be explained the methodology adopted in the present study, fourth section will be presented findings and discussion and finally the conclusion.

2. Literature review

The relevant literature related to the underlined research area is analyzed and concluded under the literature review. The researches carried out by the various researchers based on different countries around the world are considered. The summary of this literature review is consisted with several parts such as, definitions of the concepts, empirical studies, and ultimately the research gap.

2.1 Internal Audit Function & Internal Auditor

Internal audit function is an appraisal activity established or provided as a service to the entity. Its functions include, amongst other things, examining, evaluating and monitoring the adequacy and effectiveness of internal control. Internal auditors are the individuals who perform the activities of the internal audit function. Internal auditors may belong to an internal audit department or an equivalent function (ISA 610). The role of internal audit is to provide independent assurance that an organization's risk management, governance and internal control processes are operating effectively. (Chartered Institute of Internal Auditors 2018). On the other hand, independent auditor is the person or persons who conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm (ISA 200).

The objectives of the internal audit function are determined by management and, where applicable, those charged with governance. While the objectives of the internal auditors and the external auditors are different, some of the ways in which the internal audit function and the external auditors achieve their respective objectives may be similar. Irrespective of the degree of autonomy and objectivity of the internal audit function, such function is not independent of the entity as is required of the external auditor when expressing an opinion on financial statements. The external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the external auditor's use of the work of the internal auditors (ISA 610). External auditors often rely on other professionals for the audit of the financial statements of their clients. Generally, external auditors rely on clients' internal auditors. Reliance on internal auditors' results in cost savings to the client (Haron et al. 2004). However, external auditors' reliance on internal audit work is a function of their assessment of internal audit effectiveness. The internal audit function is a part of a larger system of governance mechanisms within an organization.

The audit committee is another key corporate governance feature that has the potential to impact internal audit effectiveness through its monitoring and oversight duties and responsibilities (Zain, Subramanian & Stewart 2006).

2.2 Empirical Studies

2.2.1 The perceived level of internal auditors' contribution to financial statement audits

Haron et al. (2004) have found that external auditors can rely on the work of internal auditors in many respects in carrying out their external audit duties through a study with external auditors from Big four and non-Big four firms in Malaysia. Paul (1993) concludes that generally, auditors will rely on the clients' internal auditors only up to a certain extent. In most organizations, internal and external auditors have developed a "teamwork" approach to the audit for some time. In situations where the internal audit personnel do not maintain the required level of professionalism, independent auditors have new guidance to help them use internal auditors more effectively and efficiently. Given the recent increase in the structure of the internal audit profession and the need for external auditors to control audit cost and time, the external auditors have more tended to rely on internal auditors' work (Reinstein, Lander & Gavin 1994).

However, in a previous research which examined the directors of internal audit departments, and partners and managers in external audit firms in Saudi Arabian companies has identified a significant negative relationship by considering the level of co-operation in between internal auditors and external auditors. They find a lack of close relationship between the internal and external auditors was also mentioned in the interview responses, and was explained in terms of the external auditors do not requesting the assistance of internal auditors (Abdulrahman et al. 2004).

Accordingly, various researchers in the literature have come out with different level of reliance on internal and external auditors with regarding the internal auditors' contribution to financial statement audits. That means, there are mixed and sometimes contradictory evidences regarding the perceived level of internal auditors' contribution to financial statement audit.

2.2.2 Factors affect to the external auditors' Judgment to rely on internal audits

There was high variability in the weightings of the attributes which will considered by the external auditors when evaluating the internal auditors. It is possible that because of the qualitative nature of the attributes, auditors have difficulty in evaluating their importance. The variability of the weightings may also be caused by the fact that the competence, objectivity and work attributes are overlapping in meaning (William, Messier & Schneider 1981). That means the presence of specific characteristics (independence of the audit committee, expertise of audit committee members, and number of meetings and size of audit committee etc.) influence the perceptions of implementation of internal audit recommendations (Alzeban & Sawan 2015). Most of the exponential researchers had observed whether internal audit function characteristics may impact on the efficiency or reducing the hours related to the external audits. Lee & Park (2016) had concluded that availability of certain factors within the internal audit function contributes for efficient audit.

The previous researchers carried out a study to identify conditions under which organizations encourage internal audit participation in the external audit using mailed survey questionnaire method and the results

indicated that audit related specific knowledge and expertise is strongly associated with the internal audit participation in the external audit. However, many questions exist regarding the extent to which internal auditors should participate in the external audit, and wide variations are observed in practice. Further researchers provide evidences for many professional bodies increasingly advocate the view that increased coordination between the internal and external auditors, including the increased use of the internal auditor for external audit, provides more efficient and effective audit coverage (Morrill 2003). A previous study has been examined that the relative importance of factors used by external auditor when valuing the internal audit function and also examined the consistency of external auditor in making evaluation of internal audit function by using 184 external auditors in Australia. This study found out three factors to be most significant are technical competence, previous audit work & due professional care (Edge et al. 1991).

Using survey data from chief internal auditors of 76 Malaysian publicly-listed firms, provide evidence of a positive relationship between internal auditors' assessment of their contribution to financial statement audits and three audit committee characteristics: the proportion of independent audit committee members, their knowledge and experience of accounting and auditing, and the extent of audit committee review of internal audit programmes, budget and coordination proposals (Zain, Subramaniam & Stewart 2006). Moreover, the external auditors are using the works done by internal auditors in order to reduce the planned external audit hours if the internal auditor has the higher competent level when planning the external audit hours (Margheim 1986). In accordance with the univariate test results of a previous study indicates that having a higher number of internal auditors relative to the size of the firm and the accounting and legal expertise of internal auditors are associated with fewer external audit hours (Lee, Park 2016). However it appears that a reduction in the external audit fee is only likely if the external auditor relied heavily on the internal auditor's work. It founds with contradictory mixed evidences that external audit managers were more likely to rely on internal audit when the client emphasized the need for a lower audit fee, even when the internal audit department was of low-to-moderate quality (Abdulrahman et al. 2004).

In the prior research has identified that external auditors in Jordan consider the objectivity, competence and work performance of internal auditors as very important factors affecting their reliance decisions (Suwaidan & Qasim 2008). Although this indicates that objectivity of the internal auditors as an important factor, another research has given an opposite opinion regarding this. The findings of a survey conducted with external auditors in Malaysian audit firms indicates that the "work performed" and "competency" of internal auditors were important criteria for external auditors to judge the reliance of internal audit work but "Objectivity" of internal auditors was not significant in their ratings. This could be due to the fact that the external auditors view internal auditors as employees of the organization and thus their "objectivity" is not seen as an important element affecting the decision that they have made (Haron et al. 2004). Further according to empirical evidence of previous study variables related to internal auditor's work were found to be more important in internal audit function evaluation than those related to competence and objectivity and high degrees of consensus among both auditors were found in evaluating the internal audit function (Schneider 1984).

