

CORPORATE GOVERNANCE AND AUDIT QUALITY: FURTHER RECOMMENDATIONS BEYOND THE CODE

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Abstract

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Although meeting the recommendations of corporate governance code is important, it is not sufficient to ensure the governance effectiveness (often having more form than substance). This, alongside with the fact that the Jordanian corporate governance code is still in its infancy, motivates the study to look beyond the current code recommendations. For this purpose, this study seeks views of key practitioners regarding possible additions/changes to the current code that they feel are important in promoting audit quality. Questionnaire survey is used to obtain views of the auditors, boards of directors and audit committees' members of the Jordanian listed companies. A number of important recommendations have been put forward by the respondents. The study has an implication for policymakers by providing useful inputs for future governance reform. Also, the study provides insights to companies that are interested in corporate governance quality. The important information gained from the key respondents no doubt contributes to the literature and also opens new avenues for future research. This study offers an important contribution by extending the investigation of boards of directors' and audit committees' roles in promoting audit quality to dimensions that are not recommended in the current governance code, and also widely neglected in the literature.

Keywords: Board of Directors, Audit Committee, Audit Quality, Corporate Governance

1. INTRODUCTION

A number of corporate governance codes across the globe have been enacted since the 1990s as a consequence of the corporate scandals, and also because of the substantial importance of corporate governance on corporate success and on overall economic health. In this vein, Jordan; over the last two decades has introduced a number of regulations to improve corporate governance and to enhance investors' confidence, and ultimately to develop the financial market.

The Jordan Securities Commission (JSC) has spent time and energy attempting to improve the roles of boards of directors and audit committees to ensure that investors obtain relevant and reliable information. The efforts of JSC in this vein are culminated in launching a Corporate Governance Code in 2008. This code put many responsibilities on the shoulders of boards of directors and audit committees as essential corporate governance

pillars. The credibility of financial statements is a significant responsibility attached to the board of directors and audit committees¹. So given that board of directors is responsible for controlling management behaviour and monitoring the overall financial system, and audit committee is directly responsible for overseeing financial reporting and auditing activities; it is expected from these two bodies to play a significant role in ensuring higher audit quality.

However, adhering to the code recommendations does not necessarily ensure effectiveness i.e. companies may meet these recommendations as a tick box to meet the legal requirements or to mimic other companies (having more form over than substance). This is evidenced by many examples of companies that are collapsed despite their compliance with regulations.

¹ Most of the recommendations of the Jordanian code of corporate governance focus on these two mechanisms (board of directors and audit committees).

This study, therefore, is interested in highlighting whether there are other corporate governance mechanisms (beyond the current code recommendations) that may boost boards of directors and audit committees' effectiveness and, therefore, ensure high audit quality. For this purpose, views of auditors, members of boards of directors and audit committees have been obtained. The way that these groups think can affect the impact of the Jordanian governance code recommendations and may provide useful feedback for the regulatory bodies in particular when considering current corporate governance practices.

A number of recommendations have been put forward by the respondents. The areas they most focused on, as important drivers to ensure audit quality, are audit committee tenure, internal control systems, non-audit services, board dynamics, audit committees' skills, meetings' agenda and length of meetings, and training scheme for new directors.

The findings have implications for practice and research. As the corporate governance regulation in Jordan is still in its infancy, this study has an implication for policymakers by providing useful inputs for future governance reform. Also, this study provides insights to companies that are interested in the substance of corporate governance practices. Furthermore, the study offers an important contribution to the extant literature by extending the investigation of boards of directors' and audit committees' roles in promoting audit quality to dimensions that are not recommended in the current Jordanian governance code, and also widely neglected in the literature.

The paper is structured as follows. The next part is about study motivation. The third part discusses the study background in terms of theory and literature. The methodology is clarified in part four. The discussion of the results and conclusion are presented in parts five and six, respectively.

2. STUDY MOTIVATION AND RESEARCH QUESTION

Since the 1990s, Jordan has successfully walked down the path towards a market economy. In particular, after launching the privatisation programme, the government has had a continuing interest in promoting effective corporate governance practices to regain investors' confidence in the capital market and create a suitable investment environment to attract (and retain) external and local investors. Therefore, credible external auditing becomes essential to boost the investors' confidence in the financial reporting. A lack of this confidence can adversely affect the financial market; given that investors are the main capital providers who support the economic system.

This study is interested in the viewpoints of external auditors, members of boards of directors and audit committees with regards to possible improvements to the current governance regulations. These three groups are important in the corporate governance system, and they are in an ideal position to evaluate and comment on corporate governance practices. Boards of directors and audit committees are considered to be a cornerstone of corporate governance (Cohen et al., 2008; Cadbury, 1992). Auditors also are considered to be an essential component in the corporate governance mosaic as they play an important role in mitigating agency conflict.

