

# MECHANISMS FOR APPOINTING AND ENHANCING THE INDEPENDENCE OF THE AUDITOR

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## Abstract

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Hiring an independent auditor is a fundamental goal that companies pursue to ensure the integrity of financial reporting. In developing countries, the literature focuses on examining factors influencing auditor change (Saaydah, 2021), with little interest in understanding the mechanism of external auditor selection (EAS) by audit committee members (ACMs). This study extends the literature by providing an experimental investigation of the main and interactive weights of factors influencing ACMs' decisions regarding EAS. Using a mixed approach, the study found that prior knowledge of the audit firm had the greatest impact on ACMs' decisions, in addition to revealing some interactions between the variables. The study provides valuable insights into how the EAS process can be revitalized, prioritized and institutionalized. It also gives auditors a better picture of how to craft a request-for-proposal to enhance their competitiveness. The insights gained also provide 1) a better understanding of the factors that drive EAS and how they interact in shaping the judgments of ACMs; 2) highlighting the importance of transparency in EAS by disclosing the selection mechanism in the annual report; 3) providing a set of recommendations on how to enhance the independence of the audit committee when deciding to nominate auditors.

**Keywords:** External Auditors Selection, Audit Committee Decision, Corporate Governance, Mixed Method

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## 1. INTRODUCTION

Giving great importance to choosing the right auditor is important for any organization seeking to add value to its financial statements. The process of appointing the auditor goes through two main stages: namely, the nomination by the audit committee and the ratification by the General

Assembly. The first stage includes the following steps: preparing the plan, forming the team responsible for the selection, gathering information, requesting proposals from the auditors, setting selection criteria, and then choosing according to the criteria (Federation of European Accountants [FEE], 2013; European Central Bank [ECB], 2017; American Institute of Certified Public Accountants

[AICPA], 2018, 2019; KPMG, 2016, 2017; PricewaterhouseCoopers [PwC], 2022). Audit committees play a role in ensuring the reliability of the financial statements by attracting an auditor who adds value to the financial statements and provides high-quality audit services (Al-Matari, 2022; Hayek et al., 2022).

“A systematic understanding and review of the auditor selection process ... are currently lacking” (Vandennieuwenhuysen et al., 2023, p. 3). In developing countries, companies are not obliged to disclose the method of external auditor selection (EAS), which makes it difficult to examine EAS based on published data, although the establishment of transparent selection criteria contributes to enhancing investor confidence in the quality of financial reports (Shbeilat, 2018; Gold et al., 2018; Albawab & Anqad, 2013). Therefore, this mixed method work contributes to increasing our knowledge about mechanisms, obstacles, and ways to enhance the role of audit committee members (ACMs) in EAS. In developed countries, there is a relatively moderate interest in disclosing the mechanism for appointing the auditor. A survey conducted by PricewaterhouseCoopers in 2021 found that 50% of S&P 500 companies disclosed the role of the audit committees in EAS, 70% disclosed the length of audit firm tenure, and 18% disclosed the role of the committee in setting auditor fees (PwC, 2022). Hong Kong encourages the disclosure of criteria used for EAS (The Accounting and Financial Reporting Council [AFRC], 2021), while Sands and McPhail (2003) indicated that the existence of guidelines for selecting auditors is important to maintain the professional competitiveness of Australian auditors.

The motivations for this study are previous research findings, gaps, and methodological contribution. Vandennieuwenhuysen et al.'s (2023) literature review on EAS concluded that experimental research, although it explains more details about selecting auditors, is scarce. They also added that “there is an absence of evidence on the relative weight of different criteria for auditor selection” (p. 15), and recommended conducting future experimental studies to shed more light on the weights of factors influencing EAS. Other literature reviews synthesized by Habib et al. (2019) recommended that future studies be conducted in developing countries and focus on the causal relationships of factors influencing EAS. They also indicated that examining EAS with the mixed method gives more useful results than regression-based methods, which often fail to incorporate interactions between corporate governance variables. A further literature review by DeZoort et al. (2002) stated that “experimental research involving audit committee member judgement and decision-making is less common” (p. 69). Experimental studies are effective in finding underlying interactions among variables (Shbeilat, 2013, 2023; Al-Sukker et al., 2018; Ngigi, 2014; Hopkins & Ross, 2013; Nguyen, 2002; Teoh & Lim, 1996; Wood, 2002). For example, Al-Sukker et al. (2018) found an interaction between objectivity and competence in influencing the auditor's decision to rely on the internal auditor's work, while Hopkin and Ross (2013) found an interaction between intensity

and duration in encouraging investors to initial public offerings (IPOs). Further interactions with respect to EAS have also been demonstrated by Kacanski et al. (2021) that firm reputation and recommendation are two interlocking factors that influence EAS, while Fiolleau et al. (2013) found an overlap between the effect of auditor experience and audit fees on EAS.

Based on the aforementioned, this study aims to:

1. Examine both main and interactive effects of external auditors' industry experience, use of technology, audit fees, and previous knowledge of the firm on ACMs' decision when selecting auditors.

2. Identify the reasons behind this effect and get a deeper understanding of the mechanism of EAS.

3. Examine the degree of self-insight that ACMs had in their decisions to nominate auditors. This study is the first within the researcher's knowledge, which aims to measure the degree of self-insight of ACMs. Self-insight measures the stability and awareness of audit committee members in forming judgments and decisions related to how they process auditor selection decisions. Self-insight is measured by comparing the results of subjective and objective measures. The subjective measure reflects the impromptu decisions made by the ACMs about the influence of the relative weights of the independent variables on the EAS, while the results of the objective measure are obtained by the analysis of 51 fully-crossed factorial experiments (Hooper & Trotman, 1996; Wood, 2002).

4. Finally, this study hypothesizes that audit committees process information related to EAS configurally. Configurality means “the integration of various pieces of information to arrive at an overall judgement” (Ganzach, 1997, p. 954). Thus, an audit committee may give an audit firm a high degree of priority in selection, despite obtaining a low evaluation in one of the other criteria. In other words, an audit firm with a low rating in a factor may still be preferred by ACMs due to the interaction of other factors. Hence, the existence of interactions between variables is an indication that audit committees process information configurally when making decisions to select auditors.

Although, in theory, the governance instructions stipulate that the selection of auditors is the prerogative of the audit committee (U.S. House of Representatives, 2002; Jordan Securities Commission [JSC], 2017; Financial Reporting Council [FRC], 2018; Australian Securities Exchange [ASX], 2019), there is some evidence of management interference in EAS, which undermines the quality of the audit (Almer et al., 2014; Dhaliwal et al., 2013; Pacheco-Paredes et al., 2017; Dodgson et al., 2020; McCracken et al., 2008; Gold et al., 2018; Fiolleau et al., 2013). For example, Almer et al. (2014) found evidence of management involvement in the EAS after the issuance of the Sarbanes-Oxley Act (SOX) in 2002, although SOX states that this is only an audit committee decision. However, a powerful audit committee exercises its powers independently and does not allow management to interfere except within certain controls, “Hence, future research should investigate how to increase audit committee involvement and how to overcome the adverse effects of management influence” (Vandennieuwenhuysen et al., 2023, p. 25), which is one of the objectives of the current study.

