THE PERFORMANCE OF AUDIT COMMITTEES IN JORDANIAN PUBLIC LISTED COMPANIES

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Abstract

This study aimed to explore the degree to which audit committees in Jordanian public listed companies possess the necessary characteristics needed to enable them to perform their duties, and the level of their actual performance of these duties. To do so, the study used a questionnaire survey of the views of external auditors with experience in auditing Jordanian public listed companies. The main findings of the study show that audit committees do possess the necessary characteristics needed, but only to a limited extent. In addition, their performance of their duties was also to a limited extent. The study concluded that these findings can be attributed to the family business model dominant in most Jordanian companies, where the demand for effective audit committees is considered low due to limited agency costs involved.

Keywords: Jordan; Audit Committees; Corporate Governance; Public Listed Companies; Agency Costs; Performance

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1. Introduction

Audit committees are an important tool of corporate governance. Their perceived importance has been witnessed by their inclusion and increased roles given to them in numerous international regulations related to corporate governance. The importance of the effectiveness of audit committees has increased in the wake of the financial scandals that occurred in the last two decades, and culminated in the enactment of regulations in developed countries (such as the Sarbanes-Oxley Act in the USA) that dealt with corporate governance issues, including audit committees.

The trend towards regulating corporate governance has witnessed an increase in developing countries as well as in developed countries, in an attempt to reduce the chances of financial scandals and company failures, given the negative consequences such events have on the national economies of developing countries. According to Shehata (2015), Jordan was an early reformer in terms of adopting corporate governance regulations in the Middle East and North Africa region. However, Jordan tended to adopt corporate governance regulations that are generally very similar to those adopted by developed countries, while the nature of corporate governance systems in its companies is very different. This is due to the Jordanian companies being significantly smaller than those in developed countries, and the majority of them being closely-held family businesses. It is known that in family businesses, agency costs between owners and managers are generally low, due to the overlap and relations between owners and managers (Songini and Gnan, 2015). This arguably affects the level of demand for effective corporate governance mechanisms, including audit committees (see Abdullatif and Al-Khadash, 2010).

Therefore, this study covers the performance of audit committees in practice in the context of a developing country, Jordan, one of the earlier countries in its region to adopt audit committees in its instructions to public listed companies. However, as Jordanian public listed companies are in most cases closely-held and in many cases family businesses, the demand for effective audit committees may be limited due to low agency costs between owners and managers. Therefore, this study aims to cover the actual practice of audit committees in Jordan when performing their duties, in order to assess the level of their effectiveness and relate it to the nature of Jordanian businesses and their corporate governance systems. The study covers the characteristics and duties of audit committees in detail, and aims to answer the following questions:

– To what extent do audit committees in Jordanian public listed companies possess the necessary characteristics that enable them to perform their duties effectively?
– To what extent do audit committees in Jordanian public listed companies perform their duties regarding financial reporting,

general controls, dealing with internal auditors, and dealing with external auditors?

The remainder of this study is organised as follows. First, literature on audit committees is reviewed (including an analysis of the status of audit committees in Jordan). Second, the research design is discussed. This is followed by presenting the research findings, and the study conclusions and implications for practice.

2. Literature review

2.1. Audit committees and their roles

An audit committee is a corporate governance mechanism that started to appear significantly in the USA and Canada in the 1970s (Porter et al., 2014). Several definitions were given for an audit committee. For example, Rezaee (2009, p. 119) defines it as "a standing committee of the company's board of directors to act as a liaison between management and the external auditor". Verschoor (2008, p. 228) defines an audit committee as "A standing committee of the board of directors organized under the by-laws of the corporation. Duties of the committee are prescribed by statute, regulation, and best business practice. They involve oversight of financial reporting, auditing, ethics and compliance, and risk management processes". Arens et al. (2014, p. 135) define an audit committee as "a selected number of members of a company's board of directors whose responsibilities include helping auditors remain independent of management". Most audit committees consist of members of the board of directors who are not members of the company's executive management (Arens et al., 2014).