Apart from those, external auditors tended not to endorse the current practice of internal auditing and expressed particular concerns about the independence, scope of work and size of many internal audit departments. Internal auditors considered the co-operation between internal and external audits to be

limited, although external auditors were rather more positive as to the extent of co-operation in circumstances where the internal audit department was perceived as being professional in its work (Abdulrahman et al. 2004). The results of prior research indicate that both factors (Internal audit's reporting relationship with the audit committee and Strength of the client's business risk) affect external auditors' reliance on work already undertaken by internal audit and their use of internal auditors (IA) as assistants. The results also indicate that external auditors are more likely to use internal audit for control evaluation tasks than for substantive tests of balances (Munro & Stewart 2011).

A previous research which argues that if internal auditor has accepted characteristics, independent auditor may rely on them was using those characteristics. Internal auditors are usually required to comply with the principles of integrity, objectivity, confidentiality and competency as defined by the Code of Ethics by the internal auditors in order to preserve the credibility of the individuals who perform internal auditing activities. Adherence to these principles is fundamental to ensure the trustworthiness of external auditors' in relation to the evaluations on internal audit function. It also results that independent auditor's consideration has been highlighted due to that internal auditors use a range of tools to manage their function and perform engagements. The five most adopted are: risk-based audit planning, electronic communication, analytical reviews, statistical sampling, and electronic working papers which gives more ability to add value to the internal audit function (Allegrini et al 2015). Apart from those factors relate to the internal auditors, results of another study indicated that firm specific factors such as size, complexity of audited companies and industry differences are significant variables in explaining the variation in reliance on internal auditors by external auditors. (Suwaidan & Qasim 2008).

When examining the prior literature, the researchers found out that there are different factors have been identified as the factors which affected to the external auditor's judgment to rely on internal auditors in different contexts such as independence of the internal auditors, auditor's objectivity, competence of internal auditors, nature and extent of the work performed by internal auditors, number of internal auditing tools of the internal auditors, strength of the internal audit function, due professional care of internal auditors, previous audit work of internal auditors, meeting the requirements of the Code of Ethics by the internal auditors, number of years the internal audit function has existed, Independence of the audit committee, knowledge and experience of audit committee members in accounting, auditing and finance, extent of audit committee interaction with the internal audit function, the level of co-operation between internal auditors and external auditors, perception regarding reduction of external audit fee due to the reliance of internal audit, size of the audited company, complexity of the audited company and risk of the audited company. That means there are mixed evidences regarding the factors which affected to the external auditor's judgment to rely on internal auditors also.

2.3 Research Gap

In Sri Lankan context a practicing Associate Chartered Accountants (ACA) member in one of four Big firms concluded that consideration of the internal audit function is more important rather than relying on it. Throughout the literature also the researchers have come out with different levels of conclusions regarding the internal auditors' contribution to financial statement audits. Apart from that various researchers have found out different factors as the criteria to which external auditors had been used in order to evaluating internal auditors and their works. Some of the researches had concluded that "Independence" is not a critical factor when deciding whether to rely on the internal auditors while others considered it as a significant factor. The remaining factors such as the level of co-operation between the

internal auditors and external auditors, work performance, experience, due professional care, previous audit works & professional knowledge of the internal auditors, strength of the internal audit function and the firm specific factors such as size, complexity and risk etc. are also considered in different contexts by different researchers as the factors which may be affected to the external auditor's judgment to rely on internal auditors.

Therefore that seems to be mixed evidences regarding both the perceived level of internal auditors' contribution to financial statement audits and the factors which affected to the external auditor's judgment to rely on internal auditors in different contexts. Furthermore, as far as the researchers have observed throughout the literature there is a dearth of studies in Sri Lankan context regarding the underlined research area.

The next section explains the methodology adopted in the present study.

3. Methodology

This section discusses the research approach, population and sample, development of the questionnaire and the analytical strategies used in this study.

3.1 Research Approach

Quantitative Approach has been used as the research approach since it has examined the relationship between the key variables. Abdulrahman et al. (2004) and Zain, Subramanian & Stewart (2006) also have been used this approach in their studies.

3.2 Population and Sample

The population for this study is consisted all the external auditors who are working in Big, medium and small audit firms in Sri Lanka who have audited financial statements of clients with an internal audit function (in-house or outsourced or both). The sample size is 100 practicing-chartered accountants in Sri Lanka. Absence of a sample frame convenient sampling method has been selected from Big, medium and small audit firms in Sri Lanka.

3.3 Questionnaire development

A structured questionnaire (Appendix 1) developed based on the literature. According to the funnel approach, the sequence of the questions in the questionnaire arranged from general questions to more specific questions. To assess the applicability and relevance of the questionnaire to the local context, pretesting done by using the expert opinions of academics to obtain their feedback and revised the questionnaire. Thereafter, a pilot survey was conducted by colleagues of the researchers in order to receive further feedback on the length, readability and quality of the questionnaire. Finally, the questionnaire was fine-tuned, and hard copies of the questionnaire were distributed among all the professionals in the selected sample.

3.4 Analytical Strategies

3.4.1 Conceptual Diagram

Based on the above problem statement the following conceptual diagram (Figure 1. Conceptual Diagram) has been designed.