The structure of this paper is as follows. The introduction gives the reader a clear idea of the objectives, motives, and justifications of the study. In the second section, the theoretical framework of the study and a brief overview of corporate governance in Jordan were discussed, followed by a presentation of the research variables and their impact on EAS. The third section justifies the mixed methodology and presents the data collection method. The results were analyzed and discussed in the fourth section. The final section presents the study's conclusions, implications, limitations, and potential future research.

## 2. THEORETICAL FRAMEWORK AND LITERATURE REVIEW

### 2.1. Theory and governance

The theoretical framework of this study is based on the agency theory and the repercussions resulting from the conflict of interests between the company's management and the shareholders. Because of the distance gap between the owners and management, the owners of the company (shareholders) resort to appointing an independent third party (external auditor) to verify the integrity of the financial statements prepared by the management which contributes to reducing the distance gap (Gray et al., 2019), and reducing related agency theory problems (Al-Msiedeen, 2019; Al-Msiedeen & Al-Sawalqa, 2021; Schäuble, 2019; Abu-Serdaneh & Ghazalat, 2022). Although the final decision to appoint a company auditor is in the hands of the owners. However, decisions related to nominating auditors, determining their fees, supervising the audit process, ensuring compliance with financial reporting standards, and resolving disputes between the auditor and management are still in the hands of the audit committee. Thus, an effective audit committee is seen as a pivotal factor in reducing agency costs (Cai et al., 2015; Al-Matari et al., 2012; Hashim & Abdul Rahman, 2011) and serves "as a means of increasing disclosure levels and reducing information asymmetry levels between firm management and investors" (Akhtaruddin & Haron, 2010, p. 225). Audit committees play a role in ensuring the reliability of the financial statements by attracting an auditor who adds value to the financial statements and provides high-quality audit services.

In Jordan, corporate governance codes for Jordanian banks and the insurance sector were issued in 2007. The first official version of corporate governance of public shareholding companies was issued by the JSC in 2009 and modified in 2017. Like many international corporate governance codes, the Jordanian code also stipulates that the process of appointing an auditor begins with the audit committee's nomination of the auditing firm and then presenting it to the General Assembly for approval/disapproval of the appointment (JSC, 2017). In 2021, a new corporate governance project was launched in Jordan, which added to the powers of the audit committee the decision to dismiss auditors, determine their fees, and evaluate their performance (JSC, 2021, Article 16). The Jordanian corporate governance also emphasized the importance of forming audit committees of independent,

non-executive, and financially qualified members. Moreover, it requires audit committees to meet with the external auditor periodically, which gives audit committees a broader understanding of the auditor's work and a greater ability to evaluate their performance. Therefore, their future decisions regarding the nomination of auditors will be more informed.

### 2.2. Posited key drivers for selecting external auditors

#### 2.2.1. Industry experience

The auditor's experience in the sector is an important factor influencing preference decisions for EAS. According to the Institute of Chartered Accountants of Scotland's (ICAS), guide for EAS, a firm's industry experience means "the firm and audit team's knowledge and experience and expertise of the relevant industry sector(s)" (ICAS, 2017, p. 5). The European Federation of Accountants' survey of factors influencing EAS, found that specialized and industry-experienced auditors were the most frequently mentioned factor (FEE, 2013). Therefore, audit committees must ensure that the proposed auditors have the necessary knowledge and experience to audit the company's business and operations (ICAS, 2017).

Audit firms with in-depth knowledge of the sector are more efficient in understanding financial and business operations, and in identifying audit risks (AFRC, 2021; Hairston et al., 2022). Thus, the auditor's experience in the sector has a good advantage in that it contributes to the design, implementation, and evaluation of audit results in a systematic manner and in a faster time. Moreover, the presence of industry expertise contributes to adequately meeting customer needs and providing high-quality professional services, therefore, achieving high economic returns. According to Jensen and Payne (2003), companies that lack experienced accountants or qualified internal audit staff tend to hire external auditors with relatively high levels of industry experience. The presence of industry-specific experience within the auditing firm saves the audit committee from seeking help from other expert auditors in the event of disagreements between the auditor and the company's management over accounting policies and procedures (Free et al., 2021), and thus the appointment of specialized auditors may contribute to saving possible additional burdens (Alharasis et al., 2023).

In Taiwan, an empirical study by He (2015) found that companies that employ an auditor experienced in the industry are less likely to restate their financial statements, which gives the impression that having an auditor experienced in the sector means producing high-quality statements. The interest in choosing an auditor with industrial experience is not limited to a specific type of company. Reheul et al. (2011) found interest from Belgian non-profit organizations in hiring auditors who are experts in non-governmental organizations (NGOs). In Finland, Knechel et al. (2008) concluded that industry experience was one of the most important factors influencing EAS for small-sized companies. In Jordan, the Banking Governance Instructions stipulated a set of criteria for selecting auditors,

including that the auditing firm “should have adequate experience of no less than (10) years in auditing banks” (Central Bank of Jordan, 2023, Article (17), item 8/a).

### 2.2.2. Use of technology

“Gone are the days of vouching a sample of invoices and tracking the results in an Excel spreadsheet” (PwC, 2022, p. 12). The use of technological applications in accounting and auditing is of great benefit to companies: for example, it allows processing large volume accounting data, detecting and following up anomalies in databases, facilitating positioning of potential risks, and expanding the scope of auditing so that it becomes possible to audit a whole set of data and thus encourage continuous auditing (Richardson et al., 2021; Fedyk et al., 2022). Keeping up with technological developments is a major challenge for the auditing profession as it is for most professions. The Public Company Accounting Oversight Board (PCAOB) proposed amendments to certain aspects of the standards related to technological uses, justifying this with the presence of statistics on the increasing use of contemporary technological tools by auditors (data analytics, artificial intelligence (AI), blockchain, etc.). These amendments aim to better define the auditor’s responsibilities when using technological tools, especially those related to audit risks and audit evidence (PCAOB, 2023).

To be confident that you have chosen the right auditor, the audit firm must be able to master modern technological tools. Traditional audit procedures may not be effective for auditing companies that employ technology extensively in their business (e.g., ChatBot, predictive analytics, cloud accounting services, robotic process automation, visualization tools, data mining, data analytics, machine learning, business intelligence applications, AI, drones, and blockchain), thus, audit committees in companies that use technology on a large scale should consider hiring an auditor who is expert in modern technologies in order to be able to perform the audit task effectively (PwC, 2022; PCAOB, 2023; Center for Audit Quality [CAQ], 2018; AFRC, 2021; ICAS, 2017).

The FEE also encourages the selection of auditors with skills in using IT tools (FEE, 2013). Similarly, the Hong Kong FRC has indicated that companies that employ high-technology applications and tools in their businesses should narrow down candidates to those who meet the company’s technology needs (AFRC, 2021). However, in order for the audit committees to be able to compare the auditors, the audit firms must, when submitting their offers, explain the details of the use of technological tools and ensure their compatibility with the company’s accounting information systems (CAQ, 2018; ICAS, 2017). Furthermore, ICAS (2017) affirmed that the request for proposals (RFP) should indicate the method through which the company’s IT infrastructure will be accessed, while PwC added that audit committees should discuss with potential auditors their plans to employ technologies and how to cooperate with company employees to help reduce the time and effort spent on auditing (PwC, 2022).