From these definitions, it can be concluded that an audit committee is a corporate governance tool that uses non-executive directors as a means of control and oversight over several managerial roles such as internal auditing, risk management, compliance, and financial reporting, and that this role includes intervention when a conflict occurs between executive management and the external auditor over financial reporting matters. For an audit committee to effectively operate and achieve its goals, it members have to be independent from the executive management, have financial knowledge, and meet frequently under a well-defined agenda (Rezaee, 2009). Several regulations enacted around the world included issues related to audit committees. Such regulations include the Sarbanes-Oxley Act in the USA, and the Cadbury Report in the UK.

Roles of the audit committee regarding the internal control process include oversight of the reliability of the financial reporting, the effectiveness and efficiency of operations, and the compliance with laws and regulations. This includes understanding the processes of establishing and maintaining sufficient and effective internal controls, assessing the internal control operation and evaluating any weaknesses in it, understanding the documentation of compliance, and reviewing management and auditor reports regarding the effectiveness of internal control (Rezaee, 2009). In particular for financial reporting, the audit committee can improve the quality of financial information through oversight of the financial reporting process (Bedard and Gendron, 2010), including reviewing annual and interim statements and the main accounting principles and estimates used in preparing them (Rezaee, 2009). As for the role of audit committees in oversight on the internal auditing function, this includes overseeing the internal audit plan and its resources and its status in the organisation, and assessing the quality and effectiveness of the internal audit function in fulfilling its duties (Verschoor, 2008). Roles of the audit committee related to external auditing include (based on the Sarbanes-Oxley Act) appointing the external auditor and oversight on the audit firms' work, including preapproval of any services to be provided by the audit firm, and resolving any financial reporting disagreements between the external auditor and the company's management (Arens et al., 2014).

2.2. Audit committees in Jordan

While there are thousands of companies of different types and legal formations operating in Jordan, audit committees are legally associated with public listed companies. According to the Amman Stock Exchange (ASE) website (accessed on 23/6/2015) there are 236 companies publicly listed on the ASE. These companies belong to different business sectors including financial services, other services, manufacturing, and real estate. According to their financial strength, they are classified into three different levels of listing. Since 1998, Jordanian public listed companies have been required to prepare their financial statements using International Financial Reporting Standards (IFRS), and get them externally audited under International Standards on Auditing. The Big Four audit firms, in addition to many other firms with or without international affiliations, are involved in auditing the financial statements of Jordanian public listed companies.

Audit committees were first introduced into the Jordanian legislation in 1998, when the Jordan Securities Commission (JSC) instructions (JSC, 1998) required public listed companies to establish audit committees that consist of three non-executive members of the board of directors. These committees were to meet at least four times annually, and were responsible for discussing the work of external and internal auditors and the annual and interim financial statements, and compliance with the required laws and regulations. Updated legislation with some more details was enacted in 2004 (JSC, 2004), but these instructions did not add any new responsibilities for audit committees (Abdullatif, 2006).

In 2009, the JSC issued a code of corporate governance for public listed companies. This code (JSC, 2009) added more details regarding audit committees, including the requirement of financial knowledge for all audit committee members (and financial expertise of at least one member in accounting or finance). The code required audit committees to meet at least four times in a year, and to meet with the external auditor independently from the company's management at least once in a year. The code added more detail to the nature of the duties of audit committees, but these duties were not significantly expanded, and remained in the areas of oversight over the financial reporting function, and reviewing the work of the external auditor on financial reporting and evaluating internal controls. Unlike the situation in the USA, audit committees in Jordan are not authorised to select the company's external audit firm, dismiss it, or determine its fees.

Jordanian public listed companies are in general closely-held with the family business model dominant. There is limited separation between the management and ownership of companies, and audit committee members, while not executive managers, may be of direct relations with some executive managers, thus limiting the effectiveness of these committees (Abdullatif and Al-Khadash, 2010). It is likely that the traditional agency costs (between owners and managers) in Jordanian public listed companies are low due to the limited separation between ownership and management of companies, and therefore the demand for an effective audit committee may be limited, especially with the weakness of the minority shareholders (see Naciri, 2008). Therefore, audit committees in Jordan might be mainly established as a legally required corporate governance mechanism, while their level of actual performance of their duties is limited, and this is the main issue this study aims to explore.