A number of empirical studies identified

different indicators of boards of directors' and audit committees' effectiveness not captured in regulation (Cohen, Hoitash, Krishnamoorthy & Wright, 2013; Gendron & Bédard, 2006)². In other words, adoption of regulated best practice or code recommendations does not necessarily ensure boards of directors and audit committee effectiveness; so it is important to look beyond the regulated requirements. For example, though audit committee of Enron showed a high level of adhering to the regulations, the committee did not "probe the [external auditor]independence issue, nor did it initiate the type of communications with Andersen personnel that would have led to its discovering Andersen concerns with Enron accounting practices". (US Senate, 2002: 57).

Therefore, given that Jordanian corporate governance regulation is still evolving, and given that these targeted respondents have a consultative role in the formation of relevant regulations in Jordan; this motivates the study to look beyond the current governance recommendations to gain a complete understanding of the characteristics that determine boards of directors' and audit committees' effectiveness. This is by asking these relevant respondents regarding possible improvements or changes to the current code, i.e. board of directors and audit committee-related suggestions that they feel are important in promoting audit quality, apart from what is already recommended in the current governance code. The provided suggestions, in turn, could be a valuable input for any future governance reform. So, the research question is:

RQ: What improvements to the current Jordanian governance code (regarding board and director and audit committee) would improve audit quality?

Finally, it is worth to mention that the Middle East and North Africa (MENA) countries share a common culture, religion, language, tribal and family tradition and, to a large extent, colonial effect (Ali, 1990). In this region, financial markets are still underdeveloped, and legal systems largely follow the civil-law tradition which is characterised by weak legal protection compared with the common-law. So, the results from the Jordanian environment can be - to a large extent- generalised to other MENA countries that share the same contextual characteristics.

3. LITERATURE BACKGROUND

3.1. Importance of audit quality

External audit function plays a significant role in corporate governance system as it bridges a gap between those who prepare financial information (management) and those who use it (shareholders). It is considered as a key monitoring device because it enhances the quality of financial statements, safeguards the shareholders' interests, and helps the investors for their investment decisions and by giving them confidence about company's status (Cohen et al., 2002; Habbash, 2010; Brown et al., 2011).

Moreover, many researchers (Christensen,

² These studies are not related directly to audit quality and also they are from different context (US and Canadian context). Cohen et al., (2013) considers the effectiveness of the Sarbanes-Oxley Act from the view of boards of director, while Gendron and Bedard (2006) focuses on audit committee effectiveness in three large Canadian public corporations through direct observation.

Glover, Omer & Shelley, 2016; Cohen, Krishnamoorthy & Wright, 2002; Piot, 2001) documented that the external audit function is an essential component in the corporate governance mosaic and it plays an important role in mitigating agency conflict and controls management's opportunistic behaviour. Becker et al., (1998) and Jensen and Meckling (1976) stated that auditors reduce information asymmetries and allow outsiders to verify the validity of financial statements. Thus, credible audit quality acts as an effective deterrent to financial statement fraud because management's reputation may be damaged and firm value adversely affected if misreporting is revealed.

External auditing also has a vital role in mitigating the principal-principal conflict not only the conventional principal-agent conflict. For instance, In developing countries where the companies are characterised by concentration ownership which in turn increases the agency problem, the external audit function would create confidence and assurance that the interests of minority shareholders are sufficiently protected from exploitation by controlling shareholders (Fan & Wong, 2005).

3.2. Role of board of directors and audit committee in audit quality

The board of directors has received increasing attention by researchers in recent years due to its essential role in the corporate governance process. Board of directors is described as a lynchpin (Gillan, 2006), and as a main central mechanism (Daily, Dalton & Cannella, 2003) for the organizations' governance system. Board of directors has the ultimate responsibility for the functioning of the firm (Jensen, 1993) as their role includes a broad range of duties, powers, and responsibilities.

Therefore, a high-quality board effectively achieves its monitoring, controlling, and advisory duties in order to maintain the company's value and protect the shareholders' interests. A number of prior studies presented its fruitful role in different corporate aspects. For instance, the effective board reduces probability of financial statements fraud (Beasley, 1996), reduces the likelihood of earning manipulation (Dechow, Sloan & Hutton, 1996), strengthens the internal control system (Dechow et al., 1996; Messier, 2000; Tsui, Jaggi & Gul, 2001), reduces opportunistic managerial behaviour and expropriation of firm resources (Byrd & Hickman, 1992; Yatim, Kent & Clarkson, 2006), decreases cost of debt and increases the reporting integrity (Anderson, Mansi & Reeb, 2004).

Audit committees have assumed more importance since the 1990s, particularly after the enactment of relevant regulations such as Cadbury (1992), Higgs (2003) and Smith (2003) reports in the UK, SOX (2002) in the USA, and Best Practice Guide (1997) in Australia, which were a reaction to corporate failures and scandals. In Jordan, the corporate governance code also assigned many responsibilities to audit committees. All these regulations have emphasised the necessity of audit committee existence and its role in enhancing the financial reporting quality (Ghafran & O'Sullivan, 2013; Turley & Zaman, 2004).