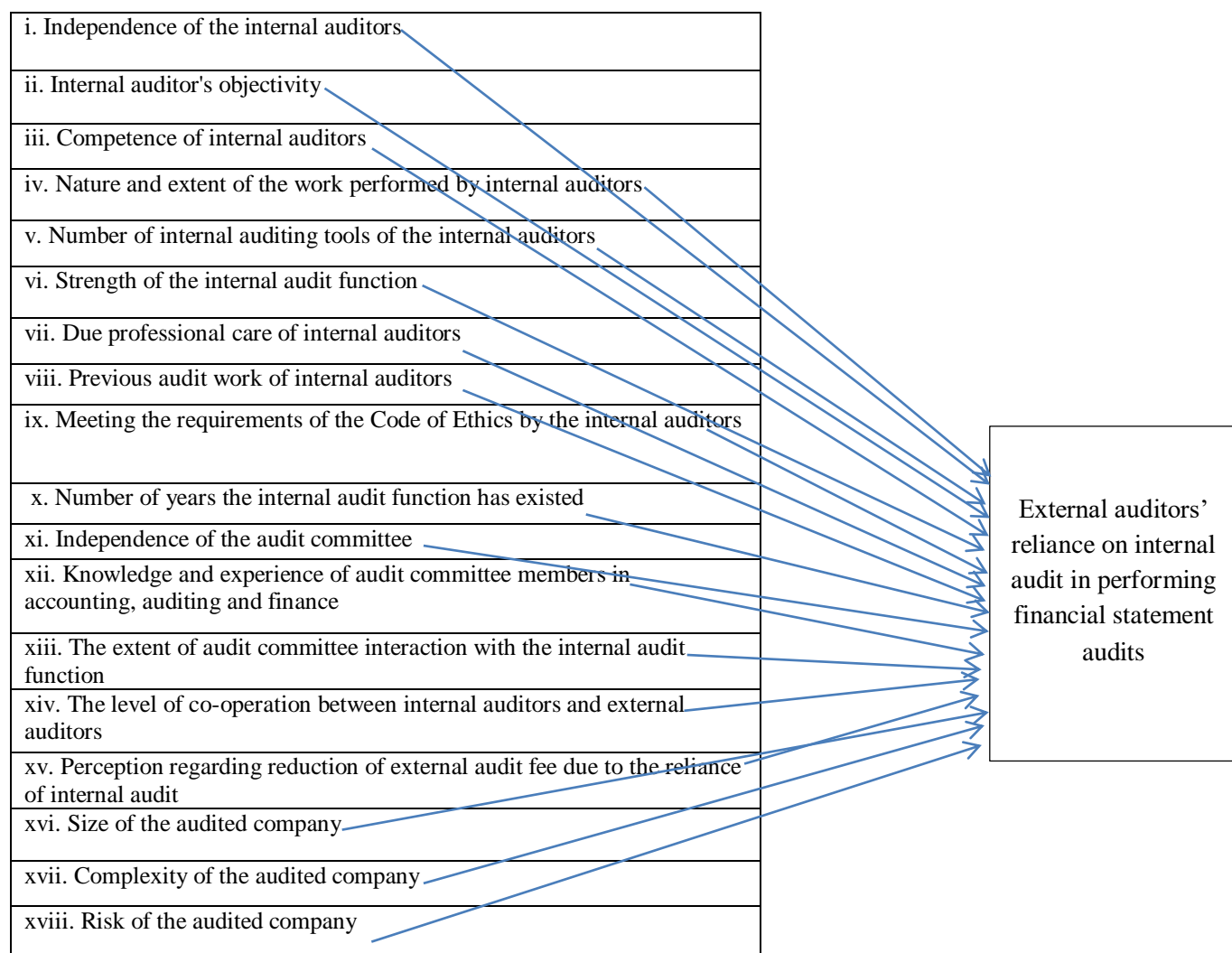


Figure 1: Conceptual Diagram
Source: Constructed by authors

3.4.3 Operationalization

The following Table 1 elaborates on the operationalization of the variables considered in this study.

Table 1. Operationalization of variables

Variable	Variable Measurements	Empirical Studies
Demographic variables		
1. Gender (<i>GNDR</i>)	Coded as '0' if the respondent is a male and 1 if 'female'	Weerasinghe and Ajward (2017)
2. Age level (<i>AGE</i>)	1-7 scale (1= respondent age is below 20 to 7= respondent age is above 71)	
3. Type of the Audit Firm (<i>FRMTPE</i>)	Coded as '1' if the firm size is Big, '2' if the firm size is medium and '3' if the firm size is small	Weerasinghe and Ajward (2017)

4. Current status (<i>CRNTSTTS</i>)	Coded as '1' if the respondent is an audit partner to '5' if the respondent is an audit supervisor	Weerasinghe and Ajward (2017)
5. Highest Academic Educational Level (<i>EDCNLVL</i>)	1=GCE A/L, 2=Certificate, 3=Diploma, 4=Bachelor of Degree, 5=Postgraduate Diploma, 6=Master Degree, 7=PhD, 8=Other	
6. Membership of Professional Bodies (<i>MBRSP</i>)	1=CA Sri Lanka Associate, 2=CIMA Associate, 3=CMA Associate, 4=ACCA Associate, 5=CA Sri Lanka Fellow, 6=CIMA Fellow, 7=CMA Fellow, 7=ACCA Fellow, 8=Other	
7. Other Professional Qualifications (<i>OTHRQLFCN</i>)	0=Not Applicable, 1=CIMA Foundation, 2=CMA Foundation, 3=ACCA Foundation, 4=CIMA Intermediate, 5=CMA Intermediate, 6=ACCA Intermediate, 7=CIMA Final, 8=CMA Final, 9=ACCA Final, 10=CIMA Passed Finalist, 11=CMA Passed Finalist, 12=ACCA Passed Finalist, 13=Other	
8. Tenure in Current Position (<i>TNR</i>)	1=Below 1 year, 2=Between 1 and 5 years, 3=Between 5 and 10 years, 4=Between 10 and 15 years, 5=Between 15 and 20 years, 6=Above 20 years	
Dependent variable		
9. External auditors' reliance on internal audit in performing financial statement audits (<i>IAREIA</i>)	1-5 scale (1 = External auditors have very low level of reliance on internal auditors to 5 = External auditors have very high level of reliance on internal auditors)	Haron et al. (2004)
Independent variables		
10. External auditors' assessment of internal audit contribution to financial statement work (<i>IACONTRB</i>)	1-5 scale (1 = internal audit did not perform any of the work required to complete the external audit to 5 = internal audit performed all the work required to complete the external audit)	Zain, Subramanian and Stewart (2006)
11. Independence of the internal auditors (<i>IAIND</i>)	A five-point scale ranging from a low score of 1(=Lowly Affect) to a high score of 5 (=Extremely Affect)	Abdulrahman et al. (2004)
12. Internal auditor's objectivity (<i>IAOBJ</i>)	A five-point scale ranging from a low score of 1(=Lowly Affect) to a high score of 5 (=Extremely Affect)	Haron et al. (2004)
13. Competence of internal auditors (<i>IACMP</i>)	A five-point scale ranging from a low score of 1(=Lowly Affect) to a high score of 5 (=Extremely Affect)	Haron et al. (2004)
14. Nature and extent of the work performed by internal auditors (<i>NEWRK</i>)	A five-point scale ranging from a low score of 1(=Lowly Affect) to a high score of 5 (=Extremely Affect)	Abdulrahman et al. (2004)
15. Number of internal auditing	A five-point scale ranging from a low	Munro and Stewart (2011)