2.3. Empirical evidence

Empirical evidence shows early adoption of audit committees by a significant number of companies in the USA (Mautz and Neumann, 1977) and the UK (Chambers and Snook, 1979) even before the establishment of audit committees became mandatory. In the USA, voluntary formation of audit committees was found to be associated with larger firm size, lower ownership of the company's shares by managers, higher percentage nonexecutive directors, and the use of a Big Eight audit firm (Pincus et al., 1989). Collier (1993) found relatively similar results in the UK. In addition, audit committees in the USA were found to be associated with fewer fraud allegations, fewer illegal acts, and fewer SEC enforcement actions (McMullen, 1996). Defond and Jiambalvo (1991) found similar results related to associating the effectiveness of audit committees with a lower likelihood of fraud.

Numerous studies of the characteristics and roles of audit committees were conducted worldwide. In developed countries, a large portion of these studies included relating audit committee characteristics (such as independence, financial and/or industry experience, and frequency of meetings) with some output measure of the implementation of their roles (such as improving the processes of internal auditing and external auditing, and improving the quality of financial reporting). Regarding audit committees' effects on internal auditing and internal control, Mat Zain et al. (2006) found that audit committees that are independent and financially knowledgeable positively affect internal auditors' assessment of what they contribute to financial statement auditing. Similarly, Sarens et al. (2013) found that more knowledge and experience of audit committee members is associated with more informal interaction with internal auditors in Australia. In the UK, Alzeban and Sawan (2015) found that audit committees characterised by more expertise and frequency of meetings lead to better implementations of internal audit recommendations. Similar results were found by Naiker and Sharma (2009), who reported that external audit experience of audit committee members is associated with better monitoring of internal control and financial reporting. Prigden and Wang (2012) found that audit committees, combined with the use of Big Four audit firms, lead to more internal control quality.

Regarding the effects of audit committees on external auditing, Beattie et al. (2000) and DeZoort and Salterio (2001) found that experience of audit committees leads to better support for external auditors in cases of dispute with managers. Similar results were found in Malaysia by Salleh and Stewart (2012a) and Salleh and Stewart (2012b). Hoitash and Hoitash (2009) found that stronger audit committees give better support for external auditors and less likelihood of dismissing them as a result of an unfavourable audit opinion. They found that audit committee independence leads to better auditor independence and audit quality. Finally, Sultana et al. (2015) found that the independence and financial expertise of audit committees is associated with shorter audit report lag.

As for the effects of audit committees on financial reporting, audit committees were found to lead to reduction of earnings management (Baxter and Cotter, 2009). Beasley et al. (2000) found that audit committee effectiveness leads to a lower likelihood of fraud. They report that companies that committed fraudulent financial reporting was less likely to have independent audit committees and that their audit committees held fewer meetings. Cohen et al. (2014) found that industry and financial expertise improves the audit committees' monitoring of financial reporting, while Sultana (2015) found that financial expertise of audit committee members and frequency of audit committee meetings are positively associated with accounting conservatism.

In Arab countries, Kamel and Elkhatib (2013) surveyed auditors, senior accountants, and academics on the roles of audit committees in Egypt. They found that the most important roles of audit committees were reviewing accounting policies and practices, and evaluating internal control. When selecting audit committee members, their independence and accounting experience were considered as very important. In Saudi Arabia, Alzeban (2015) surveyed chief internal auditors of Saudi listed companies. He found that compliance with International Standards for the Professional Practice of Internal Auditing is positively affected when audit committee members are independent, meet with the chief internal auditor, and have accounting and auditing knowledge, and when the chief internal auditor has a long tenure. Al-Twaijry et al. (2002) interviewed academics, internal auditors, and external auditors about the role of audit committees in Saudi Arabian corporations. They found views questioning the independence and accounting expertise of audit committee members, and that the audit committees have limited working relations with external and internal auditors. Finally, in Tunisia, Adel and Maissa (2013) found a positive relation between audit committee member experience and audit committee frequency of meetings, and more interaction with internal auditors.

Few empirical studies were conducted in Jordan regarding audit committees. An early study by Al-Farah (2001) found that external auditors view audit committees as generally ineffective, while internal auditors view them more favourably in terms of effectiveness, especially in dealing with internal auditors and discussing the financial statements. In his survey of external auditors, Abdullatif (2006) found that the perceived benefits of audit committees were generally limited in terms of increasing auditor independence, the quality of financial statements, and the probability of detecting fraud and internal control weaknesses.