### 2.2.3. Audit fee

Corporate governance best practices indicate that audit committees are responsible for determining audit fees. Fees play a pivotal role in selecting and changing auditors, despite companies claiming that the selection process has criteria and priorities that primarily aim to select an auditor who meets the company’s needs and aspirations (Folleau et al., 2013). A survey conducted by the FEE showed that audit fees were among the factors influencing the selection of auditors (FEE, 2013). However, the audit fee must be “adequate to allow a quality audit to be performed” (International Auditing and Assurance Standards Board [IAASB], 2013, p. 58), therefore, the audit committee must ensure that the audit fees are commensurate with the effort made by the auditor, on the one hand, and do not affect the audit quality, on the other hand (Alhadab, 2018; AFRC, 2021; Telfer & Wood, 2018; IAASB, 2013), because audit quality should be the primary factor in the decision to trade-off between auditors (ICAS, 2017).

By investigating the RFP and interviews with the chief financial officers and audit committee chairs, Folleau et al. (2013) found that companies accept the offer of the auditor who provided the least high-level expertise and the lowest fees; interestingly, companies keep claiming that the fees were not the main motive for the comparison between offers. Similarly, Vandennieuwenhuysen et al. (2023) reported that the auditor who proposed the lowest fees was often chosen, although the firm claimed that fees were not the main factor in the selection.

The reasonableness of audit fees can be determined by the scope, nature, size, and complexity of the audit engagement, the need for specialized expertise, the geographic expansion of the company, business risk, and competition in the market (Hairston et al., 2022; ICAS, 2017; Habib et al., 2019; IAASB, 2013; AFRC, 2021; Asthana et al., 2015; KPMG, 2017; FEE, 2013). For example, Habib et al. (2019) reported that fees proposed by auditors should be commensurate with the need for expertise and specialists in the sector, while Hairston et al. (2022) find that auditors propose higher fees when dealing with derivatives and hedging to compensate for the additional risks associated with these financial instruments.

### 2.2.4. Previous knowledge of the firm

Previous knowledge of the auditor due to the long-term relationship is an important factor in the decision to hire auditors (Fadaly, 2018). The more positive the impression, the greater the chance that the auditor will be re-nominated for the next financial period, and vice versa (Brown & Knechel, 2016). Free et al. (2021) reported that the strong working relationship between the company and its auditors means that auditors are always willing to “pick up the phone” to answer their inquiries (p. 164). Daugherty et al. (2012) reported that the auditor’s work in the company for three years makes the auditor skilled enough to deal with the company’s accounts, while Hallman et al. (2022)

found evidence that the current auditor delivers high-quality audits and cuts a relatively small amount of fees during the bidding periods of the external auditors. Previous knowledge of the auditor facilitates the re-selection process as the audit committee is better able to assess the auditor's performance to make a decision to retain/not retain the current auditor. Reappointing an incumbent auditor provides several advantages such as:

- 1) reducing the time and effort spent in selecting and comparing auditors;
- 2) the current auditor has good knowledge of the company's accounts, systems, and reports;
- 3) audit fees becoming more reasonable.

As mentioned earlier, audit committees must hold several meetings with the auditor according to the instructions of corporate governance, such meetings help in assessing "the ongoing performance of the auditor against the quality commitment it made on initial appointment and in connection with subsequent reappointments" (AFRC, 2021, p. 23). The audit committee should assess the following:

- 1) the extent of exercising professional skepticism;
- 2) identifying and addressing audit risks and key audit matters;
- 3) addressing legal issues;
- 4) maintaining a professional relationship with the company's management;
- 5) completing audit tasks on time;
- 6) fairness of fees with the effort exerted;
- 7) assessing the appropriateness of the company's accounting judgments, estimates, and policies;
- 8) maintaining effective two-way communication with ACMs (Olowookere & Inneh, 2016; FRC, 2018; ICAS, 2017; Gold et al., 2018; AFRC, 2021).

Moreover, the audit committee must take the necessary measures to avoid familiarity risks and ensure that the length of the engagement period does not affect the independence of the auditors, hence the idea of mandatory rotation of auditors to mitigate such risk (Daugherty et al., 2012; Arens et al., 2020; AFRC, 2021; Alsmairat et al. 2019).

International Standards on Auditing ISA 260 and ISA 265 can be used as a basis for evaluating the effectiveness of communication between the auditor and the audit committee during previous audits, as these two standards emphasize the importance of communication to ensure the application of accounting standards and the integrity of internal control systems (IAASB, 2020). The ICAS (2017) also recommended that an auditor's previous work with the company be assessed before a decision is made to re-appoint that auditor. In another effort, the FEE (2013) emphasized the importance of assessing the previous working relationships between the auditor and the company and also stressed the importance of providing equal and fair opportunities to select auditors, including the incumbent auditor. Thus, a current auditor may have a greater chance of being selected if the auditor has left a positive impression of his or her performance during previous engagements. In confirmation of this, the market report prepared by the AFRC (2021) showed that the majority of companies listed on the Hong Kong Stock Exchange have reappointed their current auditors during 2011–2019.

### 2.3. Research questions and hypothesis statement

Based on the theoretical framework, a review of the literature related to the main motivations for choosing external auditors, and the adopted methodology, this study seeks to test the study hypothesis and answer the following research questions.

The first research question aims to find out the impact of the four posited factors on ACMs' decision in EAS, in addition to determining the potential impact of the interaction between these variables on their decision. Finding interactions between variables enhances the results in experimental studies as the presence of interactions gives an indication that a proportion of the influence on decisions of ACMs in the EAS comes from the four proposed variables individually, and the other proportion comes from the interaction of these variables (Teoh & Lim, 1996; Wood, 2002). Further, this study seeks to measure the degree of self-insight shown by ACMs in decision-making. The questionnaire was designed to gain results from both an objective measure (the sixteen scenarios) and a subjective measure. The discrepancy or consistency between the two scales reflects the degree of self-insight possessed by ACMs regarding the EAS decision. Therefore, the first and second research questions are:

*RQ1: What are the relative main and interactive weights of 1) the external auditor's industry experience; 2) the external auditor's use of technology; 3) audit fees, and 4) previous knowledge of the firm on ACMs' perceived decision to nominate the external auditor?*

*RQ2: What is the degree of self-insight shown by ACMs in their assessment of the factors affecting their decision to nominate the external auditor?*

The third research question aims to gain an in-depth understanding of how and why hypothesized factors influence ACMs in their decision in the process of nominating external auditors, in addition to identifying the perception of the ACMs on how to reinforce and ensure that audit committees were independent in making the decision of EAS.

*RQ3: How and why do 1) external auditor's industry experience; 2) external auditor's use of technology; 3) audit fees, and 4) previous knowledge of the firm influence ACMs' decision in EAS? And how to enhance the audit committee's independence in making this decision?*

The hypothesis of this study is based on the assumption that ACMs process information configurally when evaluating the decision to nominate an external auditor. "Configurality means that the analyst's interpretation of an item of information varies depending on the nature of other available information" (Slovic, 1972, p. 786). This means that, besides the main effects, audit committees consider the interactive effects of the external auditors' industry experience, use of technology, audit fees, and previous knowledge of a firm when making the decision to hire an auditor. This interaction between the four posited independent variables may have an additional effect in influencing the audit committees' decisions.

