THE EFFECT OF AUDIT COMMITTEE CHARACTERISTICS AND OWNERSHIP STRUCTURE ON AUDIT QUALITY: EVIDENCE FROM JORDANIAN INDUSTRIAL AND SERVICE COMPANIES

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by

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No one walks alone and when one is walking on the journey of life, just where you start to thank those who joined you, walked beside you and helped you along your way. First of all, I Thank God who made all of this and everything possible. Then, I would like to express my deepest appreciation to my supervisor, Dr Dayana, and co-supervisor, Dr Anwar for being great supervisors from whom I have seen nothing but support, understanding, guidance and a very big smile on their faces throughout all our meetings. A big ‘Thank You’ goes to my parents, Mr. Husni Zreagat & Mrs. Muntaha Zreagat for all their love, support, encouragement and belief in my ability, I love you Mom and Dad. Special thanks also goes to my lovely brothers, Dr. Maen, Dr. Misarah, Dr. Tariq, Dr. Mohammad, Dr. Yousef, Dr. Hamzah. A big ‘Thank You’ goes to my beautiful and lovely sister, Wafa’ whom I love and miss really bad. Finally, I would love to dedicate this work and achievement to the soul of my brother, Dr. Moawieh, whom we lost recently to cancer. Moawieh, I know that you fought so hard and you gave it your all to defeat this illness and I do know that you had been so brave and strong but I also know that you are in a better place now and I do pray to Almighty God that your soul rests in eternal peace. I love you brother.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

Page

KESAN CIRI-CIRI JAWATANKUASA AUDIT DAN STRUKTUR PEMILIKAN TERHADAP KUALITI AUDIT: BUKTI DARI SYARIKAT INDUSTRI DAN PERKHIDMATAN JORDANIAN

ABSTRAK

Penyelidikan ini cuba mengkaji hubungan antara dua konstruk penting. Kajian ini cuba mengkaji kesan ciri jawatankuasa audit yang membentuk pembolehubah bebas dalam kajian ini terhadap kualiti audit yang membentuk pembolehubah bersandar kajian. Sampel yang digabungkan dalam kajian ini termasuk semua syarikat tersenarai dalam sektor perindustrian dan perkhidmatan di Jordan selama dua tahun 2018 dan 2019 iaitu sejurus selepas pengenalan Kod CG 2017 baharu. Kajian ini menggunakan analisis deskriptif dan regresi untuk menerangkan pembolehubah dan menguji hubungannya. Dapatan kajian mendedahkan bahawa mesyuarat jawatankuasa audit mempunyai kaitan positif dengan yuran audit manakala kebebasan jawatankuasa audit berkait negatif dengan kualiti audit, Selain itu, saiz jawatankuasa audit dan jawatankuasa audit Kepakaran kewangan tidak mempunyai kesan ke atas yuran audit. Selain itu, kajian itu mendedahkan bahawa pemilikan kerajaan dan pemilikan keluarga tidak mempunyai hubungan dengan yuran audit manakala pemilikan asing mempunyai kesan positif terhadap yuran audit. Bagi pembolehubah bersandar kedua iaitu saiz firma audit kajian ini mendapati saiz jawatankuasa audit memberi kesan positif terhadap saiz firma audit. Sebaliknya, kajian itu mendedahkan bahawa kebebasan jawatankuasa audit mempunyai kesan negatif dengan saiz firma audit. Penemuan ini akan mempunyai implikasi teori dan praktikal untuk badan penyelidikan dan untuk sektor industri dan perkhidmatan Jordan. Penyelidik akan datang digalakkan untuk menjalankan kajian serupa di syarikat tersenarai Jordan tetapi pada masa yang sama meneroka pembolehubah dengan lebih

lanjut. Lebih-lebih lagi, penemuan menunjukkan bahawa Kod tidak menghasilkan hasil yang diingini yang diharapkan dapat dicapai tetapi tanggapan atau tuntutan ini memerlukan siasatan lanjut.

THE EFFECT OF AUDIT COMMITTEE CHARACTERISTICS AND OWNERSHIP STRUCTURE ON AUDIT QUALITY: EVIDENCE FROM JORDANIAN INDUSTRIAL AND SERVICE COMPANIES