As for the effects of Jordanian audit committee characteristics, Hamdan et al. (2013a) studied the effects of audit committee characteristics on earnings quality. They found that earnings quality is positively affected by financial experience of audit committee members and by the number of their meetings, negatively affected by the size of the audit committee and the level of ownership of its members of the company's common shares, and unaffected by the independence of audit committee members. However, Hamdan et al. (2013b) found that size of the audit committees and independence and financial expertise of their members are positively related to company financial performance and share performance, but not operational performance. Al-Akra et al. (2010) found that audit committees in Jordan significantly affect the level of disclosure compliance with IFRS, while Al-Sa'eed and Al-Mahamid (2012) found a positive effect for the understanding of audit committee members of the functions of the audit committees on financial reporting. Finally, Aljaaidi et al. (2015) found that more frequent meetings of audit committees are associated with a shorter audit report lag.

2.4. The contribution of this study

As mentioned above, studies on audit committees in Jordan are limited in their number and in their coverage of relevant issues regarding audit committees. There are very few studies that covered the actual performance of audit committees in Jordanian public listed companies, and this study is, to the best of the researchers' knowledge, by far the most detailed study to cover this topic in Jordan. This study therefore has the potential to be useful and contribute extensively to our knowledge about the performance of audit committees, and be therefore useful to Jordanian companies, legislators, and policy makers.

Internationally, the contribution of this study is likely to be high in terms of expanding our understanding of how audit committees operate in different contexts, taking into account the specific characteristics of these contexts. Most of the legislation and previous studies on audit committees covered contexts of developed countries (mainly Anglo-American countries), and these countries differ significantly from the Jordanian context in terms of the nature of their companies and corporate governance systems. Therefore, studying the performance of audit committees in a very different business environment is likely to significantly contribute to our knowledge on audit committees, and be useful for strengthening their role as a useful corporate governance tool.

3. Research method

The research method used in this study is the questionnaire survey. It was selected in order to receive as many responses as possible from qualified respondents. The questionnaire asked about the actual performance of audit committees in Jordanian public listed companies. The respondents were told to answer the questions based on their own experience in practice, and not necessarily what is required by laws or governance codes. The questionnaire used a five-choices Likert-scale, with value 1 being assigned for strong disagreement, and value 5 for strong agreement. In addition to personal background questions, the questionnaire consisted of five groups of questions. These groups included the characteristics of audit committees, audit committee responsibilities regarding financial statements, general supervision, internal auditing, and external auditing. The statements were selected from the review of local and international literature, and related regulations determining audit committee responsibilities, especially those related to Jordan, such as JSC (2009).

A significantly large number of statements in the questionnaire are, to the researchers' best knowledge, not used in any previous study in Jordan, and the level of detail included in this study's research method is unprecedented in any Jordanian study (as the precise study topic is very under-researched in Jordan), the fact that gives this study a high potential in terms of its contribution to knowledge.

The study population was defined as external auditors with ample experience who work for audit firms that audit at least three Jordanian public listed companies. The choice of external auditors was motivated by their perceived general knowledge about audit committees in Jordanian public listed companies, and therefore audit firms that audit less than three Jordanian public listed companies were excluded when defining the study population. Members of audit committees of Jordanian public listed companies were excluded from the study population due to factors such as their names not being publicised, their possibility of providing biased information about their own performance, and (most importantly) their knowledge being generally limited to only one company, while the study asked about the performance of audit committees in general. Internal auditors were also excluded due to the same last reason. External auditors were therefore seen as the more suitable target study population, due to their more general knowledge about the study topic.

Based on the Amman Stock Exchange website, only eleven audit firms met the above mentioned population definition (auditing at least three Jordanian public listed companies). Of these, one firm refused to participate in the study, leaving the researchers with only ten firms. These firms included all firms associated with the Big Four, and six other firms, five of which have international affiliations. Questionnaires (in Arabic) were distributed and collected by hand by the researchers in April and May 2015. The researchers gave the questionnaires to responsible individuals in the firms, who were told to distribute the questionnaires to auditors with ample experience (ideally being middle or highly ranked) to be qualified to answer the questions. The questionnaires were collected by the researchers about one to three weeks after their administration to the firms. This method of questionnaire distribution "is likely to generate a significantly higher response rate, compared to mail or email distribution, without significantly impairing the reliability of the responses, since the researcher did not interfere with the respondents or otherwise affect them when they completed the questionnaire" (Abdullatif, 2013, p. 65). Based on the sizes of the firms involved, and the degree of willingness of the firms to participate in the study, 131 questionnaires were distributed, and 93 usable responses were returned, giving a 71% response rate. This rate is generally considered very good compared to similar Jordanian studies, especially when targeting middle and high-ranked external auditors.