*H1: The audit committees assess the information related to the criteria for selecting auditors configurally when making decisions related to EAS.*

### 3. RESEARCH METHODOLOGY

#### 3.1. Research design

“Using a mixed method approach provides the best opportunity for addressing research questions” (Malina et al., 2011, p. 62). A concurrent triangulation technique (i.e., combining quantitative and qualitative methods simultaneously) is appropriate for this study especially when the research is designed in a way that gives close importance to both the quantitative and qualitative approaches (Creswell & Creswell, 2017). Conducting studies with a single approach, whether quantitative or qualitative, may face some shortcomings, therefore, merging them contributes to enhancing the benefits of both approaches on the one hand, and reducing the shortcomings of each other on the other hand. Additional benefits of combining experimental survey with semi-structured interviews also include giving a deeper understanding of the interconnections between the study objectives and their findings, producing more robust results in terms of validity and reliability, and establishing causal relationships between the variables of the study (Peecher & Solomon, 2001; Zellmer-Bruhn et al., 2016; Creswell & Creswell, 2017; Shadish et al., 2002; Simnett & Trotman, 2018).

A full factorial experimental questionnaire was designed to achieve the study objectives. Experimental research allows the researcher to systematically treat 16 different scenarios and draw conclusions about the main and interactive effects of four variables posed on ACM's decision to select external auditors while conducting in-depth interviews with ACMs contributes to deepening understanding of the auditor selection mechanism.

#### 3.2. Justification of the unit of analysis

This study examines the perceptions of ACMs when evaluating the criteria for EAS, thus, the study population is members of the audit committees of the public shareholding companies listed on the Amman Stock Exchange (ASE). The reason for employing ACMs to participate in both the survey and interviews is that the decision to nominate auditors, ensure their independence, review auditors' RFP, and set criteria for selecting auditors, as mentioned previously, are within the powers of the audit committee, and therefore their participation ensures that the objectives of this study are adequately achieved.

The names of the members of the audit committee, their academic qualifications, their experience in accounting and finance, and the number of their individual meetings with the external auditor must be disclosed in the annual reports of the listed Jordanian companies (ASE, 2023). The experience of the ACMs who participated in the survey ranged between 13-32 years in the field of finance and business, while, their experience as members of the audit committee ranged between 4-10 years. All of them have experience in the fields of business commerce, and about 89% hold academic degrees in the fields of accounting, finance, and related fields. Thus, ACMs can be viewed as expert judges who are able to handle the experimental questionnaire professionally.

#### 3.3. Data collection

##### 3.3.1. The survey instrument

To test the study hypotheses and find the main and interactive effects of four independent variables, a complete factorial  $2 \times 2 \times 2 \times 2$  within-subject survey instrument was designed of four dichotomous variables. This, in turn, led to 16 different scenarios, which were randomized in the questionnaire to minimize any possible carryover or order effects on the participants' decisions (Charness et al., 2012; Trotman, 1996). In each scenario, the four variables are presented in a dichotomous manner in terms of “Better” and “Worse”, and the participants were requested to determine the impact of each scenario on the decision to nominate the auditors (as shown in Figure 1).

Pre-testing the experimental questionnaire is necessary to ensure that the language and presentation of the scenarios are understandable, smooth and can be filled out within an acceptable time (Strang, 2015). The initial version of the experimental questionnaires was field tested and presented to three accounting lecturers, an audit committee member and an external auditor. Comments regarding the definition of the variables were obtained and taken into account.

The questionnaires were distributed to a randomly selected group of audit committees, in coordination with the Board of Directors Secretariat, during the period from December 2022 to April 2023. Referring to the annual reports of the companies listed on ASE, it was found that the number of audit committee members reached 507 members. The response rate was 85%, as 51 out of 60 distributed questionnaires were analyzed. The design of a fully crossed within-subject experiment is characterized by the fact that it can be effectively implemented by a small number of participants if they are homogeneous and well-versed in their field (Coolican, 1994). Within-subject experimentation has been successfully conducted in several auditing and finance studies with small numbers of participants (E.g., Shbeilat, 2023, n = 55; Al-Sukker et al., 2018, n = 35; Ngigi, 2014, n = 35; Shbeilat, 2013, n = 47; Hopkins and Ross, 2013, n = 30). Thus, the analysis of 51 questionnaires is sufficient to achieve the research purposes.

The final version of the survey consisted of three parts. The first part contained:

1) clear definitions of the variables to help understand the study model and to obtain more reliable results;

2) instructions to fill out the questionnaire by providing an illustrative scenario with a neutral answer to further facilitate the process of dealing with the experimental questionnaire;

3) the sixteen scenarios (objective measure) were presented.

The second part contained the subjective measure, in which the respondents were asked to give relative weights out of 100 to the influence of the four variables on EAS. The reason for the existence of the two scales (objective and subjective) is to measure the self-insight of the ACMs, as the greater the similarity in the order of the effect of the independent variables between the two scales, the higher the degree of self-insight possessed by the ACMs, and vice versa.

The third part of the questionnaire aimed to obtain information about the experience and qualifications of the participants.

Using the seven-point Likert scale, participants were requested to express their confidence in the significance and inclusiveness of the four variables in their decision to nominate the auditors. Having an average of 5.3 (with a median and mode of 5) indicates that the study model is robust in capturing the factors that influence ACMs' decision to hire auditors. Participants were also asked to mention any possible factors affecting their decision to nominate auditors other than the four independent variables. Discussion of these factors is left to limitations and future studies.

**Figure 1.** An example of one of the scenarios displayed in the factorial survey

<b>Case 1</b>	Better	Industry experience
	Worse	Audit fees
	Better	Use of technology
	Worse	Previous knowledge of the firm
<i>Your decision to nominate the appointment of the auditor (Circle)</i>		
Substantially worse		Substantially better
-3   -2   -1	Same	+1   +2   +3

### 3.3.2. Interviews

In-depth interviews were conducted with six ACMs to investigate factors influencing their decision towards EAS, discuss appropriate mechanisms to enhance the nomination process, and understand how the final nomination decision is made. Qualitative interviews are used to reinforce the results and to obtain information, ideas, and points of view to complement and interpret the results of the surveys. For example, Almer et al. (2014) stated that because of the potential subtle effects of management on EAS, audit committees were interviewed to solicit their opinions and obtain information that would be difficult to explicitly obtain through questionnaires. Moreover, Habib et al.'s (2019) literature review reported that qualitative research provides a richer description of the process of nominating auditors by the audit committee.

Interview questions focus on eliciting their views on how and why auditors industry experience, use of technology, fees, and previous knowledge of the firm affect their decision in the nomination process, in addition to obtaining their views on how to enhance their role as members of audit committees in making decisions without interference from the board of directors, executive management or major stockholders.

The interviewees were qualified enough to give valuable information about the mechanisms, obstacles, and proposed improvements in decisions regarding the nomination of auditors. Their experience as members of the audit committee ranged between 4–7 years, while their experience in the fields of finance and business ranged between 19–27 years.

The interviewees were randomly selected and the meetings were held during the month of December 2022 and the first four months of 2023. The duration of the interviews ranged from 47 to 65 minutes. Necessary arrangements have been made in coordination with the Board of Directors Secretariat. Arrangements ensured their consent and informed participants of the expected length, and confidentiality of their responses, and transcription of their viewpoints. Consideration has been given to arranging some interviews close to board or audit committee meetings because the chance of members attending increases. In addition to the main interview questions, other questions were asked based on the responses of the interviewees to obtain richer insight (see interview protocol in Appendix B).