ABSTRACT

This research attempts to examine the impact of audit committee characteristics and ownership structure on audit quality. The study attempts to examine the impact of audit committee characteristics which constitutes the independent variable in this study on audit quality which constitutes the study's dependent variable. The sample incorporated in this study included all the listed companies in 37 industrial and 38 service sectors in Jordan during the two years of 2018 and 2019 which is right after the introduction of the new 2017 Code of the CG. The study utilised both descriptive and regression analysis to describe the variables and test their relationships. The findings of the study revealed that the audit committee, meeting are positively related with audit fees while audit committee independence is negatively related with audit quality, Moreover, audit committee size and audit committee Financial expertise have no impact on audit fees. Moreover, the study revealed that the government ownership and family ownership have no relationship with audit fees while foreign ownership has positive impact on audit fees. For the second dependent variable which is audit firm size this study found that the audit committee size has a positive impact on audit firm size. On the other hand, the study revealed that the audit committee independence has a negative impact with audit firm size. These findings will help establishing an empirical relationship between audit committee characteristics, ownership structure and their impact on audit quality for the Jordanian industrial and service sectors. Future

researchers are encouraged to conduct similar studies in the Jordanian listed companies but at the same time explore the variables further. Moreover, the findings indicate that the Code has not yielded the desirable outcomes it had hoped to achieve but this notion or claim is in need for further investigation.

CHAPTER 1

INTRODUCTION

1.1 Introduction and Background

The 19^{th} century was deemed as the century of entrepreneurs following the boom in modern corporations, whilst the 20^{th} century was known as the management century due to the flourishing of various managerial theories; hence, the 21^{st} century is understandably known as the century of governance (Tricker, 2012). Despite being largely unknown prior to the 1980s, the term ‘corporate governance’ has been gaining significant academic, economic and legislative attention in the past several decades. The prominence of corporate governance as a security measure against corporate fraud burgeoned following the economic crash and fiscal crises that occurred in the 1990s in East-Asia, Latin America, Russia, and the UK. Another global financial crisis and several corporate scandals at the start of the new millennium drove the significance of corporate governance to new heights especially in the US.

Due to the above and the identified positive impacts of corporate governance on corporate success and economic growth, several regulatory changes were implemented worldwide to boost corporate governance and protect all the stakeholders in economic entities. The changes were embodied in the UK’s Cadbury Report (1992) i.e. the first ever code on corporate governance; South Africa’s King Report (1994); Canada’s Dey Report (1994); Australia’s Bosch Report (1995); France’s Vienot Report (1995), and the US’ Sarbanes-Oxley Act (2002). The changes made positive contributions to the utilisation of corporate governance practices in these economic environments which in turn positively influenced corporate performance and put the economies on the track to economic recovery. Similarly, the Middle East in general and the country of Jordan in particular also introduced similar changes just like their Western economies counterparts and on the same vein, put these Middle Eastern economies on the track to economic recovery (Al-Hajaya, 2019).

Corporate governance plays an essential role in the performance of companies in different fields and in various economic environments. Nevertheless, despite this perceived importance, many questions still surround the issue of corporate governance effectiveness. One of these questions or controversies is the lack of a single accepted definition for the construct of corporate governance (Song, Thomas, & Yi, 2010). The researcher further elaborated that definitions for corporate governance vary across various economic environments and countries. Another controversy among researchers and practitioners revolves around the lack of consensus on what constitutes corporate governance or the lack of a comprehensive framework stating a clear set of variables which explain the factors that lead to an effective corporate governance (Song et al., 2010). As far as corporate governance is concerned, several practices emerged in literature playing a correlated and integral role in ensuring that effective corporate governance is implemented. Among these influential practices are the constructs of audit quality, audit committee, ownership structure, and board of directors. Ideally, the interrelations and cooperation between all of these constructs should lead to better organisational performance.

Audit quality is a crucial monitoring mechanism in the capital market which ensures the integrity of accounting information, which in turn brings improvement to resource distribution and contracting efficacy. Audit quality mainly mitigates the existence of information asymmetry among shareholders, external users and the management as well as facilitates decision making by users. Global attention has been directed at audit quality since the dawn of the 20th century. The concern for audit quality and corporate governance amplified in the wake of several high profile corporate and financial ruins including that of WorldCom, Enron, Parmalat, One-Tel, Harris Scarfe and HIH (Turel, Genç, Özden & Taş, 2017). In the wake of these scandals, investors, regulators, academicians and the general public turn their attention to audit quality, specifically to determine the factors that cause poor audit quality and thereafter improve it (Al-sraheen, 2014).

According to Basiruddin and Rohaida (2011), audit quality is delineated as the auditor's ability to detect errors and their impartiality when reporting their findings. The study further highlighted the alternate usage of the terms ‘auditor quality’ and ‘audit quality’ in past literatures. Irrespective of its definition, audit quality is widely acknowledged to be significant in reducing agency costs and improving investors’ confidence by improving the trustworthiness of reported financial information. In terms of corporate governance, the external audit function acts as the conduit between the management (i.e. the party that prepares the financial information) and the shareholders (i.e. the party that uses the information). In short, it serves as the main monitoring mechanism responsible for improving the quality of financial statements, safeguarding the interest of shareholders, facilitating in the investors’ decision making, and elevating their confidence regarding the company’s standing (Habbash, 2010; Brown et al., 2011). External auditors stop opportunistic behaviour and financial statement manipulation by managers by providing reliable auditing services for contracting and external shareholders (Sulaiman, 2011).