4. Findings

4.1. Personal background of the respondents

Table 1 shows a summary of the personal background of the respondents in the study sample. It can be seen from Table 1 that the vast majority of the respondents had job titles higher than "junior", that all but one of them had a university degree, that all but five majored in accounting, that about half of them had professional certificates, and that about half of them had more than five years of audit experience. It can also be seen that the majority of respondents worked for relatively large audit firms with international affiliations, with most of them working for a Big Four audit firm. In general, this sample is arguably suitable for this type of study, and compares very favourably to other Jordanian studies surveying views of external auditors. The possible limitation in terms of a minority of the sample being less experienced is offset by the fact that views of the less experienced auditors did not statistically differ significantly from the views of the more experienced auditors (see subsection 4.5).

Table 1. The respondents' personal background

Variable	Frequency	Percentage
Job Title		
Junior auditor	26	28.2
Semi-senior auditor	19	20.6
Senior auditor	25	27.2
Supervisor or assistant manager	10	10.9
Manager	9	9.8
Partner	3	3.3
Total	***92***	***100***
Highest academic qualification ofrespondent		
Below first university degree	1	1.1
Bachelor degree	81	88.0
Master degree	9	9.8

Variable	Frequency	Percentage
Doctoratedegree	1	1.1
Total	***92***	***100***
Professional certificates of respondent		
JCPA	4	4.4
CPA	28	30.4
Other	4	4.4
More than one certificate	6	6.5
None	50	54.3
Total	***92***	***100***
Scientific specialization of respondent		
Accounting	87	94.5
Finance	3	3.3
Other	2	2.2
Total	***92***	***100***
Respondent's auditing experience		
Below 5 years	53	57.6
5-10 years	26	28.3
11-20 years	9	9.8
Above 20 years	4	4.3
Total	***92***	***100***
Number of auditors in the auditing firm where the respondent works		
Below 5 auditors	1	1.1
5-9 auditors	5	5.4
10-19 auditors	17	18.5
Above20 auditors	69	75.0
Total	***92***	***100***
International affiliation for auditing firm where the respondent works		
Yes, one of the Big Four.	61	66.3
International, But not Big Four	28	30.4
No international affiliation	3	3.3
Total	**92**	**100**

4.2. Characteristics of audit committees

As a starting point, the questionnaire covered the degree to which audit committees in Jordan possess qualities necessary for them to perform their required roles according to Jordanian regulations and any other international-recognised *best practices*. These audit committee characteristics include financial and industry knowledge and experience, independence, board and managerial support and cooperation, and desire to perform duties effectively. Table 2 summarises the respondents' views on these issues.

Table 2. Views on characteristics of audit committees

Statement number	Statement	Mean	Standard Deviation
S1	Audit committees have knowledge about the nature of the company's business.	4.26	0.530
S2	Audit committees have knowledge about accounting matters.	4.09	0.789
S3	Audit committees have at least one person who has experience in accounting and finance.	4.02	0.859
S4	Audit committees have ability to address and evaluate the risk of fraud.	3.88	0.862
S5	Audit committees have ability to assess the risks the company faces and its responses to these risks	3.82	0.955
S6	Audit committees have a high degree of independence.	3.82	0.932
S7	Boards of directors show interest in and support audit committees.	3.99	0.684
S8	Executive management of companies cooperate with audit committees.	3.98	0.642
S9	Audit committees have the desire to achieve effectiveness in their performance.	3.91	0.706
	Average mean for all statements	**3.97**	

It can be seen from table 2 that audit committees in Jordan are perceived to generally possess the necessary qualities to perform their work effectively, but that the level of such possession is not very high, since most statements had an average response of less than 4 out of 5, indicating that the degree of agreement with the statements was moderate, rather than high. It is notable that audit committee members were seen as knowing about the general business of their companies, but less knowledgeable about the related accounting issues, causing caution since audit committees have significant oversight of the financial reporting function. The least supported statement by respondents was S6 regarding audit committee independence, something arguably expected given the perceived close relations between audit committee members and executive managers of their companies. This could likely limit the effectiveness of Jordanian audit committees, especially with levels of their managerial and board cooperation and support also not perceived as being very high.