tools of the internal auditors (<i>IATLS</i>)	score of 1(=Lowly Affect) to a high score of 5 (=Extremely Affect)	
16. Strength of the internal audit function (<i>IAFSTNGT</i>)	A five-point scale ranging from a low score of 1(=Lowly Affect) to a high score of 5 (=Extremely Affect)	Munro and Stewart (2011)
17. Due professional care of internal auditors (<i>IAPROF</i>)	A five-point scale ranging from a low score of 1(=Lowly Affect) to a high score of 5 (=Extremely Affect)	Edge, Lybrand and Farley (1991)
18. Previous experience of internal auditors (<i>IAPRVSWRK</i>)	A five-point scale ranging from a low score of 1(=Lowly Affect) to a high score of 5 (=Extremely Affect)	Zain, Subramanian and Stewart (2006)
19. Meeting the requirements of the Code of Ethics by the internal auditors (<i>CDOETCS</i>)	A five-point scale ranging from a low score of 1(=Lowly Affect) to a high score of 5 (=Extremely Affect)	Onza et al. (2015)
20. Number of years the internal audit function has existed (<i>NOYRS</i>)	A five-point scale ranging from a low score of 1(=Lowly Affect) to a high score of 5 (=Extremely Affect)	Onza et al. (2015)
21. Independence of the audit committee (<i>ACIND</i>)	A five-point scale ranging from a low score of 1(=Lowly Affect) to a high score of 5 (=Extremely Affect)	Alzeban and Sawan (2015)
22. Knowledge and experience of audit committee members in accounting, auditing and finance (<i>ACEXP</i>)	A five-point scale ranging from a low score of 1(=Lowly Affect) to a high score of 5 (=Extremely Affect)	Alzeban and Sawan (2015)
23. The extent of audit committee interaction with the internal audit function (<i>ACINTRN</i>)	A five-point scale ranging from a low score of 1(=Lowly Affect) to a high score of 5 (=Extremely Affect)	Alzeban and Sawan (2015)
24. The level of co-operation between internal auditors and external auditors (<i>COOPN</i>)	A five-point scale ranging from a low score of 1(=Lowly Affect) to a high score of 5 (=Extremely Affect)	Abdulrahman et al. (2004)
25. Perception regarding reduction of external audit fee due to the reliance of internal audit (<i>PCPNAF</i>)	A five-point scale ranging from a low score of 1(=Lowly Affect) to a high score of 5 (=Extremely Affect)	Stewart and Munro (2007)
26. Size of the audited company (<i>SZE</i>)	A five-point scale ranging from a low score of 1(=Lowly Affect) to a high score of 5 (=Extremely Affect)	Suwaidan and Quasim (2010)
27. Complexity of the audited company (<i>CMPLXT</i>)	A five-point scale ranging from a low score of 1(=Lowly Affect) to a high score of 5 (=Extremely Affect)	Suwaidan and Quasim (2010)
28. Risk of the audited company(<i>RSK</i>)	A five-point scale ranging from a low score of 1(=Lowly Affect) to a high score of 5 (=Extremely Affect)	Suwaidan and Quasim (2010)

Source: Author constructed

3.4.4 Data Analysis Strategies

Before starting the analysis, the data set was checked against the original questions to ensure whether all the items have been entered correctly and the appropriateness of numerical codes for the values for each variable under study. Further, screening & cleaning were performed in order to treating outliers & missing data. Under the analysis primarily frequency Analysis was used to examine the perceived level of internal auditors' contribution to financial statement audits. Thereby identified the mean value of perception among the top highest and bottom lowest means of the answers provided by the external auditors & used one sample *t*-test to identify the statistically significance among the mean value and the actual values given by the external auditors. Furthermore, the factors affect to the external auditors' judgment to rely on internal auditors have been identified throughout the literature review. Finally, Mean Ranking and Correlation were used to determine the significant factors affect to the external auditors' judgments to rely on internal auditors.

The resulting descriptive statistics and other results are shown in the following section.

4. Findings and discussion

This section analyses the demographic variables of the sample representation, identifies the perceived level of internal auditors' contribution to financial statement audits, significant factors affected to the external auditors' judgment to rely on internal auditors' works and statistical significance of the findings based on the selected demographic characteristics. These analyses were performed using the methodology outlined in Section 3 above.

4.1 Descriptive statistics and differences of perception of demographics

4.1.1 Descriptive statistics

This section describes the statistics of the analysis done using the data collected from the respondents to the questionnaire. The table 1 below summarizes the demographic variables of the respondents:

Table 1: Demographic variables

Demographics	Categories	N	%
Gender	Male	38	45.8%
	Female	45	54.2%
	Total	83	100.0%
Type of the audit firm	Big	37	44.6%
	Medium	9	10.8%
	Small	37	44.6%
	Total	83	100.0%
Current Status	Audit Partner	5	6%
	Audit Director	9	10.8%
	Qualified Manager/ Senior Audit Manager	14	16.9%
	Audit Manager	34	41.0%
	Other	21	25.3%
	Total	83	100.0%

Age Level	21 to 30	58	69.9%
	31 to 40	18	21.7%
	41 to 50	2	2.4%
	51 to 60	4	4.8%
	61 to 70	0	0.0%
	71 or above	1	1.2%
	Total	83	100.0%
Tenure in Current Position	Between 1 year	7	8.4%
	Between 1 and 5 year	66	79.5%
	Between 5 and 10 year	7	8.4%
	Between 11 and 15 year	1	1.2%
	Above 20 year	2	2.4%
	Total	83	100.0%

As shown above, 45.8% of the respondents were males and 54.2% females. In respect of the respondents were from Audit firms, 44.6% of whom were currently employed in the Big three audit firms (KPMG, EY or PWC). 10.8% of the respondents were employed in the Medium audit firms and 44.6% of whom were employed in Small audit firms. It should be highlighted that 6.0% of the respondents are currently servicing as an audit partner, 10.8% as an audit director, 16.9% as a qualified manager/ senior audit manager, 41.0% as an audit manager and 25.3% as assistant managers, supervisors and audit seniors. In terms of age level 69.9% respondents were between 21 to 30 years, 21.7% were between 31 to 40 years, 2.4% were in 41 to 50 years, 4.8% were between 51 to 60 years and 1.2% were between 71 or above range while there is not any respondent between 61 to 70 year ranges. In terms of the tenure in current position 8.4% were in 1 year, 79.5% were in between 1 and 5, 8.4% were in between 5 and 10 year, 1.2% were in between 11 and 15 year and 2.4% were in above 20 year. The above information shows that the sample is heterogeneous and having a diverse representation.

4.2 The perceived level of internal auditors' contribution to financial statement audits

Table 2 depicts the results of mean value analysis, which examines the perceived level of external auditors regarding internal auditors' contribution to financial statement audits together with the t-test results that show whether the perceptions of the external auditors differ statistically significantly between the respondents.