Furthermore, audit committees are essential in strengthening the corporate governance system, and important for increasing financial reporting integrity and reducing audit risk (Turley and Zaman, 2004).

To avoid a legal liability and to protect their reputation, audit committees should promote and maintain auditor independence, in addition to effectively monitoring the auditing process by demanding a broader audit scope (Alhababsah, 2016; Zaman, Hudaib & Haniffa, 2011). Also, auditor independence is required in order to ensure audit quality, by mitigating management's pressure on auditors (Firth, 1997).

In order to mitigate the agency conflict, corporate governance framework is developed to control management behaviour, and compel it to behave consistently with shareholders' interests. This can be achieved by preparing high-quality financial statements and reducing earning manipulation. External audit is one of the monitoring tools used by the directors to compel management to consider owners' needs. Therefore, based on agency theory proposition, effective board of directors and audit committees play a dominant role in monitoring and controlling agents' behaviours, and consequently decrease the agency cost by aligning the principal agents' interests (Jensen & Meckling, 1976, and Fama & Jensen, 1983, Cohen et al., 2002).

Furthermore, external audit complements/supports board of directors monitoring role by controlling managers and increasing the current/prospective investors' confidence in the financial statements. This confirms that the theoretical legitimacy of audit function is reducing the agency cost as it reduces information asymmetry and therefore minimises the gap between owners and managers (Piot, 2001; Susanto, Pradipta & Djashan, 2017).

On the other hand, Jeong and Rho (2004) argued that when the institutional setting does not demand or is less interested in audit quality, auditors likely evade providing credible audit quality, so they exert less effort to curb management misbehaviour as well as may behave opportunistically to retain/attract more clients. So, in Jordan, the litigation risk concern is weak compared to developed contexts; and this decreases auditor' incentives to perform high audit quality. Investors in Jordan do not normally complain against auditors, and there are no common lawsuits cases against auditors (Jordan Association of Certified Public Accountants, 2015). This, consequently, increases the importance of effective boards of directors and audit committees to ensure that the auditors are delivering high-quality audit.

3.3. Perceived role of board of directors and audit committee: empirical evidence

Several attempts have been made by the previous studies to examine the correlation between characteristics of boards of directors and audit committees, and audit quality. What is known about the role played by these corporate governance pillars is largely based on empirical studies that employ secondary data. In other words, the literature focuses particularly on board of directors and audit committee composition and experience. So, given the importance of survey studies to refine our understanding of this matter, it is important to consider views of the key corporate governance practitioners.

However, a limited number of previous studies used surveys to address some of boards of directors and audit committees' characteristics/activities that

have been highlighted by recent governance regulation and are difficult to be captured through the secondary data studies (Contessotto & Moroney, 2014, DeZoort, 1997; Kamel & Elkhatib, 2013; Goodwin & Seow, 2000).

Contessotto and Moroney (2014) examined opinions of Australian auditors by asking them to identify the characteristics they use when assessing audit committee effectiveness. They found that external auditors rely more on a number characteristics that are not recommended in the Australian corporate governance code. This indicates that the governance code no doubt misses important recommendations which are important to enhance corporate governance effectiveness.

Eighty-two percent of the 253 US audit committee members believed that audit quality had improved after SOX, as per a survey carried out by the Centre for Audit Quality (2008). Based on the perceptions of audit committees' members, the improvement to audit quality is attributed to the level of communication with auditors, the increased oversight role of audit committees, and the increased emphasis on auditors' quality.

Moreover, Goodwin and Seow (2000) explored the perceptions of directors, investors and auditors in order to identify their opinions about corporate governance effectiveness (e. g. board structure). In this survey, the Singaporean respondents have been asked to indicate the optimal number of independent directors, the optimal board size to ensure effective corporate governance, and whether they support chairman-CEO separation. The results showed that 36% of the respondents considered that the majority of board members should be independent and they also supported the separation of the position of CEO and chairman. The result highlights the importance of board independence and separation of chairman position from CEO position.

DeZoort (1997) examined audit committee perceptions regarding their oversight role within firms. The findings show that many US audit committee members believe they do not have the required oversight expertise related to accounting and auditing, and they have agreed about the importance of holding sufficient expertise in these oversight areas. The results also indicate that audit committee members perform different roles beyond what is listed in the proxy statement and therefore agreed to expand their oversight responsibilities. Furthermore, this study shows that audit committees place more weight on internal control evaluation and perceive this as one of the most important areas of their oversight. This is in line with the importance placed by different legislations on the role of the audit committee in evaluating and monitoring internal control systems.