4.3. Performance of audit committees' duties

In this subsection, the performance of audit committee's duties regarding financial reporting, general supervision, and relations with internal and external auditors is discussed in detail. Summary findings of the study on these issues are reported in Tables 3,4,5, and 6. It can be seen from these tables that the general views of respondents are that audit committees perform their roles only to a moderate level (most statements show averages below 4 from 5), rather than to a high level.

In detail, it can be inferred from the respondents' perceptions about the performance of audit committees regarding financial reporting (table 3) that this performance level is not very high, and that audit committees seem to mainly review financial statements, but their tendency to do more than that, such as evaluating internal controls over financial reporting, or providing recommendations on accounting issues or suggesting the use of financial experts is limited. These results are in agreement with those reported in table 2 as to the fact that the financial knowledge of audit committees is somewhat limited and that the support they find from company boards and management is also relatively limited. This can arguably be associated with the low agency costs between managers and owners in Jordanian companies, which lead to lower demand for high-quality audit committee performance, given the strong relations between members of the committee and company managers. This would probably lead to audit committees performing the main required role towards financial statements, which generally is reviewing them, but being less inclined to do much more than that.

Table 3. Views on audit committees' oversight over financial reporting

Statement number	Statement	Mean	Standard Deviation
S10	Audit committees review financial statements before submitting them to the board of directors.	4.18	0.824
S11	Audit committees provide recommendations about accounting policies.	3.85	0.896
S12	Audit committees study and evaluate internal audit and internal control procedures over financial reporting.	3.86	0.859
S13	Audit committees provide recommendations about obtaining expert assistance to evaluate some financial statements items	3.71	0.939
S14	Audit committees provide recommendations about modifying the financial statements based on external audit results.	3.95	0.761
S15	Audit committees study the quality of the financial statements regarding transparency of disclosure.	3.87	0.863
	Average mean for all statements	**3.90**	

The results regarding audit committees' roles regarding financial reporting are relatively similar to their roles regarding general supervision. As shown in table 4, it seems that the roles regarding general supervision are also performed only to a moderate level, and also emphasise explicit requirements, such as holding meetings, compared to the more detailed issues to be considered in these meetings, such as dealing with compliance, related party transactions, and quality control. Reasons for such findings can also arguably be associated to low agency costs between owners and managers.

Table 4. Views on Audit committees' role in general supervision

Statement number	Statement	Mean	Standard Deviation
S16	Audit committee members meet at least four times annually.	3.97	0.777
S17	Audit committee members hold unscheduled meetings when necessary.	4.16	0.601
S18	Audit committees review related party transactions before their approval by the company to avoid any conflict of interest.	3.73	0.817
S19	Audit committees oversee the company's implementation of corporate governance.	3.79	0.719
S20	Audit committee oversee the company's compliance with laws, regulations and common standards	3.91	0.798
S21	Audit committee oversee the company's implementation of quality control standards	3.89	0.777
	Average mean for all statements	**3.91**	

Tables 5 and 6 report on the performance of audit committees' duties regarding their relations with internal and external auditors. Similar to findings reported in tables 3 and 4, it seems that the roles of audit committees regarding internal and external auditing are only performed to a moderate degree, and that the emphasis is mainly on explicit legal requirements, such as holding meetings. The higher mean responses regarding roles with external auditors, compared to relatively similar roles with internal auditors, can also be arguably attributed to the contact with external auditors being more explicit than the contact with internal auditors. Again, reasons for such findings can arguably be associated to low agency costs between owners and managers. This finding is relatively similar to that of Al-Twaijry et al. (2002) in their study on Saudi Arabian data, where they found that the working relations of audit committees with internal and external auditors are limited.

