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The Effect of The Internal Auditor Incentive on The Disclosure Of financial Information In Jordanian Industrial Companies

Nawaf Samah Mohammad Thuneibat*
Faculty of Business, Mutah University, Street، Mu'tah 61710, Jordan

Corresponding Author
Nawaf Samah Mohammad Thuneibat

Abstract: The objective of the study is to investigate the relationship between internal auditor incentive and disclosure of financial information in Jordanian industrial companies. The quantitative research design was used in the study by (51) self-administrative questionnaire distributed to CEO in in Jordanian industrial companies, the data were analyzed by (SPSS 21) software. The results of the study showed there is a positive relationship between the internal auditor's incentives and the disclosure of financial information and there is a clear problem of the credibility of disclosure in the Jordanian industrial companies, where some financial information is hidden from outside parties for special reasons. According to the result of the study the researchers recommend that the Jordanian industrial companies pay attention to the incentives of the internal auditor and this study recommend the future researchers to focus on the all Jordanian companies. in addition recommend the future researchers to focus will be on examining the corporate governance policies as a moderating variable between internal auditing and disclosure credibility that will strengthen the relationship between them.
Keywords: Internal auditor incentive, disclosure of financial information, Jordanian industrial companies.

INTRODUCTION

This study investigates the effect of the internal auditor incentive on the disclosure of financial information in Jordanian industrial companies. The basic question to be addressed in this study is there an impact of internal audit incentives on disclosing company wrongdoing or frau?. Where the reliability of financial information is always a legitimate concern in financial reporting. Also highly publicized audit failures lead to close examination of the role and behavior of auditors.

One duty of internal auditors is to an independent, objective assurance activity for organizations. As a result, internal auditors may often face conflicts of interests when the management behavior or goal is not in line with the standards established by the profession. One situation where internal auditors face such conflicts of interest is when they find that certain information on financial statements is wrong or fraudulent and that their supervisors knew it.

One of the problems that the internal auditor may face is the incentives where the auditor can be pressed. Where the issues have been raised about the effect of significant monetary rewards or long-term employment contract as an incentive for reporting organizational wrongdoing to mitigate the negative consequences of retaliation on the whistle-blower [1].

Problem of the study

Through previous studies and review of annual financial reports, the researcher found that there is concealment of some financial information or manipulation of some figures for personal purposes, Leading to investment decisions that result in financial losses for investors [2].

Questions of the study

This study will answer the following question

Does internal auditor incentive has any relationship to disclosure of financial information?

Objective of the study

According to the main question of the study, this study will achieve the following main objective:

To investigate the relationship between internal auditor incentive and disclosure of financial information

Significance of the study

This research comes in the light of the developments witnessed by the financial reports in improve the mechanism of investment and trying to making the right investment decisions. Therefore, This study can help internal auditors to improve their performance and increase their credibility also can help companies to disclose the correct and complete by others. This study will help researchers in the future to cover the theoretical framework.

Hypothesis of the study

Through previous studies we can assume the following

H: There is a positive relationship between the internal auditor's incentives and the disclosure of financial information.

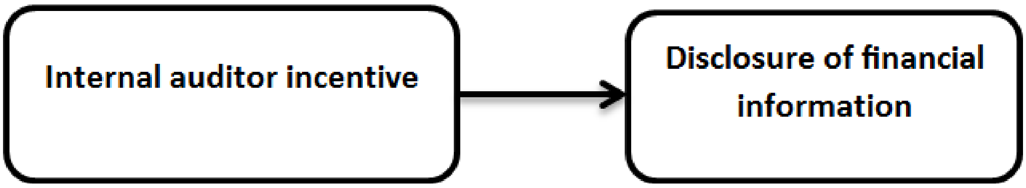

Fig-1: Framework

LITERATURE REVIEW

Internal auditor incentive

The recent highly publicized accounting and corporate governance failures in the United States and other countries have underscored the importance of the role of internal auditors. For example, the value that internal auditors add to the financial reporting oversight process was demonstrated in the WorldCom debacle. Although there are some debates regarding the nature of them essagessent by internal auditors as whistle-blowers [3], the role of internal auditors in detecting fraud and promoting compliance is unquestionably more critical than before.