Cohen et al. (2002) pointed out that auditors perceived audit committees to be lacking in effectiveness and power, and their role in communicating with the auditors was usually passive. Instead, they perceived that boards of directors play a more active role. However, Stewart and Munro (2007) argued that these findings may not hold at the current time as audit committees get more attention and many related regulations are enacted, so further research is therefore needed.

Opinions of audit committee chairs, financial officers and audit partners were surveyed by Beattie et al. (2013) to explore what regulatory and economic variables contribute to audit quality. The three groups of respondents rated various audit

committee interactions with auditors among the factors most enhancing audit quality. Overall, perceptions of all respondents stress the role of the audit committee in ensuring audit quality. Though the perceptions of the different groups are consistent to some extent, there are some different opinions attributable to their different roles and responsibilities.

Evidence from developing markets came from Kamel and Elkhatib (2013) who employed a questionnaire survey to examine the respondents' perceptions (external auditors and financial managers or senior accountants) with respect to the role of audit committees in Egypt and their potential effect on financial reporting quality. The findings indicate that "reviewing significant changes in accounting policies" is the most important task for an effective audit committee, followed by internal control evaluation. The results also show that the vast majority of respondents have rated the independence of audit committee members and their financial experience as the most important attributes that should be considered when selecting the members of an audit committee. Finally, the study reported that the existence of a well-functioning audit committee is perceived as an effective corporate governance mechanism in restricting the incidence of financial statement fraud in Egypt.

Finally, it can be concluded that the literature suffers from a paucity of survey studies in this regard. The main focus of the literature is on the studies that employ secondary data and focus on common quantifiable (measurable) characteristics (which are recommended in the code e.g. independence, experience, size, meetings) to examine board of directors and audit committee effectiveness. Even in the survey studies mentioned above, the respondents have been asked about the effectiveness of the board and audit committee characteristics which are already available/recommended in the regulations. This study will look beyond the current recommendations of the Jordanian governance code in order to find other attributes that can enhance boards of directors and audit committees' effectiveness and, therefore, ensure high audit quality.

4. METHODOLOGY

4.1. Research approach

The extent to which researchers are clear about the theory when they start their research raises an important question concerning the design of the research (Saunders, 2011). This question is whether the research is deductive or inductive. The deductive approach means that the researcher develops hypotheses based on a specific theory and employs an appropriate methodology to examine the hypotheses (Saunders, 2011).

In the inductive approach, the researcher collects data (usually through interviews, open questionnaires) and reach a conclusion as a result of data analysis i.e. a researcher observe phenomena/obtain feedback and based on data analysis induces general inferences or theory (e.g. grounded theory) (Saunders, 2011, Sekaran & Bougie, 2016). Studies using this approach are likely to be more interested in the context in which such events are taking place more than the sample size as the main concern is specific rather than general

(Saunders, 2011).

In the same vein, much of research in accounting is considered either positive research (the research which explains and predicts particular events) or normative research (the research which prescribes particular actions or activities). Positive (descriptive) theory starts with the assumption(s) and, through logical deduction, enables some prediction(s) to be made about the way things will be (Watts & Zimmerman, 1978).

Deegan and Unerman (2011) stated that while positive accounting theory typically based on observation, normative theory based on what the researcher believes should happen in a particular event. In other words, while positive theory seeks to analyse the observation and data at hand, and then derive a conclusion accordingly, normative theory seeks to describe what should be done in the future (provides a basis for predicting future actions).

Therefore, this study considers the perceptions obtained from the respondents in order to reach useful inferences in the Jordanian context. Consequently, the study offers (prescribes) number of recommendations for policymakers in particulars regarding corporate governance mechanisms under investigations i.e. this study offers information about the expected implication of particular actions for interested parties. This, therefore, indicates that the study uses the inductive approach and the results can be explained using the normative theory framework.

4.2. Participants

As mentioned earlier, the participants are divided into three groups: members of boards of directors, members of audit committees and external auditors. Since these groups are a cornerstone of monitoring mechanisms and have a consultative role in the formation of relevant regulations in Jordan; their perceptions could have remarkable implications for the purpose of the current research.

Boards of directors and audit committees are considered to be a cornerstone of corporate governance (Cadbury, 1992; Cohen, Krishnamoorthy & Wright, 2008). The role of these two governance pillars is a central part of the Jordanian Code of Corporate Governance (2008) as monitoring mechanisms to ensure high audit quality which helps in protecting shareholders' interests. The boards of directors are responsible for the integrity of overall financial reporting systems, and in particular, they are responsible for presenting reliable financial statements.

The audit committee is the main board sub-committee which has particular oversight responsibility in relation to the financial statements. It is responsible for ensuring auditor independence and reviewing internal control system, engaging in the process of appointment of the external auditors, assessing the external auditor's plan of work, reviewing financial reports, and discussing matters

related to the audit.

Moreover, as external auditors ensure compliance with IFRS, provide a fair assurance about firms' financial positions, and play an important role in mitigating agency conflict; they are considered to be an essential component in the corporate governance mosaic (Cohen et al., 2002; Nurunnabi, 2017; Piot, 2001).