Finally, two issues are worth attention. First, as reported in table 6, the roles of audit committees in appointing external auditors and determining their fees and scope of work are the least performed issues by Jordanian audit committees. This can be justified by these roles not being legally required for Jordanian companies, thus supporting the conclusion that legally required explicit responsibilities are significantly performed to a higher degree than other responsibilities considered by some foreign regulations as good practice. It can be arguably concluded that to some extent, audit committees in Jordan are seen as a legal burden that has to be fulfilled rather than an effective governance mechanism. Second, while audit committees are established by Jordanian companies, their level of intervention in resolving accounting-related conflicts between the company's management and its external auditor is alarmingly low (3.7 mean response). This can arguably also be related to the low demand for highly effective audit committees due to low agency costs involved.

Table 5. Views on audit committees' relation with internal auditors

Statement number	Statement	Mean	Standard Deviation
S22	Audit committee effectively influence selecting the internal auditors.	3.77	0.973
S23	Audit committees provide recommendations to the board of directors about the internal audit and its relation with the external audit function.	3.99	0.763
S24	Audit committees inquire about the internal auditors' experience and provide related recommendations.	3.87	0.788
S25	Audit committees regularly meet with the internal auditors.	3.84	0.745
S26	Audit committees hold unscheduled meetings with the internal auditors when necessary.	4.04	0.648
S27	Audit committees review the internal audit plan at least once annually.	3.92	0.774
S28	Audit committees discuss suggestions and reservations of the internal auditors.	3.96	0.755
S29	Audit committees discuss the level of management's response to suggestions and reservations of the internal auditors.	3.89	0.769
	Average mean for all statements	**3.91**	

Table 6. Views on audit committees' relation with external auditors

Statement number	Statement	Mean	Standard Deviation
S30	Audit committees discuss issues related to the appointment of the external auditor and their compliance with the company's regulations and the degree of their independence.	4.11	0.836
S31	Audit committees review the external audit plan at least once annually.	3.96	0.838
S32	Audit committees meet the external auditor at least once annually.	4.10	0.780
S33	Audit committees hold unscheduled meetings with the external auditor when needed.	4.17	0.636
S34	Audit committees discuss suggestions and reservations of the external auditor.	4.15	0.607
S35	Audit committees discuss the level of management's response to suggestions and reservations of the external auditor.	3.91	0.717
S36	Audit committees study the external auditors' plan and ensure that the company provides them with all the documents, evidence and facilities they need.	3.89	0.744
S37	Audit committees review the external auditor's evaluation of internal control	3.82	0.838
S38	Audit committees inquire about the external auditor's experience.	3.78	0.942
S39	Audit committees review the company correspondence with external auditors and provide recommendations on this.	3.80	0.905
S40	Audit committees have an effective role in appointing the external auditor.	3.81	0.936
S41	Audit committees have an effective role in determining the external auditor's fees	3.56	0.983
S42	Audit committees determine the scope of the work of the external auditor.	3.39	1.243
S43	Audit committees intervene for resolving conflicts between the external auditor and the executive management on accounting matters.	3.70	0.976
	Average mean for all statements	**3.87**	

4.5. Potential effects of personal backgrounds of respondents on their views

The researchers tested whether there is a statistically significant effect for the personal backgrounds of the respondents on their views regarding the issues raised in this study. This was performed through splitting the respondents into categories (see Table 1) and repeating that for each personal background variable (job title, academic qualification, professional certificates, academic specialisation, audit experience, number of auditors in audit firm, and international affiliation of audit firm) separately. In some cases, the researchers had to merge some categories due to the very small frequency in some categories. The Kruskal-Wallis test was then run to compare means for the categories of each personal background variable.

In general, very few statements for each personal background variable produced statistically significant differences in views, and these differences seemed random, without following any particular pattern. Thus, the researchers concluded that there are generally no differences in views of the respondents that can be attributed to their personal backgrounds [1]. These results enhance the robustness of the findings, and alleviate to some extent the effects of the potential limitation of a few respondents having limited audit experience.

Of particular importance in this analysis is whether different Jordanian public listed companies have different characteristics or performance levels of audit committees that may be associated to the difference in size or business nature among these companies. In general, there is no specialisation trend observed in Jordanian audit firms in terms of the business nature of their clients, and (as shown in Table 1), audit firms with international affiliations dominate the market of auditing Jordanian public listed companies. Given that larger companies (notably banks) are generally likely to be audited by Big Four audit firms, the Kruskal-Wallis test mentioned above was applied to compare views of auditors from Big Four firms with views of auditors from other audit firms involved in the study. The views were very similar between the two groups, with no notable trends of statistically significant differences between the views of both groups. This implies that the findings of this study can, to some extent, be generally associated with audit committees of all Jordanian public listed companies, regardless of their size or business nature.