Audit committee is considered as one of the main elements of corporate governance practices (M. Abdullatif, Ghanayem, Ahmad-Amin, Al-shelleh, & Sharaiha, 2015). The perceived importance of the audit committee is witnessed by its inclusion and the increased roles given to its members in numerous international regulations related to corporate governance. Audit committees can also boost financial reporting quality and lower audit risk (Contessotto & Moroney, 2014). Additionally, an effective audit committee can improve company performance and competitive edge, especially in a shifting business landscape (Charan, 1998). Several definitions have emerged in literature describing the concept of audit committee. For example, Campbell-Verduyn and Porter (2014) and Rezaee (2009) defined the concept of audit committee as "a standing committee of the company's board of directors to act as a liaison between management and the external auditor". Arens et al. (2014, p. 135) defined an audit committee as "a selected number of members of a company's board of directors whose responsibilities include helping auditors remain independent of management". This means that members from the board of directors who are not involved in the company's executive management will be selected as and make up the majority in the audit committee. In addressing the importance of audit committee in relation to corporate governance, Lennox and Park (2007) and Almarayeh, Aibar-Guzmán, and Abdullatif (2020) outlined the audit committee as the key governance tool in engaging the services of audit firms as it holds the responsibility of overseeing the external auditors as well as controlling audit quality.

Another factor identified by researchers as an important part of the corporate governance practice and a strong determinant for organisational performance is the construct of ownership structure. In this regard, Alhababsah (2019) deems ownership structure as a key governance tool especially when a solid legal environment is lacking in the context of developing economies. Demsetz and Lehn (1985) came up with an approach to ownership structure in which the structure entails the concentration of shares held by shareholders. Several researchers in the field of corporate governance seem to agree that the concept of ownership structure has a direct or indirect impact on organisational performance (Seifert, Gonenc & Wright, 2005; Ngui, Voon & Lim, 2008; Ahmed & Hadi, 2017). The researchers also encouraged future researches to deep-dive into the construct of ownership which is an important part of corporate governance practices.

While the above mentioned three variables (audit committee, audit quality, and ownership structure) have been the focus of many research studies considering their important roles in enhancing the performance of organisations in different fields, the direct relationships between these variables and the ways they impact each other have not received the attention it deserves. Therefore, it is the purpose of the current research to conceptualise and test an interrelated mechanism that aims to explain how these three variables relate to each other.

The Middle East conflict that occurred in the last century culminating with the Gulf War in 1991 had directly affected the Jordanian economy. Jordan had to bear the costs of taking in approximately 800,000 Iraqi refugees at a time when all external aids from the Gulf and Western nations were severed based on political grounds. As a response, the Jordanian government initiated an economic reform at the onset of the 1990s. The country then began its privatisation programme in 1996 to boost the efficiency and productivity of the target companies, generating a conducive investment landscape to draw in long-term external investors and thus fortifying the economy and financial market.

In ensuring the success of its privatisation program, improving governance and the systems of disclosure, and increasing investors' confidence, the Jordanian government enacted several business and financial regulation. These regulations include the Companies Act (1997), the Temporary Securities Act (1997), and the Securities Act (2002). In 2008, the Jordanian Securities Commission (JSC) sanctioned the Jordanian Code for Corporate Governance (JCGC) for shareholding companies listed on the Amman Stock Exchange (ASE). Corporate transparency, good governance, and high-quality financial statements are emphasized by policymakers so as to safeguard the market's reputation, drive investment in the capital market, and protect against corporate fraud. As foreign investment is highly prevalent in the Jordanian market, the country's regulatory bodies are highly invested in maintaining existing foreign investors and drawing in new ones.

Being the key corporate governance mechanisms, boards of directors and audit committees bear the brunt of the corporate governance regulations in Jordan. One of their responsibilities is to guarantee high audit quality. The two aforesaid governance mechanisms are key aspects in the Corporate Governance Code (2008), acting as monitoring tools to guarantee high audit quality towards safeguarding the interest of shareholders and advancing the financial market. Meanwhile, external auditors are also key components of good corporate governance in light of their significant role in providing fair assurance of the financial positions of companies and in alleviating agency conflicts (Watts & Zimmerman, 1983; Cohen et al., 2002; Piot, 2001). The study's problem statement will be presented next.