Table 2: Perceived Level of Contribution of Internal Auditors

Mean	Median	Std. Deviation	Mean Difference	Skewness	Kurtosis	Minimum	Maximum
3.4	3	0.628	3.4*	-0.866	1.304	1	4

The results implicitly suggest that there is a Mean of 3.4 which indicates a neutral response of external auditors regarding the reasonable contribution of internal auditors' to financial statement audits with a standard deviation of 0.628. The results of the *t*-test analysis indicated that there is a significant statistically difference ($p < .05$) among the perceptions of different respondents of external auditors. In addition to that the following Table 3 also depicts the detailed descriptive of the Frequency analysis of the responses regarding internal auditors' contribution to financial statement audits.

Table 3: Perceived Level of Contribution of Internal Auditors

	Frequency	Percent	Cumulative Percent
Highly Disagree	1	1.3	1.3
Disagree	3	3.8	5.0
Neutral	39	48.8	53.8
Agree	37	46.3	100.0
Total	80	100.0	

Based on the above results 39 respondents agreed upon Neutral response regarding internal auditors' contribution to financial statement audits. That means 48.8% from the total population has expressed a neutral response regarding the reasonableness of the internal auditor's contribution to financial audits while 46.3% agreed upon the reasonableness of the internal auditor's contribution to financial audits.

However based on the results of both Mean value analysis and Frequency analysis together with the results of One sample *t*-test analysis state that the perception of the majority was that the respondents neither agreed nor disagreed on the reasonable contribution of the internal auditor's when performing a financial statement audit. That means according to the perception of external auditors there is a moderate level of contribution of internal auditors in performing financial statement audits. This finding is consistent with the findings of Paul (1993) which concludes that generally, internal auditors will contribute on the clients' independent audits only up to a certain extent (Paul 1993).

4.2.1 Differences of perceptions of the perceived level of contribution of internal auditors' based on selected demographic characteristics

This section presents One sample *t*-test and One-way ANOVA results that examine the differences in perception of the external auditors regarding internal auditor's contribution to financial statement audits based on selected demographic characteristics. In the interests of parsimony, only differences that are statistically significant are reported in this research (i.e., gender, type of the firm, current status of the auditor).

Gender

Table 4 depicts the results of the *t*-test analysis, which examines whether male and female external auditors differ in their perceptions of the internal auditor's contribution to financial statement audits (between highly disagreed and highly agreed statements). The results of the analysis suggest that there is not a significant difference ($p > .05$) between the responses of the two genders to the statement.

Table 4: One sample *t*-test results based on gender

	Gender	N	Mean	Mean Difference
Perceived Level of Contribution of Internal Auditors	Male	38	3.34	-0.110
	Female	42	3.45	

$p < .05$

Type of the Firm

Results of the One-way ANOVA test, which was performed to identify statistically significant differences between respondents employed in main three types of audit firms (big, medium & small) are presented in Table 5. The results of the analysis indicate that there is not a significant difference ($p > .05$) between the external auditors based on the type of firm which they are employed to the statement.

Table 5: One-way ANOVA test results based on Type of the firm

(I) Type of the audit firm	(J) Type of the audit firm	Mean Difference (I-J)	Std. Error	Sig.	F - Statistic
Big	Medium	0.042	0.231	0.982	2.561
Medium	Small	-0.345	0.229	0.293	
Small	Big	0.303	0.146	0.103	

$p < .05$

Current Status

Statistically significant differences were tested for the perception changes based on the current status of the external auditors in their respective organizations using the One-way ANOVA test and the results were depicted in Table 6. It was noted that, there is not a significant difference ($p > .05$) between the external auditors in terms of the current status of the respondents in their organization to the statement.

Table 6: One-way ANOVA test results based on Current Status

(I) Current Status		Mean Difference (I-J)	Std. Error	Sig.	F - Statistic
Audit Partner	Audit Director	.600	.349	.428	0.119
	Qualified Manager/ Senior Audit Manager	.215	.329	.965	
	Audit Manager	.176	.300	.977	
	Other	.100	.313	.998	
Audit Director	Qualified Manager/ Senior Audit Manager	-.385	.271	.618	
	Audit Manager	-.424	.235	.379	
	Other	-.500	.251	.280	
Qualified Manager/ Senior Audit Manager	Audit Manager	-.040	.205	1.000	
	Other	-.115	.223	.985	
Audit Manager	Other	-.076	.177	.993	

$p < .05$

According the results of the t-test analysis of the perceived level of internal auditors' contribution to financial statement audits based on different demographic factors indicated that there is not any statistically significant difference among the respondents based on those demographic factors (i.e., gender, type of the firm, current status of the auditor).

4.2.2 Differences of perceptions of level of reliance on internal auditors based on selected demographic characteristics

This section presents the t-test and One-way ANOVA results that examine the differences in reliance of the external auditors on internal auditor's work in performing financial statement audits based on selected demographic characteristics. In the interests of parsimony, only differences that are statistically significant are reported in this research (i.e. gender, type of the firm, status of the auditor).

Gender

Table 7 depicts the results of the t-test analysis, which examines whether male and female external auditors differ in their reliance on internal auditor's work in performing financial statement audits (between extremely affected and lowly affected statements). The results of the analysis suggest that there is not a significant difference ($p > .05$) between the responses of the two genders to the statement. That is the perceived level of internal auditors' contribution to financial statements audits will not depend on the gender.

Table 7: One sample *t*-test results based on the Gender

	Gender	N	Mean	Mean Difference
Level of Reliance on Internal Auditors	Male	38	2.89	0.299
	Female	42	2.60	

$p < .05$

Current Status

Table 8 depicts the results of the t-test analysis, which examines whether the current status of the external auditors differ in their reliance on internal auditor's work in performing financial statement audits (between extremely affected and lowly affected statements). The results of the analysis suggest that there is no significant difference ($p > .05$) among the responses' current status to the statement.

Table 8: One sample *t*-test results based on the Current Status

(I) Current Status		Mean Difference (I-J)	Std. Error	Sig.	F-Statistic
Audit Partner	Audit Director	.244	.475	.986	0.385
	Qualified Manager/ Senior Audit Manager	.031	.448	1.000	
	Audit Manager	-.048	.409	1.000	
	Other	.200	.426	.990	
Audit Director	Qualified Manager/ Senior Audit Manager	-.214	.369	.978	

	Audit Manager	-.293	.320	.890
	Other	-.044	.342	1.000
Qualified Manager/ Senior Audit Manager	Audit Manager	-.079	.279	.999
	Other	.169	.303	.981
Audit Manager	Other	.248	.241	.841

$p < .05$

Type of the Firm

Results of the One-way ANOVA test, which was performed to identify statistically significant differences between respondents employed in main three types of audit firms (big, medium & small) are presented in Table 9. The results of the analysis indicate that there is a significant difference ($p < .05$) between the external auditors based on the type of firm which they are employed to the statement.