4.6. Reliability of the results

To test for the reliability of the findings, the Cronbach's alpha method was used for each group of statements. As shown in Table 7, all of the Cronbach's alpha values reported were significantly higher than the minimum acceptable value of 0.7 (Suanders et al., 2012). Therefore, the findings are acceptable in terms of reliability.

Table 7. Cronbach's alpha reliability test results

Variable	Cronbach's Alpha	Number of Statements
Qualifications of audit committees	0.846	9
Audit committees' oversight over financial reporting.	0.903	6
Audit committees' role in general supervision	0.843	6
Audit committees' relation with internal auditors	0.821	8
Audit committees' relation with external auditors	0.878	14

5. Conclusions

This study explored the performance of audit committees of their roles and responsibilities in Jordanian public listed companies. It utilised a questionnaire survey designed to explore the issues of whether audit committees in Jordanian public listed companies do have the necessary characteristics needed for them to effectively perform their duties, and the extent to which they perform their duties regarding oversight of financial reporting, general control and supervision, relations with internal auditors, and relations with external auditors. Given their perceived knowledge about audit committees in Jordanian companies in general (rather than specific knowledge about one company only), external auditors from audit firms that audit the financial statements of at least three Jordanian public listed companies were used as the study population.

The main findings of the study were that audit committees in Jordanian public listed companies do generally possess the necessary characteristics to enable them to perform their duties, but only to a limited degree, thus limiting their ability to perform their duties effectively. When exploring the level of performance of detailed responsibilities and duties, similar results were found, as the performance generally happened also to a limited level, and generally emphasised explicit legal requirements (such as holding meetings, or reviewing financial statements) over more-detailed issues. That is, audit committees in Jordan were perceived to be less likely to go into details of financial reporting (such as using experts for valuation, or assessing disclosure transparency), or dealing with internal and external auditors (such as influencing the selection of internal and external auditors and dealing with their recommendations). Comparing these findings to those of the most similar previous study to this study in Jordan, Abdullatif (2006), the results are generally same in that audit committees in Jordan are not sufficiently effective, thus suggesting that things have not improved significantly after about a decade.

Suggested reasons for these findings arguably include that, unlike the situation in many developed countries, the demand for effective performance from audit committees in Jordan is not high, given the corporate governance system applied in most Jordanian public listed companies. Family businesses generally have low agency costs between owners and managers, and therefore board members may not demand high-quality practices of corporate governance, especially if they come at a cost they perceive to be higher than the related benefits. This may end up with corporate governance in general, and audit committees in particular, being generally viewed by boards and managers as a legal burden that has to be fulfilled as simple as possible, rather than a useful tool for the company's success and sustainability.

It is argued that in family businesses run as public listed companies, the significant agency costs are not between owners and managers, but rather between majority and minority shareholders (Shaohua, 2010). Minority shareholders will in many cases be weak (see Naciri, 2008), and therefore need intervention by regulatory authorities to enact laws and regulations that are aimed to guard the interests of minority shareholders and other stakeholders involved. With this being the case in Jordan, this study recommends more intervention by the regulatory authorities in Jordan not only to regulate corporate governance issues, including audit committees, but also to ensure the actual implementation of these laws and regulations to an acceptable level by the companies. Audit committees in Jordan should be required and encouraged to adopt a more effective role in the corporate governance process. Their members should be selected with more care, and given more support and cooperation from boards and managers of companies. Audit committees should also be more involved in general oversight of the financial reporting process, and apply their duties towards internal control, dealing with internal auditors, and dealing with external auditors to a larger and more effective degree. This will likely lead to better governance of public listed companies, and therefore potentially improve their share prices and lead to better financial results and business sustainability.

This study used a questionnaire survey to explore the performance of audit committees in Jordan. Avenues for future research on audit committees in Jordan may include detailed case studies on audit committee performance in Jordan, and better understanding of the findings of this study through, for example, performing more studies on the association of audit committee characteristics with financial results and share prices.

Endnotes

1. Detailed tables of findings for this subsection are omitted because they are too large in size, and generally did not show statistically significant differences in views among respondents.

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