4.3. Survey instrument and sampling

A Self-administered questionnaire is utilised in this study (see Appendix). This type of questionnaire is completed by the respondents, and it is administered electronically using web-based survey. Qualtrics software has been used, which is one of the most effective ways to send and follow up questionnaires and see the responses instantly. A covering letter is added to the questionnaire explaining the nature and purpose of the study. In order to encourage respondents to cooperate with the researcher and provide truthful information, a clear statement is added to the covering letter indicating the confidentiality of responses and the anonymity of respondents.

The survey included auditors and members of boards of directors and audit committees for 160 listed non-financial firms (as in 31/12/2015). As per the data obtained from Jordan Securities Commission (JSC) and Amman Stock Exchange (ASX), the average board size is eight members and the average of the audit committee is 3 members. So total boards of directors' members will be 1280 and audit committees' members will be 480. As the audit committee members at the same time are directors, the 1280 members have been split into directors who are members of audit committees and directors who are not. As a result, the population of directors who are not members of audit committees is 800 (1280-480) as presented in Table 1 below.

Nearly all the listed non-financial firms in Jordan (96%) are audited by ten audit firms. Based on the information obtained from the Jordan Association of Certified Public Accountants (JACPA), the average certified auditors in these firms is five auditors. So, the targeted population for external auditors is 50. The study considered all of the population because it is recommended to take all the population if its size is lower than 50 cases (Henry, 1990).

The study employed a random sampling method in order to choose the target sample size. So, a list of all directors has been prepared and 260 directors and 214 audit committee members have been randomly selected. After that, a directory for the sample is prepared which contains a list of their details, e.g. firms they work in and contact details. The contact details are obtained from various sources e.g. the Amman Stock Exchange, the Securities Depository Centre, websites, and personal relations.

Table 1. Structure of population and study sample

<i>Groups</i>	<i>Population (N)</i>	<i>Sample size (n) (95% confidence level and p=.05 is assumed)</i>	<i>Returned questionnaires</i>	<i>Response rate</i>	<i>Overall response rate</i>
Directors in boards (not members of audit committee)	800	260	78	30%	32%
Audit committee members	480	214	68	32%	
External auditors	50	50	23	46%	

5. RESULTS AND DISCUSSION

5.1. Descriptive statistics of respondents' information

This section presents descriptive statistics for the three groups of respondents based on their positions i.e. directors (who are not a member of audit committees), audit committee members and external auditors as summarised in Table 2. In terms of length of work experience, the figures in Panel A (Table 2) show that about half of respondents (47.2%) have more than 8 years and up to 12 years work experience in their position, and 20.1% of them have more than 12 years of experience; 25% of respondents have between 4 years and 8 years of experience and, finally, respondents who have held their positions for 4 years or less represent 8.5%. These results are consistent with expectations, as these groups usually retain their positions for a long

period of time in Jordan.

As indicated in Panel B, about one-third of the respondents hold postgraduate qualifications, a majority of them hold a first degree (64.8%), and only 6% have lower than degree qualifications. Panel C shows the composition of respondents in terms of their gender. It can be noted that women's participation in such positions is still limited (5.5%) compared with other developed countries and this is expected as women in Jordan are still underrepresented in the workforce and in the business community in particular.

In conclusion, a majority of the respondents are well educated as they have higher academic qualifications and also they have significant work experience. This consequently suggests that they are aware of the issues raised in the questionnaire, and also leads us to expect that their perceptions should be rational and therefore more credible findings.

Table 2. Descriptive statistics for the three groups of respondents

Panel A: Experience				
Length of experience (years)	Board of directors (%)	Audit committee (%)	External auditors (%)	Total (%)
4 or less	10.3	7.6	6.1	8.5
More than 4, up to 8	18.4	36.7	9.1	24.1
More than 8, up to 12	47.4	48.1	45.5	47.2
More than 12	24.2	7.6	39.4	20.1
Total	100	100	100	100
Panel B: Qualification				
Qualification	Board of directors (%)	Audit committee (%)	External auditors (%)	Total (%)
Postgraduate	42.5	19	18.2	29.1
Bachelor	51.8	72.2	81.8	64.8
Others	5.7	8.9	0	6
Total	100	100	100	100
Panel C: Gender				
Gender	Board of directors	Audit committee	External auditors	Total
Male	94.3	98.7	84.8	94.5
Female	5.7	1.3	15.2	5.5
Total	100	100	100	100

5.2. The results: suggested improvement to the current governance regulation in Jordan

A number of recommendations have been put forward by the member of boards of directors, audit committees and external auditors. The areas they most focused on, as important drivers to ensure audit quality, are audit committee tenure, internal control systems, non-audit services, board dynamics, audit committees' skills, meetings' agenda and length of meetings, and training scheme for new directors (see Table 3 below).