1.2 Problem Statement

As mentioned earlier, the construct of corporate governance had gained tremendous attention from researchers and practitioners in different economic environments worldwide given its well-established relationship with organisational performance. In this context, (Paine & Srinivasan, 2019) indicated that the growing public interest on corporate governance is due to the increasing power of institutional investors and the growing effect of corporations on societies. The researchers further argued that the governance of corporations would vary when there are disagreements on key matters such as the aim of the corporation, the function of the boards of directors, shareholder rights, and measurement of corporate performance. Other notions people disagree on is the idea of whose interests should be considered in corporate decision making or whether primacy should be given to shareholders' interest in maximizing their financial returns or whether the interests of other parties and stakeholders should be considered (Paine & Srinivasan, 2019). Such disagreements on basic corporate governance principles and practices had led many researchers to study the factors of effective corporate governance implementation in an attempt to reach a consensus on what constitutes the body of corporate governance. More importantly and due to the lack of clarity on corporate governance and its effective practices, the world economic witnessed a series of financial crises and global corporate bankruptcies such as Enron, WorldCom, and many others as stated earlier.

The country of Jordan has had its fair share of these global financial crises where corporate scandals have led to the necessity for better monitoring of financial manipulations. In fact, a number of financial collapses have occurred in Jordan, including those involving Petra Bank in 1989 and the case of Shamayleh Gate in 2002

(Jordanian Forum for Economic Development, 2003). Notably, the Shamayleh Gate case cost the Jordanian market more than $1 billion (JFED, 2003). Due to these shocking incidents, Jordan was confronted with a severe financial crisis, which led to further company crashes and a decline in the Jordanian dinar (JD) (Alawaqleh, 2008; Shbeilat, 2013).

In the past several years, Jordanian listed firms had suffered problems with their performance (Alabdullah, 2018). Firms in Jordan have experienced negative performance outcomes accompanied by a decrease in the level of financial reporting quality and the loss of reputation for financial statements, consequently jeopardizing the confidence of shareholders and investors in shareholding firms (Al-sraheen, Fadzil, Soffian, & Ismail, 2014). These issues have given rise to shareholders' concerns regarding the urgent need for improvement in corporate governance to meet performance objectives (Almajali, Alamro, & Al-Soub, 2012). The weak performance of the listed Jordanian firms is also attributed to weaknesses in corporate governance practices (Makhlouf, Laili, Ramli, & Basah, 2017). The European Bank for Reconstruction and Development (EBRD) (2017) in their evaluation of corporate governance in Jordan concluded that it is still at its infancy phase. M. Abdullatif (2016), Aldaoud (2015), Aldehayyat, Alsoboa, and Al-Kilani (2017) and Al-sraheen et al. (2014) confirmed the finding. In addition, poor firm performance in Jordan has led to the collapse and subsequent liquidation of many firms especially industrial firms. Specifically and in the year 2017, five Jordanian listed firms encountered mandatory liquidation which was attributed to, among other factors, weak corporate governance practices such the lack of financial reporting and disclosure to the government entities (Bawaneh, 2015). As a way out, recommendations have been made those reforms should be introduced particularly in the practices and regulations of corporate governance in the country. The recommended reforms include the introduction of conservative principles, effective corporate governance mechanisms, and higher-quality audits (Akhidime, 2015).

In response to the recommendations highlighted above, the Jordan Securities Commission (JSC) issued several mandatory corporate governance provisions in 2017 for listed shareholding companies. The governance instructions issued by the JSC in 2009 were not mandatory and only served as guidelines at the time (JSC, 2017). According to the JSC Chief Commissioner Mohammad Hourani, the internationally aligned instructions are meant to safeguard investors and boost Jordan's investment landscape. Hourani highlighted the significance of the issued instructions by stating that the previous failures of many shareholding companies were caused by the lack of such instructions (JSC, 2017).

Despite the issuance of the above-mentioned new instructions, there has not been much change in terms of firm performance of the listed companies in the Amman Stock Exchange (ASE) in the past five years especially with the decreasing and descending trend in the trading volume. In addition, the total number of companies listed in the ASE had shown a significant and consistent drop i.e. from 236 in 2014 to 228 in 2015, 224 in 2016, 209 in 2017 and finally 192 in 2019. Figure 1.1 below shows the decreasing trend in listed companies in the ASE from 2014 to 2019. Furthermore, Figure 1.2 depicts the volume of trading, whereby the trading value for the ASE decreased in 2016 reaching JD 2.3 billion i.e. a decrease of 31.8%, in comparison to JD 3.4 billion in 2015. Similarly, the volume of trading in 2018 decreased to 2.3 billion dinars (20.7%) compared to 2.9 billion dinars in 2017. Mr. Mazen Al-Wazafi, Executive Director of the Amman Stock Exchange, said that the volume of trading in 2019 decreased to 1.6 billion dinars (31.6%) compared to 2.3 billion dinars in 2018. To put that in perspective, while the ASE constituted 65% of the GDP in Jordan, this percentage dropped significantly to 49.7% in 2019.