## 4. RESULTS AND DISCUSSION

This section presents the results of the survey-based factorial experiment. Manipulating the independent variable and noting the effects on the dependent variable is one advantage of the factorial experimental design. ANOVA was used to monitor the effects of manipulation of four hypothesized factors influencing ACMs' decision on EAS. Through analyzing the experimental survey, using the Statistical Package for the Social Sciences (SPSS) software, the RQ1 and RQ2 were addressed, in addition to verifying the study hypothesis.

### 4.1. Main and interactive weights of the study factors

The relative weights of the factors driving ACM's decision to nominate an external auditor are set out in Table 1. The effect size portion (objective measure) in Table 1 reveals that "Previous knowledge of the firm" dominates over the other factors representing 28.27% of the total influence, followed by the "Industry experience" factor in second place at 25.15%. The third contributing factor to the EAS was the "Use of technology", which accounted for 23.88% followed slightly by audit fees, with 22.69% of the total effect size. Main and interactive weights data in Table 1 were taken from the details of Table 2. Table 2 also reveals two significant interactions (at  $\alpha = 0.01$ ) between (Industry experience \* Fees) and (Fees \* Previous knowledge of the firm) accounting for 0.227 and 0.337, respectively, of the total effect size.

On the other hand, the participants were asked to give relative weights that reflect the importance of the four variables on EAS out of 100, which are shown in Table 1 (self-reported weights). Placing the results of the objective and subjective measures in Figure 1 allows us to measure the self-insight that ACMs possess in EAS. The greater the closeness in the rankings and the influence of variables on EAS, the greater the depth of audit committees' self-insight (Hooper & Trotman, 1996). Figure 1 suggests that ACMs have a low level of self-insight, in contrast to external auditors (Al-Sukker et al., 2018; Shbeilat, 2013), and financial analysts (Hopkins & Ross, 2013; Shbeilat, 2023) who have been shown to have a relatively high level of self-insight.

**Table 1.** Factor weightings on the effectiveness of audit committees

Self-reported weights	Industry experience	Use of technology	Fees	Previous knowledge	%
Mean (%)	35.34	31.46	14.31	18.89	100
SD (%)	7.314	8.265	7.467	8.168	
Range (%)	20-60	10-50	5-30	10-40	
Rank	1	2	4	3	
(No. of surveys = 51)					
Effect size					
Main effects (Partial eta squared)* (%)	17.8	16.4	14.62	20.18	69 <sup>a</sup>
Interactions (%) <sup>b</sup>	7.35	7.48	8.07	8.09	31 <sup>a</sup>
Combined effects (Total main effects + Interactions (%))	25.15	23.88	22.69	28.27	100
Rank order	2	3	4	1	
(No. of surveys = 51)					

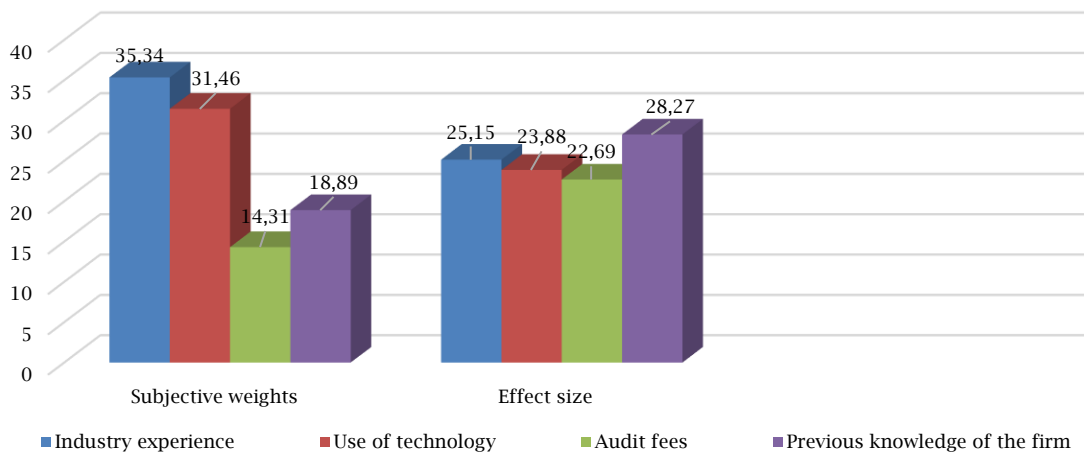
Note: \* Calculated based on this equation:  $\eta^2 = SSeffect / (SSeffect + SSError)$ ; a. Details in Table 2; b. The interaction effects among the factors involved in the interaction are allocated equally.

**Table 2.** The main and interactive influence on the decision to nominate EAS by ACMs

Factor	Effect size <sup>a</sup>	p-value	Observed power
Main effects			
Industry experience ( <i>IndExp</i> )	0.533	0.00*	1.00***
Use of technology ( <i>Technology</i> )	0.491	0.00*	1.00***
Audit fees ( <i>Fee</i> )	0.438	0.00*	1.00***
Previous knowledge of the firm ( <i>PKnowledge</i> )	0.604	0.00*	1.00***
Total main effects	2.066		
Interactions			
<i>IndExp</i> * <i>Technology</i>	0.055	0.195	0.27
<i>IndExp</i> * <i>Fee</i>	0.227**	0.003*	0.87***
<i>IndExp</i> * <i>PKnowledge</i>	0.006	0.54	0.07
<i>Technology</i> * <i>Fee</i>	0.03	0.464	0.13
<i>Technology</i> * <i>PKnowledge</i>	0.026	0.384	0.12
<i>Fee</i> * <i>PKnowledge</i>	0.337**	0.00*	1.00***
<i>IndExp</i> * <i>Technology</i> * <i>Fee</i>	0.064	0.223	0.27
<i>IndExp</i> * <i>Technology</i> * <i>PKnowledge</i>	0.062	0.061	0.41
<i>IndExp</i> * <i>Fee</i> * <i>PKnowledge</i>	0.072	0.148	0.33
<i>Technology</i> * <i>Fee</i> * <i>PKnowledge</i>	0.009	0.301	0.08
<i>IndExp</i> * <i>Technology</i> * <i>Fee</i> * <i>PKnowledge</i>	0.04	0.28	0.18
Total interactions	0.928	-	-
Total of main and interactions	2.994	-	-

Note: a. Partial eta squared was used to find out the effect size; \* Significant at  $\alpha = 0.05$ , \*\*  $\geq 0.14$  is considered a large effect size (Coolican, 2018), \*\*\* Exceeding 0.8 is considered a "gold" indicator of power (Coolican, 2018).

**Figure 2.** Weights and ranks of factors influence the decision to nominate EAS



The high degree of self-insight that professionals (auditors and financial analysts) possess can be attributed to the presence of professional associations that control their work, grant them accredited certificates, and set professional and behavioral standards that develop their capabilities and experiences over time, which earns them a high degree of self-insight (Al-Sukker et al., 2018; Shbeilat, 2013; Hopkins & Ross, 2013). By analogy, the low level of self-insight among ACMs can be

attributed to the fact that the audit committee is formed for a specific period, and some members of the committee may change depending on the change in the board of directors, and sometimes transfers take place between members of the different committees. Accordingly, the lack of relative stability and the short period of the committee's work may reduce the formation of systematic experience among them. Another possible reason is that although the selection of auditors is entrusted



to audit committees, executive management, and major shareholders, especially in family firms, often intervene in the composition of the board of directors. This, in turn, may also limit the ability of audit committees to develop systematic criteria for comparing auditors and recommending appropriate proposals.