5.3. Discussion of the responses

This section discusses the comments that have been mentioned by the three groups of respondents regarding the matter under investigation. The discussion particularly focuses on the comments/suggestions that are highlighted by more than one respondent or the suggestions that are more relevant to the purpose of this study. Importantly, in order to add more sense to the mentioned comments, this study endeavoured to support the respondents' suggestions by evidence

from previous high profile studies.

As a result, the respondents made different recommendations. Particularly with regards to audit committee tenure, gender diversity in the board of directors, internal control systems, non-audit services, board dynamics, training and length of meetings.

Based on the Jordanian governance framework, it is not allowed for the external auditors to carry out most of the non-audit services at the same time while they provide statutory audit work. Accordingly, auditors are not allowed to offer contemporaneously services; such as bookkeeping service, liquidation consultations' service, or design internal control system.

Loosening (relaxing) the regulations about non-audit services is one of the important suggestions made by auditors for consideration in any future amendments to the corporate governance code. They believe that providing non-audit service contemporaneously with the statutory audit service doesn't affect auditors' independence. Rather, it increases their business knowledge and thus contributes positively to the audit process and audit quality.

Table 3. The main and relevant comments suggested by the respondents

"I do not believe that providing non-audit services in addition to the statutory audit for the same client actually affects auditor independence. Instead, it gives us (the auditors) more knowledge about the nature of clients' businesses and thus contributes positively to the audit process and audit quality. So, we are looking for the relevant regulatory bodies to take this into consideration".
I would prefer if the regulation related to non-audit services is changed because I do not believe in the alleged tie between providing consultations to a client and auditor independence. I believe that there is no tie whatsoever [between providing non-audit service and auditor independence].
"The important point in my mind to ensure the effectiveness of directors of audit committees is stating a maximum limit of years for their service within the same committee, because in Jordan they have long tenure and I have a concern whether those directors after a long period still have independence and still conduct effective monitoring procedures. They may behave in favour of management and against the auditors and this no doubt affects audit quality".
As women are more sensitive to reputation loss and more risk-averse than men especially in a conservative community like Jordan, the existence of female in a board of directors is likely will strengthen the board and encourage it to demand additional audit effort from auditors to protect directors' reputations and to avoid legal responsibility".
"Team diversity, including male and female in the same team, is likely associated with higher levels of discussion, different opinions and, therefore, increases team productivity".
"Given that the current code [Corporate Governance Code, 2008] focuses on financial experience only, this might negatively affect the diversified abilities of audit committees' members. Including members who have different types of experience could greatly improve skills of the committee [audit committee]".
"I would say that a combination of financial, legal, and business operation experience will build a strong and effective committee and thus definitely leave an impact on audit quality".
"When talking about board meetings throughout a year, I would say that meeting duration should be taken into account not just the number of meetings".
"From my point view, the nature and dynamics of the discussions in board meetings are extremely important. So, attention should be on what's going on inside the boardroom rather than focusing on formalism e.g. board size and frequency of meetings".
"The big challenge for directors is the extent to which they are up to date with a company's business operations. I suggest that policymakers set instructions to ensure that directors are under a continuous improvement system so that they are not keeping on leading the company by the old mind/school standards. This, therefore, will create a more effective board of directors and no doubt will contribute to the quality of financial information".
"Fresh directors who join the board do not know much about the company and its business nature, and this adversely affects their effectiveness. So, I would suggest that the governance regulation includes requirements to force companies to run supportive training programmes about, for example, a company's operations, the legal requirements and relevant legislation".
"The board of directors is seen as a teamwork, so if this team is not competent in communication and interaction skills, this will lead to a weak board and, therefore, it will fail to carry out its monitoring role effectively. Such skills should be taken into consideration for board members".
"Following up internal audit reports by the audit committee should be taken seriously and there should be a strict rule for this given the importance of these reports. Although the audit committee is responsible for internal audit and control, it does not prepare and review internal control reports appropriately or does not do this function at all".

There is evidence from the previous empirical studies supporting this idea and reporting a so-called knowledge spillover advantage through providing non-audit services. Antle, Gordon, Narayanamoorthy, and Zhou (2006), Arruñada (1999) and Simunic (1984) argued that the knowledge spillover happens because the same set of information is used in achieving those type of services, and the results in one service have a favourable effect on the other. For instance, an auditor who evaluates the internal control system, as part of his usual duty, has a better knowledge with which to advise on or improve the internal control system than another service provider. Also, other previous studies reported no relationship between providing non-audit services and auditor independence, and therefore no effect on audit quality (Firth, 2002; Whisenant, Sankaraguruswamy & Raghunandan, 2003). However, the above points mentioned by auditors should be considered carefully, as auditors may work toward maximising their financial benefit by relaxing this particular requirement.