The internal audit is'an independent, objective assurance and consulting activity designed to add value and improve an organization's operation. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes' [4].

An internal audit is generally considered to be vone component of a sophisticated control system [5] that is designed to address agency problems. An internal auditis expected to provide both assurance and advisory vservices [4] and serve as a valuable resource for parties that are responsible for monitoring, maintaining, and enhancing the overall corporate governance [6]. The importance of internal audit has been demonstrated in several prior studies. For example, an effective internal audit enhances the quality of internal controls for financial reporting [7], constrains earnings management [8, 9], and prevents fraud [10]. A weak IAF represents a weak internal control environment and is an indicator of financial reporting irregularities [11]. In addition, prior studies that investigate the relationship between internal audits and external audits reveal that an internal audit can be a determinant of external audit fees [12] and that a high quality internal audit is associated with a shorter external audit delay [13].

Disclosure of financial information

Disclosing information related in the corporate annual report comes with a cost. Williams [14] argues that disclosure could affect the competitive advantage of a company by providing signs to competitors of possible value creating opportunities. According to Vergauwen and Alem [15], companies might be at a competitive disadvantage when they disclose sensitive information to outside investors. However, from the literature, it could be said that disclosure has many advantages to a company, investors and the capital market as a whole.

Where Improving the external reporting has closed the gap between book value and market value. According to Sveiby [16], the primary generator of share price value in modern knowledge based organizations, and, especially, as an important part of the share value excess over book value or the accounting valuation of the tangible assets.

Therefore, IC disclosure reduces the gap between the book value and market value that has resolved in some intangibles, such as customer loyalty or employee competences, which can not be considered "assets", to be recognized in the financial statement, and, Also, because, occasionally, some intangibles are assigned a lower value on the balance sheet than those recognized market value. Therefore, IC disclosure acts as a defense against distortion of GAAP-related financial calculations [17].

Also the disclosure provides information concerning the real value and future performance of a company. Therefore, disclosure increases the value of the relevance of the financial statements and it is considered as relevant information for investors and users [18, 19]. According to April *et al.*, [20], De Pablos [21] and Rodgers [22], companies have a competitive advantage when they measure, report and manage their IC effectively because they have identified all the assets (tangible and intangible) that create the company value. Therefore, failure to provide relevant information may lead to a deterioration of the companies' financial position and a loss of competitiveness in the long run [23].

Reporting provides companies with the opportunity to take advantage of increased transparency to capital markets, establishing trustworthiness with stakeholders and is a valuable marketing tool, thereby enhancing an organization's reputation [24]. According to Toms [25], also a number of academic studies [26] have called for firms to disclose more information. These studies argue that information is a key factor in the process of valuing firms by investors.

METHODOLOGY

The study used the descriptive method in data analysis, which is based on the analysis, study and expression of phenomena in a digital manner. The questionnaire was developed by previous studies [27, 28] to collect data that serve the hypotheses and objectives of the research and have been presented to CEO in Jordanian industrial companies and make the necessary adjustments. The questionnaire consisted of two main parts:

The first part: the demographic information collected by the respondents and consisted of 4 paragraphs.

Second part: 14 paragraphs that measure The effect of the internal auditor incentive on the disclosure of financial information.

The Likert pentagram (strongly agree, agree, neutral, disagree, strongly disagree) was adopted to determine the degree of approval for each paragraph of the questionnaire.

The reliability of the questions on the effect of the internal auditor incentive on the disclosure of financial information and the second part of the questionnaire, consisting of 14 questions, were tested using the Cronbach's Alpha test. The test result was 84%, which exceeded the accepted 60% Stability and consistency of the questionnaire questions.