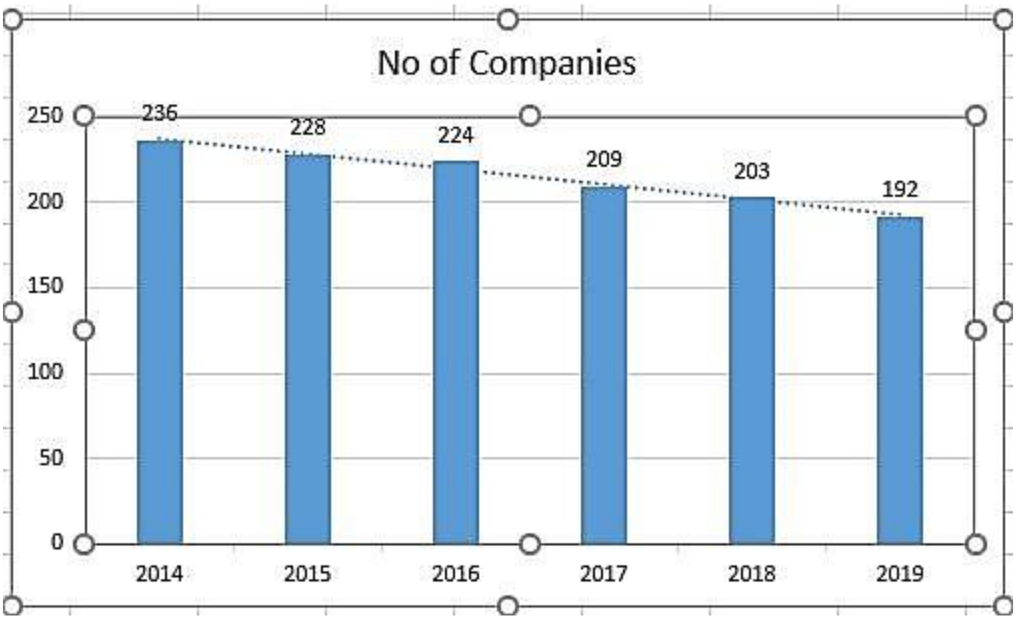

Figure 1.1: No. of Listed Companies in ASE (2014–2019)

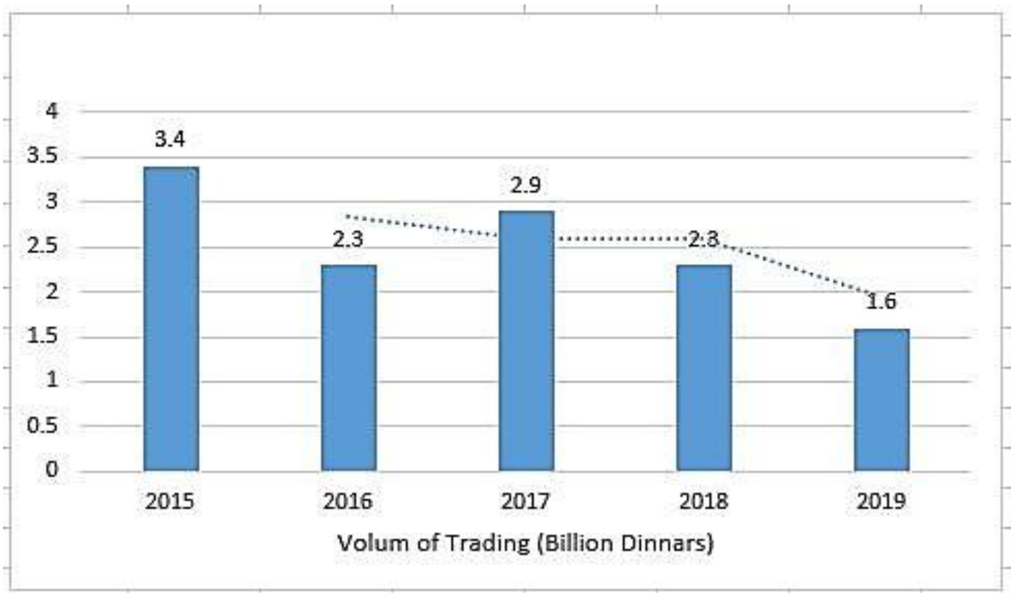

Figure 1.2: Volume of Trading in ASE (2015-2019)

One could argue that the 2017 code on corporate governance is relatively new and it is still too early at this stage to confirm whether it has achieved what it intends to do. More importantly, while the principles of the code make it compulsory for the listed Jordanian companies to abide to them, there seems to be a lack of commitment and standardisation in the implementation of these principles across all listed companies which could in turn delay the achievement of the original intentions.