#### 4.2. Integrating the qualitative outcomes

Six in-depth interviews were conducted with ACMs. Their responses and perspectives were hand-written and analyzed to identify common themes related to their role in EAS.

Regarding industry experience, the literature discussed above has shown that this factor has a significant impact on audit committee decisions on EAS (Hairston et al., 2022; Jensen & Payne, 2003; He, 2015; Reheul et al., 2011; Knechel et al., 2008; Free et al., 2021; Alharasis et al., 2023). Industry experience was defined for respondents as the extent to which audit firms audit other companies belonging to the same sector. ACMs have

given great importance to industry experience as an influential factor in EAS; it scored highest on the subjective scale, when participants were asked to give percentages out of 100 on the importance of the four factors, while the results of the experimental questionnaire (objective measure), industry experience ranked second. Knowledge of company risks and the ability to respond to them were common themes among participants regarding this factor.

*"The auditor will not need a long time to identify the risks"* (Interviewee 3).

*"It is better to look for a specialized auditor, just as people look for a specialized doctor to better diagnose the disease"* (Interviewee 5).

*"Insurance companies, for example, have different fields, different accounts, and connections with international and local companies, and they need specialists in insurance operations and accounts, just like banks"* (Interviewee 1).

A piece of the interview with Interviewee 1 regarding the importance of having experienced auditors in the sector is shown in the box below:

- Interviewee 1: *Banks should also be audited by specialists in banking operations.*
- Interviewer: *Why?*
- Interviewee 1: *Banks in particular are a sensitive sector, and the Central Bank is strictly monitoring it, ... The Central Bank did not leave the door open to any auditing firm to audit banks. Only companies specialized in banking business are allowed to audit banks.*
- Interviewer: *How does the Central Bank ensure that those responsible for auditing bank accounts have appropriate banking experience?*
- Interviewee 1: *The Central Bank stipulated that whoever audits banks should have at least 10 years of experience in the banking sector.*

Interviewee 4 pointed out that although industry expertise is important in facilitating the audit of specialized sectors, not all listed companies need specialized accounting expertise.

*"Some companies, if you look at their accounts at the end of the year, you will find them very simple, especially the real estate sector. Some companies have not carried out financial operations for a couple of years because of the recession, and therefore you will find their income statement consists of zero revenues minus few administrative expenses only"* (Interviewee 4).

Regarding the use of technology, the quantitative results showed that the ability to use technology ranked third in EAS in line with previous studies (Richardson et al., 2021; Fedyk et al., 2022; PwC, 2022; CAQ, 2018). The use of technology refers to the audit firm's ability to use computer-aided audit tools and deal with contemporary technologies in business such as employing cloud accounting services, business intelligence applications, data mining, machine learning, artificial intelligence, and blockchain in the business world.

The auditor's ability to use modern technology and its applications was considered a valuable factor in the eyes of the interviewees because of its effective contributions in facilitating the performance of the audit process accurately and efficiently. The most common theme regarding the use of technology is that Jordan, as a developing country, still needs time to absorb and use contemporary technological applications, especially since developed countries that use technology in accounting and auditing are still examining the feasibility and implications of their use. However, there was a consensus among the participants that the future

is for technology, and that it is inevitable. This calls for auditing firms to closely follow up on technological developments and explore ways and possibilities of employing them in the auditing profession.

*"I do not think that auditing the accounts of many listed companies in the current situation requires these complex technological tools now, but there is no doubt that the future is for technology"* (Interviewee 6).

*"I believe that we are rapidly approaching the era of the technological revolution, so that an auditor who does not keep pace with this revolution may find himself losing his market share little by little"* (Interviewee 2).

*"The future will witness the widespread use of artificial intelligence and robots in most fields"* (Interviewee 4).

Interviewee 1 reported that some companies are becoming familiar with the use of cloud accounting and business intelligence applications.

*"The use of cloud accounting is fairly common even in medium-sized entities, while business intelligence is used by some banks, especially in marketing areas, but not at the same pace as we see in advanced banks"* (Interviewee 1).

It is worth noting that there is a discrepancy in the backgrounds of the participants regarding the uses of modern technology tools. Two of the participants revealed that their knowledge of using blockchain and AI applications in accounting and auditing is modest, three of them are medium, and one of them is at a good level. However, they all agreed that the future belongs to those who master technology. Perhaps, this explains why it is currently ranked third in their view.

Audit fees were an important factor in influencing ACMs' decisions. However, the results of previous studies are consistent with the views of the interviewees that the fee factor should not be at the expense of quality (Alhadab, 2018; Telfer & Wood, 2018; Hairston et al., 2022; Habib et al., 2019; Asthana et al., 2015). Audit fee refers to the amount of fees proposed to be paid to the auditor for providing audit services and any other permitted services for the fiscal year. Interestingly, both the self-reported weights (a subjective measure) and the effect size (an objective measure) agreed to give audit fees the lowest rank in influencing EAS, albeit statistically significant. The most remarkable themes that the participants unanimously agreed upon are 1) the balance between quality and fees, 2) competition among auditors, and 3) the fees should be commensurate with the audit effort exerted. In fact, most of the guiding principles related to EAS, which were mentioned earlier, indicated that fees should not be the dominant factor of EAS. Furthermore, participants may not wish to explicitly indicate that fees make up a large part of the decision to nominate an auditor. The reason for this is to give the impression that quality is the primary factor in EAS, not fees.

*"Quality first, and other factors second"* (Interviewee 5).

*"Of course, competition affects audit fees as much as it affects commodity prices"* (Interviewee 3).

*"It is unlikely that you will see a company telling you that it chooses the offer with the lowest price, even if the lower price was the only factor influencing the decision"* (Interviewee 6).

A remarkable point of view from Interviewee 4 emphasized that fees play a role in the Jordanian financial market, especially in companies that are distinguished by the simplicity of their accounts and the simplicity of preparing their annual statements.

*"There are public shareholding companies with a very small number of employees, and some without employees because they depend on the parent company in preparing their very simple accounts ... For example ... Some real estate companies do not carry out commercial operations during some years ... so, if you look at the reports in those years, you will find them very simple and do not require much effort to prepare them, and that is why such companies care about the minimum fees"* (Interviewee 4).

With regard to the previous knowledge of the firm, the quantitative results showed that it ranked first, which indicates its high importance in influencing ACMs. The literature has shown that the auditor's prior knowledge facilitates the process of evaluating the auditor's performance and thus helps the audit committee to decide whether or not to nominate the auditor (Brown & Knechel, 2016; Fadaly, 2018; Olowookere & Inneh, 2016; Daugherty et al., 2012; Hallman et al., 2022; Free et al., 2021). Consistent with the quantitative results, the interviews showed that the auditor's prior knowledge plays a significant role in making the decision to hire or not hire an auditor. During the interviews, ACMs were informed that previous knowledge of the firm meant a prior working relationship with the audit firm (whether it had previously performed audit or non-audit services), which left either a good or bad impression of the audit firm. This impression will

necessarily influence the decision to select or not select auditors. Reasonable fee and smoothness in completing the audit engagement are the two main themes extracted from the ACMs' responses and views. Moreover, the long-term relationship with the current auditor means greater knowledge of the company's accounts, and this leads to ease of auditing the company's final accounts with less time and effort, and thus the audit fees may decrease accordingly.