In addition, the literature reported what so-called "contractual nature advantage" as another favourable impact of providing non-audit services contemporaneously with the statutory audit service (Arruñada, 1999). The contractual nature advantage "is connected with the fact that the exchange of professional services involves high transaction costs due to the informational asymmetry existing between the supplier of and client for such services. Therefore, it becomes worthwhile to make use of the

safeguards (brand name, reputation, conduct rules, control systems among professionals, and client confidence) already developed when contracting and ensuring quality in auditing, thereby reducing the total cost of providing such services (Arruñada, 1999: 514).

On the other hand, audit committee tenure increases members' experience of the company's operations and therefore may help them in developing their monitoring competencies (Gendron & Bédard, 2010). However, respondents from the auditor group stated that long tenure for an audit committee member might affect his/her independence as this could create a close relationship with management.

This response supports an argument in the literature which indicates that directors' tenure could compromise their independence and thus make them less critical of the management (Vafeas, 2001, 2003). This, therefore, diminishes the quality of their monitoring of management and the reporting integrity. Vafeas (2003: 1045) proposed a management friendliness argument "suggesting that seasoned directors are more likely to be a friend, and less likely to monitor, managers. In time, directors may be co-opted by management as directors become less mobile and less employable". In this vein, it is worth noting that some regulations around the world take into account the potential adverse effects of long tenure for directors and therefore state a maximum limit for their service, e.g. the UK Combined Code on Corporate Governance (Smith, 2003) limits audit committee

appointments to a maximum of nine years.

Gender diversity is also one of the important recommendations that the respondents focused on. A number of respondents suggest that existence of female in the board of directors increases board effectiveness. A response from directors highlighted the importance of gender diversity from a behavioural perspective. The respondent stresses the benefits of team diversity which leads to higher levels of discussion, different opinions within the team and, therefore, increases team productivity.

Also, a member of an audit committee mentioned that women in the board strengthen the board and encourage it to demand additional audit effort from auditors to protect directors' reputations and to avoid legal responsibility. The respondent added, this is because, women are more sensitive to reputation loss and more risk-averse than men especially in a conservative community like Jordan.

This response is supported by different evidence from literature which has shown considerable evidence for the importance of gender diversity for many aspects in organizations (Efferin et al., 2016; Gul, Srinidhi & Ng, 2011). For instance, existence of women in boards of directors improves the monitoring process, leads to a more effective board, strengthens corporate governance system and improves disclosure quality (Adams & Ferreira, 2009; Nielsen & Huse, 2010; Terjesen, Sealy & Singh, 2009), improve earning quality (Gul et al., 2011), and reduce conflict level (Nielsen & Huse, 2010). Moreover, women are generally considered more risk-averse than men, and their decisions tend to be more conservative (Watson & McNaughton, 2007).

Due to the importance of gender diversity on the board, many countries take it into consideration. Some countries have determined a minimum number of directors' seats that should be allocated for females. For example, Sweden has proposed a legal requirement that 25% of board's seats should be allocated to female directors, Norway requires 40% of the board to be female (Gul et al., 2011). Also, in its 2010 edition, the UK Corporate Governance Code recommends giving due regard to diversity, including gender diversity, when searching for board candidates and making appointments to the board. The Jordanian regulations do not yet regulate gender diversity in boards of directors.

A couple of comments have been added by directors regarding the importance of different skills and experiences in audit committees, and the focus should not be on financial expertise only. One of the directors is concerned that the emphasis on financial experience is at the expense of other important experiences.

In this vein, Krishnan et al. (2011) reported that a legal background for audit committee members makes them more vigilant about legal risks that are associated with inadequate, inaccurate or aggressive financial reporting, and therefore can help in ensuring audit quality. Furthermore, such members can provide a fruitful support in some accounting transactions that have legal implications, e.g., mergers and acquisitions. Also, business and operation expertise (i.e. firm-specific knowledge) could help audit committee members in fostering their monitoring competencies. This, therefore, makes the directors more effective in overseeing the firm's financial reporting process (Gendron & Bédard, 2010). As current regulations pay much attention to financial expertise, these responses may have implications for future governance reform i.e.

take into consideration a balanced portfolio of skills on the audit committee.

Furthermore, diligence is important in indicating board effectiveness, and this has been captured through the literature using frequency of meetings as an indication of diligence. However, one of the directors mentioned that it is worth looking at the duration of board meetings not only the number of meetings per year. Another director also provided insight into the importance of the value and depth of the discussions inside the board.

Directors' business knowledge also gained attention from respondents as a way of boosting their oversight effectiveness. A director pointed out that directors should not keep leading the company through the old mind. They should be up to date with a company's business operations and he suggested that policymakers should set instructions for continuous professional development (and supportive training programmes for new directors) in order to enhance directors' effectiveness.

Other competencies, such as the ability to work in small groups, negotiate and communicate effectively, have obtained recognition from respondents as important skills. In this vein, a director mentioned that board of directors is seen as a teamwork, which increases the need for this teamwork to be competent in communication and interaction skills. This will create a strong board and, therefore, it will carry out its monitoring role effectively.