Sampling of the study

The research sampling consists of the CEO in the Jordanian industrial companies consisting of (57) companies units. The questionnaire was distributed to the CEO in the Jordanian industrial companies. The sample of the target managers was retrieved (51), 48 of which were valid for analysis.

THE RESULTS

The number of correspondents for each variable was 48, is disclosed that the respondents have answered all questions relating the variables. The standard value for internal auditor incentive was 74.4%, demonstrating that the respondents consider that internal auditor incentive has an effect on disclosure of financial information in Jordanian industrial companies, the average value of the independent variable ranged from 70% to 84%, which means that the participants assume that an internal auditor incentive has an important the disclosure of financial information in Jordanian industrial companies. The standard deviation for all variables was comparatively low, which show that the respondents "answers are reliable and close to each other.

Table-1: Descriptive Statistics for Study Variables

	N	Minimum	Maximum	Maximum	Std. Deviation
internal auditor incentive	48	.63	1.00	.8231	.07445

Regression Analysis, linear regression estimates the coefficients of the linear equation connecting one or more independent variable that best expect the value of the dependent variable. Regression Analysis for Model one examines the influence of independent variable on disclosure of financial information in Jordanian industrial companies with no model variable as shown in Table-2.

Table-2: Regression Results *DA=a+B1 Independ+B2 Efficiency+E (*Model Summary*)*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.821a	.689	.645	.01099	2.124

a.Predictors internal auditor incentive

b. Variable: disclosure of financial information

Table-3: Coefficientsa

Model	Unstandardized Coefficient B	Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	VIF
One internal auditor incentive	.041	.018	.123	2.461	.131	.754	1.423

a.D ependent Variable : disclosure of financial information

Based on the above tables we can conclude the following:

Durbin-Watson statistic which was 2.12 indicates that there is no serial correlation autocorrelation in the dependent variable since it is so close to the optimal value (2).

F-statistic and it's significant denote the goodness of fit. In another word, f-statistic indicates that the model is correctly specified to reflect the effect of independent variables on the dependent variable.

Lastly, variance inflation factor (VIF) was very low for independent variables, showing the lack of multi colinearity problem.

Furthermore, to eliminate insignificant variables that may influence the results pessimistically, we use stepwise regression analysis. Stepwise regression is a method selection option that gives specifying how independent variables are entered into the analysis. According to this method, stepwise variable entry and removal observes the variables in the block at every step for entry or elimination. At every step, the independent variable not in the equation which has the least probability of F is entered, if that probability is sufficient small. Variables already in the regression equation are removed if their chance of F becomes exceptionally large. The method ceases when no more variables are qualified for addition or removal.

Results of Hypothesis Testing

Based on the above discussion, we can summarize the results of hypotheses testing as shown in Table-5.

Table-4: Results of Hypotheses Testing

NO	Hypothesis	Result
1	There is a positive relationship between the internal auditor's incentives and the disclosure of financial information.	Accept

Table-5: ANOVAb

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.024	9	.003	23.639	.000a
Residual	.007	76	.000		
Total	.031	85			

a. Predictors: internal auditor incentive

b. Dependent Variable: disclosure of financial information

CONCLUSIONS

After analyzing the data that has been exploited and summarized, the most prominent hobbies reached here are:

- There is a positive relationship between the internal auditor's incentives and the disclosure of financial information.
- There is a clear problem of the credibility of disclosure in the Jordanian industrial companies, where some financial information is hidden from outside parties for special reasons.
- There is little in the studies related to the internal auditor's incentives with disclosure and almost to be almost non-existent.

RECOMMENDATIONS

Based on search results for search results in this topic:

- The researcher recommends that the Jordanian industrial companies pay attention to the incentives of the internal auditor.
- This study recommend the future researchers to focus will be on examining the corporate governance policies as a moderating variable between internal auditing and disclosure credibility that will strengthen the relationship between them.
- This study recommend the future researchers to focus on the all Jordanian companies.

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