*"There is no need to change when you are satisfied with an existing auditor who knows the details of your accounts well"* (Interviewee 2).

*"It is uncommon to see a dispute over fees if a previous auditor is selected"* (Interviewee 6).

The interviews showed that family businesses often tend to appoint or reappoint the same auditor because of social ties or friendships.

*"The auditor's prior knowledge, which influences the appointment of that auditor, is often due to the presence of social ties and friendship"* (Interviewee 5).

Notably, audit fees, which ranked last in terms of main effects and self-reported weights, were involved in two statistically significant interactions. The audit fee interacted with industry experience and with prior knowledge of the audit firm. This indicates that the fee factor has another additional effect when interacting with other factors. This interaction reinforces the study's hypothesis that audit committees configurally assess the factors affecting EAS.

The first interaction between fees and experience in the sector is well-explained by interviewees. The interviewees agreed that the auditor with experience in the sector is more familiar with the company's business and its specialized accounts, and this, in turn, may influence the amount of the estimated fees. This, however, was also confirmed in the referent literature. For example, Habib et al. (2019) indicated that audit fees are directly proportional to the need to appoint an auditor specialized in the sector. Similarly, Hairston et al. (2022) report that there is an increase in audit fees for companies that require expertise in derivatives and hedging. Fiolleau et al. (2013) emphasized that audit committees should take into account that auditors meet the minimum required industry experience, and then minimum fees can be negotiated. According to Jensen and Payne (2003), when companies give low weight to fees, interest tends to choose auditors with high industry experience, just as the school sector requires (Elder & Yebba, 2021). Further, Alharasis et al. (2023) reported that having auditors specialized in the industry may save a company the costs of having to hire outside experts.

The second interaction between fees and prior knowledge of the audit firm was also adequately justified by the interviewees. The interviews showed that this interaction reflects the fact that the auditor who previously worked with the company becomes familiar with the company's accounts, meaning that auditing the company's accounts for the second time is easier for the auditor.

*"Certainly, the current auditor will not need much time and effort to audit the accounts of the coming year, and herein lies our opportunity to negotiate fees"* (Interviewee 5).

The interaction between fees and prior knowledge of the auditing firm was noted in previous studies. Sands and McPhail's (2003) study showed that audit fees are among the important factors companies consider when deciding to replace the incumbent auditor with a new one. Moreover, Hallman et al. (2022) found that current auditors provide a high level of audit quality and reduce their fees relatively over the years of bidding.

Regarding how to enhance the audit committee's independence in EAS, a transparent nomination process was the most notable theme drawn from the interviews. The interviewees stated that the method of nominating auditors should be disclosed in the annual report because the existence of such transparent procedures is useful in neutralizing personal relationships in choosing the auditor and highlighting the role of the committee as a decision-maker in choosing what suits the interest of the company. Other notable themes raised from the interviews:

1. Qualifying members of the audit committee in the field of accounting and auditing.

2. Reconsidering the mechanism of forming the audit committee to ensure that its role in supervising the work of the auditors is strengthened. Such as setting controls aimed at not changing/dismissing any member of the committee without reasonable justification.

3. Giving the chairperson and members of the committee the authority to communicate with the regulatory authorities if necessary, especially in the event of significant breaches of governance instructions that affect the work of the external auditor.

*"When the recruiter is powerful and qualified [the audit committee], the person chosen [the external auditor] will be qualified and strong as well"* (Interviewee 4).

## 5. CONCLUSION

Companies seek to appoint independent external auditors to add more legitimacy and reliability to the financial statements. Appointing an independent auditor is a primary goal that all companies seek, but unfortunately, it is very difficult to fully verify the auditors' independence (Duska et al., 2018). However, companies seek to enhance the performance and independence of the auditor by paying special attention to the nomination process of auditors. This study examines the effects of four factors affecting ACMs' decisions on EAS: industry experience of external auditors, use of technology, audit fees, and prior knowledge of the audit firm. The results showed that all four independent variables significantly affect the decision of the audit committees in selecting the auditor, and showed two statistically significant interactions. Thus, the study has addressed the first research question related to finding the effect of variables on EAS individually and in an interactive manner.

The auditor's foreknowledge is often the result of a previous audit engagement, or by providing non-audit services in the past, such as financial, tax, and accounting services. If the auditing firm performs its task perfectly, this gives a signal to those in charge of governance that this auditor deserves to be among the nominated auditors. Industry experience was also found to be an effective

factor in influencing the audit committee's decision. In this, a message to auditing firms is that they should seek development and growth and involve experts in the most important sectors needed by companies, whether public or private, in order to increase their market share. As for the employment of technology in the profession, the results emphasized its importance in facilitating and speeding up audit procedures. It is worth noting that members of audit committees indicated in interviews that the future is clearly in the direction of technology, and thus auditors should pick up on this signal well and prepare well to master blockchain, business intelligence, and cloud accounting, for example. With regard to audit fees, it is difficult to ignore its impact on the selection of auditors, although it ranks last among the four factors. Large companies may not give much weight to the audit fees, but small companies or those suffering from financial problems may give the fees great weight. The existence of transparent recruitment procedures may contribute to audit quality being the driver that has more weight than fees.

Thirty-one percent of the overall effect was attributed to interactions between the variables, as shown in Table 1, this, in turn, supports the study's hypothesis (H1), which states that ACMs process information configurally. Configural cue processing among ACMs suggests that audit committees make decisions by considering a range of factors rather than each variable alone. Therefore, those in charge of regulating the profession and laying the foundations for selecting auditors in public companies should take into account the four factors individually and collectively due to the overlaps between them. Audit firms should also be aware of the importance of these factors and highlight them when submitting requests for proposals.

Given that the self-insight that the audit committee possesses is found low, it can be enhanced by suggesting the following:

1. Reconsider the formation of audit committees so that voting in audit committees is separate from voting for the board of directors to take into account the minimum necessary experience and qualifications (Shbeilat, 2014).

2. Holding courses to develop the capabilities of the audit committees in the principles of accounting, auditing, and corporate governance.

3. The audit committee charter must include approved criteria for EAS, because setting such criteria contributes to neutralizing personal factors in selecting auditors and reduces the chance of management interference in the appointment stages.

The results of this study can be useful to:

1. Entities seeking guidance on how to set and manage auditor selection appropriately.

2. The owners of the company who have the final decision to vote on the external auditor, as they wish to be assured that this third party, who is supposed to be impartial and independent, has been nominated to them according to solid and approved foundations.

3. Other stakeholders, such as creditors, lenders, and investors in assessing a company's financial position, since the soundness of the procedures for appointing auditors may necessarily mean to them that the financial reports are more reliable.

4. In the end, the regulatory bodies are interested in the soundness of the process of appointing auditors in a growing market, such as Jordan, to give more confidence in the capital market and attract investments. As for professional associations of auditors, they are concerned with ensuring that the method of appointing their members is carried out following acceptable professional standards without personal bias, in addition to the existence of transparent selection procedures.

This study highlighted the importance of transparency in selecting auditors. Accordingly, it may be appropriate to request the addition of a section to the annual report to explain the procedures for selecting auditors. Disclosing these details constitutes a qualitative addition to the annual report and contributes to institutionalizing the process of selecting external auditors. Given the importance of such disclosure, Hong Kong requires that the reasons for changing the auditor, the selection criteria, as well as the basis for the final decision be disclosed (AFRC, 2021). Shbeilat (2018) emphasized the importance of a tripartite audit report that highlights the role of the audit committee in nominating external and internal auditors in the annual report.