The audit committees in Jordan are expected to play an important role in evaluating and supervising the internal control procedures to ensure its effectiveness. Therefore, effective internal control helps in preventing reporting failure and management cheating and, in turn, helps the external auditing process (JCGC "Jordanian Corporate Governance Code", 2008; Lee, Mande & Ortman, 2004; Turley & Zaman, 2004; Zgarni, Hlioui & Zehri, 2016). Effective monitoring and reviewing of the internal control system by audit committees enhances their understanding of the firm's operations and increases the chance of discovering misstatements. So, although JCGC (2008) highlighted the importance of internal control and added it to audit committees' agendas, some directors pointed out that the internal control report is not appropriately prepared and sometimes is not prepared at all.

In summary, the perceptual viewpoints of the respondents clustered around the following themes; the importance of gender diversity in boards of directors, setting a limit for audit committee tenure, internal control system, non-audit services, board dynamics, audit committees' skills, meetings' agenda and length of meetings, and training scheme for new directors.

6. CONCLUSION AND POTENTIAL RESEARCH AVENUES

This study seeks views of auditors, members of boards of directors and audit committees in order to know whether there are other corporate governance mechanisms (apart from what are already mentioned in the current code) which may enhance audit quality. The study, in particular, focuses on boards of directors and audit committees are main corporate governance pillars as highlighted in the corporate governance code.

A number of recommendations have been put forward by the respondents. The suggested recommendations clustered around the following themes; the importance of gender diversity in boards of directors, setting a limit for audit committee tenure, internal control system, non-audit services, board dynamics, audit committees' skills, meetings' agenda and length of meetings, and training scheme for new directors.

It is hoped this study will offer useful feedback for the regulatory bodies to consider regarding the current corporate governance legislation, regarding future governance reform and also enabling other interested parties to gain a better understanding of the relationship between corporate governance mechanisms and audit quality. For example, the regulatory bodies may seek a balanced portfolio of skills within the audit committees, consider gender diversity, audit committee tenure...etc. This feedback can also be applied to other similar developing markets, and in particular MENA countries that share similar economic, political, social and cultural environment to those in Jordan.

This study also offers an important contribution to the literature by extending the investigation of boards of directors' and audit committees' roles in promoting audit quality to dimensions that are not recommended in the current Jordanian governance code. Hence, this study opens new avenues for future research which will help in supporting the suggested recommendations in this study. For instance, future research is needed to focus on the length of meetings, not just number of meetings, the nature

and tone of board discussions and on other competencies and professional skills, including the ability to work, negotiate and communicate effectively in small groups. In addition, directors should play an effective role, not merely voting on or approving what they receive from management, *i.e.* how a board effectively formulates actions and behaves in meetings is very important. So a good research opportunity could be by going into the boardroom and studying directors' behaviour and their interactions, which will, therefore, provide a deep insight into directors' interactions during meetings.

Moreover, the result concerning audit committee experience also raised a motivation for future research to address other experiences that the members should hold such as legal expertise and business operation. The existence of legal experts on an audit committee, for instance, makes them more interested in avoiding litigation that could arise from fraudulent financial reporting, *i.e.* more vigilant to avoid the legal liability threat. Future studies can also empirically examine other mentioned dimensions *e.g.* does gender diversity in the board of directors affect audit quality?

Finally, this study is carried out in the Jordanian context so the findings could be considered with caution by other markets that characterised by different contextual factors *e.g.* different culture, regulatory framework...etc. In this vein, future research can cover a comparative study of Jordan with other developed or developing countries to highlight the impact of different institutional settings, and increase generalisability.

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Appendix: Questionnaire

Thank you again for your acceptance to take part in this survey

This questionnaire has been designed to elicit your perceptions about the Corporate Governance recommendations (2008), particularly board of directors and audit committee features and their effect on audit quality, i.e. It includes two main open-ended questions seeking your view regarding any recommendations (related to board of directors and audit committees) you think are important in improving audit quality, apart from what are already recommended in the current code.

All responses will be confidential and will not be shared with anyone. Your responses will be treated anonymously and any responses will only be considered in aggregate form along with the responses of all other survey respondents.

Your responses are highly appreciated.

Yours faithfully,
Dr. Salem Alhababsah

Part one: General information

Position:

- Director in the board (but NOT member in the audit committee)
- Member in the audit committee
- External auditor

Gender:

- Male
- Female

Experience:

- Less than 4 years
- 4-8 years
- More than 8 years and less than 12 years
- More than 12 years

Qualification:

- Postgraduate
- Undergraduate
- Other

- In your opinion, what are improvements you suggest to the current board of directors-related regulation would most improve audit quality?

- In your opinion, what are improvements you suggest to the current audit committee-related regulation would most improve audit quality?