Considering the issues mentioned above regarding the scandals and collapse of several Jordanian firms, not much is known about the factors that contributed to such situations or the adequacy of work that has been done to understand it. Effective implementation of corporate governance practices has been hypothesised by several researchers and practitioners to be strong determinants for ensuring optimum and desired organisational performance and for drawing a clear roadmap for companies to avoid poor reporting and improve the handling of their financial reports. As mentioned earlier, the three constructs of audit committee, audit quality, and ownership structure constitute some of the critical corporate governance practices that, if managed and operated effectively, would lead to enhanced organisational performance. This study focuses on audit quality as it considers the most important practises in the corporate governance and most of the problems in the Jordanian companies due to the weaknesses of corporate governance practices. The construct of audit quality refers to a systematic examination carried out by an external quality auditor or an internal audit team. Firms demand higher quality audit because of the standard and experience they have acquired. It has also been indicated that having good audit quality would ensure that firms could position themselves better in instilling confidence and trust among their stakeholders which would lead to more investment and participation (Suryanto, Thalassinos, & Thalassinos, 2017). This will therefore improve stakeholder and investor confidence in the company due to its high audit quality. A good way of engaging in a good quality measure is by having an external entity that has the desired level of objectivity and reliability to perform audit procedures which would serve the purpose of ensuring the integrity of the audit work done internally.

Within the context of the Arab Investors Company and the Arab East company, the CEO was involved in several financial violations i.e. making decisions, signing agreements and performing actions that caused damage to the financial position of the two companies by approximately 40 million dinars, resulting in losses of approximately twenty thousand shareholders (Ammon News, 2019). Moreover in 2018, the Jordanian Association of Certified Public Accountants (JACA) had dismissed nine external auditors because of manipulations in issuing the audit reports and tax evasion cases in many listed Jordanian companies (Khaberni, 2019). Another example about the issues that negatively affected the company climate in Jordan is related to audit quality specifically with the increase of disclosure violations. In 2010, 36% of firms had committed disclosure violations and this increased to 44% in 2016. Such violations put the spotlight on audit quality as they are the result of audit service; hence, it raises the question of whether the companies had engaged in poor audit services (Al Smadi, 2020).

Financial statement users are significantly impacted by auditing failures which can cause global accounting scandals (Nawaiseh, 2015). The Jordanian Association of Certified Public Accountants (JACA) reported in 2014 that Jordan suffers from poor audit quality as demonstrated by the growing cases of tax evasion in many Jordanian companies. According to JACA (2014), several auditors that violated international standards and ethical rules had been banned from conducting auditing services for two years. Similar cases had transpired in 2013. Five auditors that had committed disciplinary offenses and non-compliance were banned from their practice whereby one was imposed with a one-year ban and the rest with a six-month ban. Investors too had reprimanded the audit committees of firms and external auditors for being involved in the publishing of misleading audited financial reports in several financial scandals (Alves, 2013).

In the literature on corporate governance practices, many factors have been hypothesised to influence audit quality which itself is a strong determinant of organisational performance. One of the main factors that have been reported to influence audit quality is the construct of audit committee which has not received a great deal of attention in the context of developing and emerging economies (Alqatamin, 2018). The researcher further elaborated that very few researches had been conducted in the Middle Eastern and North African (MENA) region, the Arab World in general and Jordan in particular. This was supported by other researchers in the field such as Hussain et al. (2015) who stated that there is very limited research in the Arab Word regarding corporate governance practices such as audit committee. More importantly and due to this scarce research, Alqatamin (2018) pointed out that the relationship between audit committee characteristics and audit quality is still ambiguous which calls out for further research to examine and validate the relationship. The current research attempts to respond to this call by examining the impact of several audit committee characteristics on audit quality which is a strong determinant for organisational performance.

Moreover, M. Abdullatif (2006) pointed out that the listed Jordanian companies had started implementing the concept of audit committee in the early 2000s with several companies before proceeding on a larger scale with other listed companies toward the end of the decade when it became mandatory for the listed Jordanian companies from 2013 onward (Alqatamin, 2018). It was further elaborated that audit committees in Jordan are only slightly effective and that auditors perceived that audit committees in Jordan only slightly perform their legally required duties (Alqatamin, 2018). In other words, the findings of the study mentioned above may indicate that audit committees in Jordan only perform their duties for the sake of avoiding legal consequences rather than to utilise the tools provided to them to improve the performance of their firms. Specifically, M. Abdullatif (2006) indicated that auditors tend to perceive that audit committees do fulfil their legal responsibilities as required by Jordanian regulations, but only to a limited degree. That being said, such findings are in need of further research and validation.