This study adds to agency theory an additional in-depth insight, into a developing country, by shedding more light on the economic demand for auditing which represents an important phase of agency theory. The phase begins with the audit committee nominating an independent external auditor to be elected by the owners of the company (principals). The main role of this external auditor is to provide reasonable assurance about the integrity of the financial statements prepared by the company's management (agents) (Jensen & Meckling, 1976). The findings of this study provide valuable insights to policymakers and shareholding companies alike on how to revitalize, prioritize, and institutionalize the process of EAS. The insights gained provide a better understanding of the factors that drive EAS and how they interact in shaping the judgments of ACMS.

This study fills a gap in studies related to EAS in developing countries. To the best of the researcher's knowledge, there are no studies on the mechanism of selecting auditors in the context of Jordanian studies. There is a paucity of research

on how audit committees handle an RFP, according to Vandennieuwenhuysen et al.'s (2023) literature review. Most of the relevant studies, in the Jordanian context dealt with the factors affecting auditor change, rather than studying the mechanism used in EAS (Saaydah, 2021; Khasharmeh & Al-Omari, 2001; AlRajabi & Warrad, 2017; Alroud, 2019; Al-Nimer, 2015).

This study has a set of limitations. First, the participants were asked to name other possible factors that influenced their decision to nominate auditors other than the four hypothesized variables. Factors they cited included: independence, affiliation with the Big Four, reputation, geographic coverage, and friendships and social relationships. Arguably, this study did not examine independence because independence is a must criterion and is indivisible. "Independence as such is 'a must'; it should not be a criterion as such" (FEE, 2013, p. 26). Moreover, from the point of view of the experimental approach, it is illogical to say worse or better independence, because non-independent auditors must disclaim opinion according to auditing standards. As for geographical coverage, Jordan is a small country and auditors can move easily between cities when needed, noting that most (if not all) of the headquarters of public shareholding companies and auditing firms are based in Amman, however, geographical coverage may be important for companies that have links and business with international companies.

Firm reputation and affiliation with international audit firms are left for future studies because, from the point of view of the experimental approach, the addition of a fifth independent variable makes the scenarios presented to the participants 32 instead of 16. The need for a longer time to fill out the questionnaire may affect the response rate and the credibility of the responses. With regard to social connections, there is evidence that social ties and family businesses play a role in EAS in a developing country such as Jordan (Saaydah, 2021; Al-Msiedeem, 2019; Khasharmeh & Al-Omari, 2001; Shbeilat & Abdel-Qader, 2018). This overlap between subjective and objective factors in EAS, and the implications of disclosing the EAS's mechanism, in addition to how listed companies in developing countries deal with bid requests, opens up prospects for researchers to conduct future studies with mixed methods to advance our understanding of EAS.

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**APPENDIX A. DATA COLLECTION — EXPERIMENTAL SURVEY**

This questionnaire is part of a study examining the main drivers of external auditor selection from the perspective of audit committees.

Your views will contribute greatly to the level and quality of information being gathered. Please complete all 3 parts of the questionnaire yourself.

Your responses and comments are strictly confidential. This questionnaire is anonymous unless you opt to provide contact details to receive a copy of the research report. No responses or comments will be individually attributed in any published report and any comments used will be de-identified. Participation in the study is entirely voluntary. The questionnaire should take less than 20 minutes to complete.

Please return the completed questionnaire in the envelope provided to:

P. O. Box 410969 Jabal Al-Taj 11141 Amman, Jordan

**COMPLETION INSTRUCTIONS (PART A)**

Please read the following definitions in order to best visualize the scenarios presented.

1. *The industry experience* of the external auditors indicates the extent to which the audit firms have audited other companies belonging to the same sector.
2. *The use of technology* refers to the audit firm’s ability to use computer-aided audit tools and deal with contemporary technologies in business such as employing cloud accounting services, business intelligence applications, data mining, machine learning, artificial intelligence, and blockchain in the business world.
3. *Previous knowledge of the firm*: This means the existence of a previous working relationship with the audit firm (whether it had previously performed audit or non-audit services). These previous services contribute to leaving an impression of the audit firm’s performance.
4. *Audit fee* refers to the amount of fees proposed to be paid to the auditor for providing audit services and any other permitted services for the fiscal year

**PART A: The exercise (16 cases)**

You have 16 hypothetical scenarios for the four key factors for selecting an external auditor (which are defined in the section above). Each scenario describes the four selected factors that influence the auditor’s choice at two levels, either better or worse. Please consider each case individually and provide your typical assessment of each scenario in your decision to select an auditor. Please indicate your responses by circling one of the figures on each scale. Please take the time to complete all questions because, despite visual similarities, each is different and our analysis depends on having a complete set of responses.

**Example:** The response for your typical case would appear like this:

Typical	Industry experience
Typical	Audit fees
Typical	Use of technology
Typical	Previous knowledge of the firm

*Your decision to nominate the appointment of the auditor*  
(Circle)

Substantially worse	-3	-2	-1	Same	+1	+2	+3	Substantially better
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**PART B**

Please indicate the relative importance each of the four variables had on your judgments to select an auditor by allocating 100 points between them (i.e., the column should total 100%):

- External auditors’ selection
- Industry experience -----
  - Audit fees -----
  - Use of technology -----
  - Previous knowledge of the firm -----

Please indicate by circling a number on the scale below how confident you are that the four hypothesized factors together represent the key drivers of your decision to select auditors.

Lower confidence      1      2      3      4      5      6      7      Higher confidence



Please list other relevant factors that you believe will be relevant to your assessment of the selection of external auditors:

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**PART C**

1. How many years have you worked as an audit committee member? \_\_\_\_\_ years
2. Please indicate your experience in the fields related to finance, accounting and business: \_\_\_\_\_ years
3. Please indicate your qualification (example: Bachelor of Business Administration): \_\_\_\_\_
4. Please indicate if you would like to receive a copy of a summary conclusions report. Yes / No

If you have answered Yes to the above, please provide your contact details:

Name \_\_\_\_\_ Position \_\_\_\_\_  
Company \_\_\_\_\_  
Telephone \_\_\_\_\_ e-mail \_\_\_\_\_

*Thank you, your input is greatly appreciated.*

**APPENDIX B. INTERVIEW PROTOCOL**

- Welcome remark.
- An explanation of the most important terms used in the study.
- Provide an overview of the purpose and importance of the study.
- Request unprompted impressions of how they process external auditors' selection.

1. How does your assessment of the industry experience affect your decision to nominate the external auditor?

Can you please tell me why the industry experience matters to your assessment?

2. How does your assessment of the ability to use of technology affect your decision to nominate the external auditor?

Can you please tell me why the use of technology matters to your assessment?

3. How does your assessment of audit fees affect your decision to nominate the external auditor?

Can you please tell me why the audit fees matters to your assessment?

4. How does previous knowledge of the auditor affect your decision to nominate that auditor?

Can you please tell me why the 'Previous knowledge of the firm' matters to your assessment?

5. From your perspective as an audit committee member, what are the proposed procedures to enhance the effectiveness of auditor selection decision-making?

*Thanks, interviewee.*