The results denoted that the external auditors' reliance on internal auditors' work is statistically significant different in terms of firm size between Big and small firms. That is based on the type of the audit firm (Big, medium, small), the perceived level of internal auditors' contribution to financial statements audits will be different.

Table 9: One-way ANOVA test results based on Type of the firm

(I) Type of the audit firm	(J) Type of the audit firm	Mean Difference			F- Statistic
		(I-J)	Std. Error	Sig.	
Big	Medium	0.454	.285	.255	9.437
Big	Small	0.785*	.181	.000	
Medium	Small	0.330	.283	.476	
Sig.					0.000

$p < .05$

4.3 Factors affect to the external auditors' Judgment to rely on internal audits

4.3.1 Mean ranking and one sample t-test

Regarding external auditors' judgment to rely on internal auditors, the Table 10 indicates the eleven factors out of the eighteen factors that were included in the questionnaire which the respondents have marked as the "highly affecting factors" for their judgment. The mean values derived were interpreted based on the Likert scale used for the questionnaire, i.e. 1 – Lowly affect, 2 – Moderately affect, 3 – Significantly affect, 4 – Highly affect and 5 – Extremely affect.

Table 10: Mean Ranking

Factor	N	Mean ^a	SD
i. Independence of internal auditors	80	4.40*	1.337
ii. Strength of internal audit function	80	4.37*	1.036
iii. Risk of the audited company	80	4.35*	0.956
iv. Knowledge and experience of audit committee members in accounting, auditing and finance	80	4.34*	1.006
v. Competence of internal auditors	80	4.30*	0.986

vi.	Nature and extent of the work performed by internal auditors	80	4.25*	0.879
vii.	Due professional care of internal auditors	80	4.15*	1.126
viii.	Independence of the audit committee	80	4.11*	1.212
ix.	Internal auditor's objectivity	80	4.05*	1.124
x.	Number of internal auditing tools of the internal auditors	80	4.05*	1.146
xi.	Meeting the requirements of the Code of Ethics by the internal auditors	80	4.04*	1.061
xii.	Interaction with internal audit function	80	3.96*	1.152
xiii.	Complexity of audited company	80	3.85*	1.080
xiv.	Level of co-operation between internal and external auditors	80	3.85*	1.080
xv.	Previous audit work of internal auditor	80	3.59*	1.155
xvi.	Size of the audited company	80	3.41*	1.209
xvii.	Number of years internal audit function has existed	80	3.36*	1.407
xviii.	Perception regarding reduction of audit fee due to reliance on internal auditor	80	3.09	1.193

^aBased on the one sample t-test performed, the significance of the difference between the test value of 3 and the mean values are also indicated, where ** $p < .01$ and * $p < .05$.

The mean values of the eighteen factors that affect to the external auditor's judgement to rely on internal auditors' work were spread between significantly affect and highly affect based on the Mean Ranking Method (Mean value 3.09 – 4.40). According to this analysis seventeen factors are significantly affect for the external auditors' reliance on internal audit works.

4.3.2 Correlation analysis

Table 11: Significant Factor

	Factor	Pearson Correlation Coefficient
i.	Independence of the internal auditors	0.219**
ii.	Internal auditor's objectivity	0.202**
iii.	Competence of internal auditors	0.158
iv.	Nature and extent of the work of internal auditors	0.159
v.	Number of auditing tools	0.119
vi.	Strength of internal audit function	0.159
vii.	Due professional care of internal auditors	0.082
viii.	Previous audit work of internal auditors	0.031
ix.	Meeting the requirements of the Code of Ethics by the internal auditors	0.097
x.	Number of years the internal audit function has existed	0.039
xi.	Independence of the audit committee	0.229*
xii.	Knowledge and experience of audit committee members in accounting, auditing and finance	0.167
xiii.	The extent of audit committee interaction with the internal audit function	0.199**
xiv.	The level of co-operation between internal auditors and external auditors	0.250*
xv.	Perception regarding reduction of external audit fee due to the reliance of internal audit	-0.015
xvi.	Size of the audited company	-.067
xvii.	Complexity of the audited company	0.012
xviii.	Risk of the audited company	0.179

^aBased on the correlation analysis performed, the significance of the factors are also indicated, where $**p < .01$ and $*p < .05$.

Based on the Correlation Analysis, only five factors have significant affect for the external auditors' judgement to rely on internal audit works.

In general to the Mean Ranking Method and the Correlation Analysis, five factors are significantly affect for determining the significant factors affect to the external auditors' judgment to rely on internal auditors. The most significant factors are the independence of the audit committee, the level of co-operation between internal auditors and external auditors, the independence of the internal auditors, the internal auditor's objectivity and the extent of audit committee interaction with the internal audit function.

The main factor highlighted by the respondents is the independence of audit committee (mean value of 4.11). When the internal auditors are independent from the audited company, internal controls can be maintained properly. The respondents believe that independence of audit committee will highly affect to the external auditors' judgement to rely on internal auditors.

The second most highlighted factor is the level of co-operation between internal and external auditors (mean value of 3.85). Level of co-operation will high when the external auditor has the access to internal audit works and has the capability to meet internal auditors when necessary.

4.4 Discussion

This section discusses the key findings of the analyses performed and highlights the consistency or inconsistency of the findings with the extant literature on this subject. This study examined the perceived level of internal auditor's contribution to financial statement audits and contributed to the literature by evaluating the factors affect to the external auditor's judgment to rely on internal auditors.

This first purpose of this study is to assess the perceived level of contribution of internal auditors to financial statement audits. It should be noted that perceptions of 80 respondents out of 100 sample are representing different demographic groups, i.e. gender, age, academic qualification, professional qualification, audit firms, status and number of years of experience have tested for examine the perceived level of contribution of internal auditors. The results have signified that a neutral response regarding the reasonable contribution of internal auditors to financial statement audits with a mean value of 3.4 standard deviation of 0.628. Furthermore, those results indicate the median response of 3 (Neutral) between the range of minimum (1-Highly disagree) and the maximum (4-Agree) based on the responses given by the external auditors. As observed by the researchers, Paul (1993) has concluded that generally, auditors will rely on the clients' internal auditors only up to a certain extent. Reinstein, Lander & Gavin (1994) has founded throughout their study that given recent increase in the structure of the internal audit profession and the need for external auditors to control audit cost and time, the external auditors have more tended to rely on internal auditors' work. Conversely, there are mixed and contradictory evidences observed by the researchers and based on the analysis performed it was identified a neutral response regarding the reasonable contribution of internal auditors to financial statement audits. Moreover, significance differences were not found among those demographic groups.