In the literature on audit committee and its impact on audit quality, several characteristics have emerged to describe and elaborate on the concept. These characteristics include Audit Committee Size, Audit Committee Meetings, Audit Committee Financial Expertise, and Audit Committee Independence. Even though there are other characteristics, the current study has decided to focus on only the aforementioned characteristics. In terms of the relationships between these characteristics and audit quality, there does not seem to be a consensus among researchers and practitioners on the nature and trend of such relationships. In some cases, some of these relations are reported to be significant while in other cases they are reported to have no significant impact (Al-Hajaya, 2019; (Rahman, Meah, & Chaudhory, 2019). Such discrepancy in findings calls for further research to examine the relationship between the concept of audit committee characteristics and audit quality.

Another factor that has been hypothesised to influence audit quality is the construct of ownership structure which is one of the corporate governance practices. Mang'unyi (2011) argues that ownership structure is one of the most important factors in shaping the corporate governance system of any country. In this context, Alhababsah (2019) argues that different types of shareholders have different investment policies and targets, which affect how they exercise their monitoring role over the investee firms. The researcher further elaborates that the literature suffers from a tight focus on overall ownership concentration, with less attention on the identities of the shareholders. The researcher recommended that future research should test whether the demand for audit quality varies across different ownership identities and structures. Despite the importance of ownership structure in influencing audit quality, there is scarce research on the impact of ownership structure on audit quality especially in the Middle East in general and in Jordan in particular as argued by Alhababsah (2019). Thus, it is the purpose of this study to fill this literature gap by examining and validating such relationship which would subsequently contribute to the body of research on this matter.

Last but not least, while many of the factors in the corporate governance sphere have been reported to influence organisational performance and have been tested and validated in the field, there is still a lack of a proposed comprehensive framework that would explain the interrelations among a set of variables. In this study, three main variables are the main focus namely the two independent variables of audit committee characteristics and ownership structure and the dependent variable of audit quality. It is strongly believed that the conceptualisation of these three variables would constitute a great recipe for enhanced organisational performance, but such conceptualisation has not been tested or validated in the Jordanian context. It is to the researcher's best knowledge that no study thus far has attempted to examine the interrelationships between these three variables in the Jordanian industrial sector context. The following section addresses the research questions that the current research attempts to answer.

1.3 Research Questions

This study attempts to shed light on the relationships between audit committee characteristics, ownership structure and audit quality in the listed Jordanian industrial companies. Thus, the study particularly addresses the following research questions:

1. To what extent does audit committee characteristics (***audit committee size, audit committee meetings, audit committee financial expertise, and audit committee independence***) influence audit quality in the listed Jordanian industrial and service companies?

2. To what extent does ownership structure (***government-owned; foreign-owned, and family-owned***) influence audit quality in the listed Jordanian industrial and service companies?

1.4 Research Objectives

In line with the research questions above, the current study attempts to achieve the following research objectives.

1. To examine the relationship between the audit committee characteristics (***audit committee size, audit committee meetings, audit committee financial expertise, and audit committee independence***) and audit quality in the listed Jordanian industrial and service companies.

2. To examine the relationship between ownership structure (***government-owned; foreign-owned, and family-owned***) and audit quality in the listed Jordanian industrial and service companies.

1.5 Scope of the Study

This study targets the industrial and service sectors listed on the stock exchange of Jordan. The study will be carried out mainly using data obtained from the industrial listed companies that are functional in the Sector of Amman Stock Exchange (ASE) from 2018 and 2019. These two years were selected because this study attempts to find out whether the introduction of the 2017 code has had any significant impact on the corporate governance practices in the Jordanian industrial sector.

1.6 Significance & Contribution

One of the main purposes of conducting research in any field is to achieve outcomes of significant values and benefits. Such benefits are generally categorized into two main strands, namely theoretical significance and practical significance. Theoretical significance generally revolves around the notion of how the conducted research can add value to the existing body of literature. Meanwhile, the practical significance deals with the notion of how the conducted research can add practical value to the target organizations or firms by providing them with solid and useful recommendations. Such organizations can then review these recommendations, change their managerial practices and act upon them which would in turn enhance their organizational performance. Thus, the current research holds both strands of the theoretical and practical significance. The following section addresses the theoretical significance of the study.

1.6.1 Theoretical Contribution

It has been stated earlier that corporate governance is a key to achieving organizational performance and that an audit quality is among the basic principles and practices of effective corporate governance. This implies that it is essential for organizations to establish strong and effective audit quality practices and equip themselves with the support needed to ensure that they possess the required audit quality practices and procedures. One way of achieving this is by looking at the body of research conducted in the field of corporate governance and what determines effective audit quality implementation to adopt or adapt the recommendations generated by this research. That said, and with the findings of previous researches on audit quality and its determinants, such findings reported mixed results and in turn mixed recommendations.