Subsequent to the mean ranking and correlation analyses performed, the study identified most and least significant factors affect to the external auditors' judgment to rely on internal audits in the Sri Lankan context. Various factors are ranked in Table 10 according to mean ranking method and the seventeen

factors were identified out of the eighteen factors that were included in the questionnaire which the respondents have marked as the “highly affecting factors” for their judgment. Respondents held their primary consideration regarding internal auditors, internal audit function and characteristics of the internal audit function. Based on the mean ranking method, the most highlighted factors in this table are independence of internal auditors, strength of internal audit function, risk of the audited company, knowledge and experience of audit committee members in accounting and auditing and finance, competence of internal auditors denoting above 4.3 mean value. Moreover, these finding relating to findings of previous researcher have done. The variability of the weightings may also be caused by the fact that the competence, objectivity and work attributes are overlapping in meaning (William, Messier & Schneider 1981). That means the presence of specific characteristics (independence of the audit committee, expertise of audit committee members, and number of meetings and size of audit committee etc.) influence the perceptions of implementation of internal audit recommendations (Alzeban & Sawan 2015).

Furthermore, Allegrini et al. (2015) argues that if internal auditor has accepted characteristics, independent auditor may rely on them using those characteristics. Internal auditors are usually required to comply with the principles of integrity, objectivity, confidentiality and competency as defined by the Code of Ethics by the internal auditors in order to preserve the credibility of the individuals who perform internal auditing activities. Abdulrahman et al. (2004) have concluded that internal auditors considered the co-operation between internal and external audits to be limited, although external auditors were rather more positive as to the extent of co-operation in circumstances where the internal audit department was perceived as being professional in its work. Edge et al. (1991) have examined that the relative importance of factors used by external auditor when valuing the internal audit function and examined the consistency of external auditor in making evaluation of internal audit function by using 184 external auditors in Australia. This study found out three factors to be most significant are technical competence, previous audit work & due professional care.

Conversely respondents of the study have lower mean value than 3.6 for the certain factors i.e. previous audit work of internal auditor, size of the audited company, number of years internal audit function has existed, perception regarding reduction of audit fee due to reliance on internal auditor. Based on one sample *t*-test performed the perception regarding reduction of audit fee due to reliance on internal auditor was not a significant factor. Moreover, Abdulrahman et al. (2004) further found that a reduction in the external audit fee is only likely if the external auditor relied heavily on the internal auditor’s work. It founds with contradictory mixed evidences that external audit managers were more likely to rely on internal audit when the client emphasized the need for a lower audit fee, even when the internal audit department was of low-to-moderate quality. Based on results of the present study emphasized that the least mean perception regarding reduction of audit fee due to reliance on internal auditor when there is a moderate level of reliance. However, the mean values of the eighteen factors that affect to the external auditor’s judgement to rely on internal auditors’ work were spread between significantly affect and highly affect (mean value 3.09 – 4.40). This means the mean ranking method of present study has provided evidences to emphasize the importance of above mentioned factors that affect to the external auditor’s judgement to rely on internal auditors’ work is not limiting by prior literature.

Further, based on the one sample *t*-test performed to identify the significance factors that affect to the external auditors’ judgment according to the significance of the difference between the test values of 3.

The analysis has denoted independence of the audit committee and level of co-operation between internal and external auditors are the significant factors when $p < .05$ and internal auditor's objectivity, interaction with internal audit function and independence of internal auditors are significant when $p < .01$. When the internal auditors are independent from the audited company, internal controls can be maintained properly. Correspondingly level of co-operation will high when the external auditor has the access to internal audit works and has the capability to meet internal auditors when necessary. The respondents believe that independence of audit committee and level of co-operation will highly affect to the external auditors' judgement to rely on internal auditors.

Furthermore, performing t -test and one-way ANOVA, the researchers of the study have examined the differences in reliance of the external auditors on internal auditor's work in performing financial statement audits based on selected demographic characteristics. However, the researchers have observed that there is not a significant difference ($p > .05$) between the responses of the two genders groups and their current status to the statement except size of the audit firms. Accordingly, the results denoted that the external auditors' reliance on internal auditors' work is statistically significant different in terms of firm size between Big and small firms. This finding has not been highlighted in previous studies of the subject.

Next section of the study provides a summary of the study, findings, conclusions, limitations and future research directions.

5. Conclusion

In the recent business environment, business operations are became as complex. Therefore the management already needs to ensure that proper internal control systems within the organization have been established and the function of internal audit has introduced to satisfy such management requirements. Efficient, effective & economical internal audit function may convenient the tasks of external auditors. Studies done on this research area state that external auditors' reliance depends on the characteristics of internal auditors but there is a dearth of empirical studies to identify these issues in the context of Sri Lanka. This research examines the external auditors' agreement about internal auditors' contribution in performing financial statement audits using one to five Likert scales and their level of reliance based on eighteen characteristics identified based on literature relevant to internal auditors, internal audit function and specific characteristics of the audited company. This study further examines the effect of respondents' demographics on the perceived level of contribution. Accordingly, in order to achieve the main objectives of examining the perceived level of contribution of internal auditors to the financial statements audits and determine the significance factors affect to rely on internal auditors, a structured questionnaire was developed based on a comprehensive literature review and refined with expert opinion. Eighty three usable questionnaires were secured out of hundred sample.

Initially frequency analysis was done to determine the perceived level of contribution of internal auditors in performing financial statements audits. As per the obtained mean, it was suggested that neutral response regarding the reasonable contribution in performing financial statements audits. Further frequency analysis was done to examine the effect on respondents' demographics on the perceived level of contribution. As per the t -test analysis, there was no significance difference in male and female regarding the external auditors' perception. Moreover one way ANOVA test was indicated that there is

not a significant difference among the respondents according to the size of the audit firm. Another one way ANOVA test was done for the current status of the respondents. It was also indicated that respondents had not significantly difference according to their current status.

Subsequently, descriptive analysis was performed to determine the significant factors affect to reliance on internal auditors and all the mean results obtained were almost close to three. Therefore one sample *t*-test was done to determine whether the mean responses of each independent variable are statistically significance from three. It was suggested that except perception regarding reduction of external audit fee due to the reliance of internal audit, all other independent variables are significant to obtain moderate reliance on internal auditors' work in performing financial statements audits. Further correlation analysis was performed to determine the significance factors which affect to rely on internal auditors. At the level of 5% significance, independence of the audit committee and the level of corporation of internal and external auditors were the significance factors which affect to rely on internal auditors.

A limitation of this study is that the sampling area of the study was limited to 100 external auditors representing all the auditors in Sri Lanka. However, the study was based on the perception of the external auditors who are currently employing in different scales of firms such as Big, medium and small within different demographic environments. For future researches it is suggested that there may be another factors that affect the external auditors' reliance on internal auditors beyond the factors discussed in present study and larger sample to be obtained.

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Appendix 1

Questionnaire

EXTERNAL AUDITORS' JUDGMENT TO RELY ON INTERNAL AUDITORS: EVIDENCE FROM SRI LANKA

Dear Practicing Chartered Accountants,

What are we doing?

We are conducting a research to assess the level of contribution of internal auditors to financial statement audits and the factors affect to the external auditors judgment to rely on internal auditors.

Who are we?

We are a team of Final Year Students from Department of Accounting, University of Sri Jayewardenepura (Team Leader – P.G.P.N. Chandralal, 071-5407983)

Purpose of the survey

The main purpose of this study is examining the level of contribution of internal auditors' to financial statements audits and determining the significant factors affect to external auditors' judgment to rely on internal auditors.

Who should participate in this survey?

This questionnaire is to be filled by the Chartered Accountants who are working as external auditors in Big, medium and small audit firms in Sri Lanka who have audited financial statements of clients with an internal audit function (in-house or outsourced or both).

With much respect, we invite you to participate in our research carried out for this purpose. Your participation in this survey is completely voluntary and anonymous and confidentiality will be ensured. It is much appreciated if you allocate few minutes of your precious time to complete the questionnaire attached herewith.

PART I. General Information

Please indicate your response by placing a tick “√”

1. Your Gender : Male ☐ Female ☐

2. Your Age level (in years) :

i. Below 20 ☐

ii. 21 to 30 ☐

iii. 31 to 40 ☐

iv. 41 to 50 ☐

v. 51 to 60 ☐

vi. 61 to 70 ☐

vii. 71 or above ☐

3. Please indicate the size that your organization is engaging in:

- | | |
|-------------------------------|--------------------------|
| i. KPMG, EY, PwC | <input type="checkbox"/> |
| ii. BDO Partners, BR De Silva | <input type="checkbox"/> |
| iii. Others | <input type="checkbox"/> |

4. Your Current Status at the audit firm

- | | |
|---|--------------------------|
| i. Audit Partner | <input type="checkbox"/> |
| ii. Audit Director | <input type="checkbox"/> |
| iii. Qualified Manager / Senior Audit Manager | <input type="checkbox"/> |
| iv. Audit Manager | <input type="checkbox"/> |
| v. Other, (please specify): | |

5. Please indicate your Highest Academic Educational Level:

- | | | | |
|------------------------|--------------------------|--------------------------------------|--------------------------|
| i. GCE A/L | <input type="checkbox"/> | v. Postgraduate Diploma | <input type="checkbox"/> |
| ii. Certificate | <input type="checkbox"/> | vi. Master Degree | <input type="checkbox"/> |
| iii. Diploma | <input type="checkbox"/> | vii. PhD | <input type="checkbox"/> |
| iv. Bachelor of Degree | <input type="checkbox"/> | viii. Other, (please specify): | |

6. Please indicate whether you are a member of following professional bodies:

- | | Associate | Fellow |
|---------------------------------|--------------------------|--------------------------|
| • CA Sri Lanka | <input type="checkbox"/> | <input type="checkbox"/> |
| • CIMA | <input type="checkbox"/> | <input type="checkbox"/> |
| • CMA | <input type="checkbox"/> | <input type="checkbox"/> |
| • ACCA | <input type="checkbox"/> | <input type="checkbox"/> |
| If other please specify: | | |
| • | <input type="checkbox"/> | <input type="checkbox"/> |
| • | <input type="checkbox"/> | <input type="checkbox"/> |

7. If you are not a member, please indicate your professional qualifications in the following table:

Professional Course	Level			
	Foundation	Intermediate	Final	Passed Finalist
CA Sri Lanka				
CIMA				
CMA				
ACCA				
Other				
If other please specify:				

8. Please indicate your tenure in the current position:

- | | | | |
|-----------------------------|--------------------------|-----------------------------|--------------------------|
| i. Below 1 year | <input type="checkbox"/> | iv. Between 10 and 15 years | <input type="checkbox"/> |
| ii. Between 1 and 5 years | <input type="checkbox"/> | v. Between 15 and 20 years | <input type="checkbox"/> |
| iii. Between 5 and 10 years | <input type="checkbox"/> | vi. Above 20 years | <input type="checkbox"/> |

PART II. External auditors' judgment to rely on internal auditors

Please indicate your preference by placing a tick "✓" on the given scale.

9. As an external auditor, what is the level of reliance you place on internal auditors work in performing financial statement audits?

I Do Not Rely	I rely ...				
	1. Very low	2. Low	3. Moderate	4. High	5. Very high



If you select 'I do not rely', please end answering this questionnaire. Thank you for your contribution!

10. Do you agree that the internal auditors provide a reasonable contribution in performing financial statement audits?

- | | |
|--------------------|--------------------------|
| 1. Highly Disagree | <input type="checkbox"/> |
| 2. Disagree | <input type="checkbox"/> |
| 3. Neutral | <input type="checkbox"/> |
| 4. Agree | <input type="checkbox"/> |
| 5. Highly Agree | <input type="checkbox"/> |

11. To what *extent* the following factors affect your reliance on internal auditor's work in performing financial statement audits.

	1. Do Not Affect	2. Lowly Affect	3. Moderately Affect	4. Significantly Affect	5. Highly Affect	6. Extremely Affect
i. Independence of the internal auditors						
ii. Internal auditor's objectivity						
iii. Competence of internal auditors						
iv. Nature and extent of the work performed by internal auditors						
v. Number of internal auditing tools of the internal auditors						
vi. Strength of the internal audit function						
vii. Due professional care of internal auditors						
viii. Previous audit work of internal auditors						
ix. Meeting the requirements of the Code of Ethics by the internal auditors						
x. Number of years the internal audit function has existed						
xi. Independence of the audit committee						
xii. Knowledge and experience of audit committee members in accounting, auditing and finance						
xiii. The extent of audit committee interaction with the internal audit function						
xiv. The level of co-operation between internal auditors and external auditors						
xv. Perception regarding reduction of external audit fee due to the reliance of internal audit						
xvi. Size of the audited company						
xvii. Complexity of the audited company						
xviii. Risk of the audited company						

Thank you for your valuable participation!