One of the important theoretical contributions that this study attempts to achieve is providing a comprehensive conceptualisation that explains the interrelated nature of some of the key determinants for firm performance. This is achieved by testing the reliability of several key determinants that have been individually hypothesised to influence audit quality, namely audit committee characteristics and ownership. This study is different from most of the previous studies in literature which had attempted to examine the impact of audit committee characteristics and ownership structure on audit quality in an individual manner. Specifically, there are many studies in literature that had attempted to examine the impact of audit committee characteristics on audit quality. On the same note, there are other researches that had attempted to examine the impact of ownership structure on audit quality although such studies are limited and scarce especially in the Jordanian context (Alhababsah, 2019). However, very few researches had attempted to examine the impact of these two independent variables i.e. audit committee characteristics and ownership structure on audit quality in a single framework especially in the industrial sector in Jordan. Thus, this current study hopes that by testing and validating the combined and direct impact of these variables on audit quality, a holistic understanding of what determines its provision and implementation can be achieved.

Considering that the literature on audit quality suffers from a lack of research on the construct of ownership concentration and how it relates to audit quality in the Middle East in general and in Jordan in particular (Alhababsah, 2019), this study carries an important contribution for the body of literature as it fills in the existing gaps on this this matter. The findings of this study on the relationship between ownership structure and audit quality would also help regulators and policymakers to monitor and regulate the reporting of the industrial and service companies in Jordan. This in turn would result in more reliability and transparency of reported earnings which would then encourage investors to participate knowing that regulations protect their investments. The following section addresses the practical contribution of this study.

1.6.2 Practical Contribution

According to the Amman Stock Exchange (ASE), listed Jordanian companies are divided into three sectors namely the financial sector, the industrial sector and the services sectors. The sample has been taken from both; industrial and service companies listed in Amman Stock Exchange for the two-year period from 2018 to 2019. This study focused on the industrial and service sectors as they make up 49% of the gross domestic product (GDP) and host over 70% of the foreign direct investment (FDI) in Jordan. In addition to that, the industrial and service sectors employ over 250,000 Jordanian citizens as well as 95% of the national exports to the Arab and foreign markets (Arouri, Al-Mahrouq, Al-Ghazawi, & Russmann, 2015). The financial sector was not included in this study as it utilizes regulations and practices that the Central Bank of Jordan and the Insurance Commission have issued, and these regulations are dissimilar from those of other sectors. This clearly shows how vital this sector is for the overall reform, progress, and development of the country. Thus, it is important that this sector is thoroughly examined particularly the performance of its firms along with the factors that influence that performance. To enhance the performance of the targeted firms, it is important to examine and analyze the factors that lead to better firm performance. In the context of this study and in line with the related literature, the two main constructs of audit committee and ownership structure have been hypothesized to significantly influence audit quality which in turn affects organizational performance; therefore, these factors have been chosen for further examination.

Moreover, Al-Hajaya (2019) stated that the relationship between audit committee characteristics and audit quality is still ambiguous with many mixed results and views which is the result of the lack of research on this relationship. Thus, it is hoped that the findings of this study would be useful for regulators and policymakers in the Arab World in general and in Jordan in particular in terms of reviewing, revising and setting up guidelines for effective audit committee characteristics.

The current study will establish an empirical relationship between audit committee characteristics, ownership structure and their impact on audit quality which is an essential factor in determining company performance and the development of the Jordanian economy. In addition, the current study will be helpful for the Jordanian government, the Amman Stock Exchange, the stock market participants' decision-making process, regulatory policies and investors, by determining the relationship between audit committee and ownership structure and their impact on the audit quality of the Jordanian industrial sector.

Finally, and as suggested by Al-hajaya (2019), there has been many failures in the international implementation of corporate governance; hence, there has been a growing interest in the role of the audit committee in driving effective corporate governance practices leading to better audit quality implementation. The researcher further elaborated that corporate governance practices in Jordan are still novel. It is not compulsory for organizations to adhere to such practices and the monitoring of this implementation has not been done effectively until the introduction of the 2017 code. This scenario makes the country of Jordan a unique context for examining whether audit committee characteristics and ownership structure (both are corporate governance practices) influence audit quality. In a nutshell, corporate governance codes are still in their infancy phase in the Jordanian context and this makes this study highly significant as it would provide an insight for regulators and policymakers to review and set proper guidelines for effective audit committee characteristics. The following section addresses the definitions of some key related terms in this study.

1.7 Definition of Related Terms

Several key terms must be defined to provide further understanding of the overall motivation and purpose of this study. The following sections provide the operational definitions for some of the key terms in this study.

1.7.1 Corporate Governance (CG)

Corporate governance refers to a supervision and management system which influences the delineation and achievement of company objectives. It is a mechanism for assessing and controlling risks and for ensuring the effectiveness of such assessment and control. With good corporate governance structures, companies are encouraged to generate value via innovative operations, research and developments. It also provides accountability and sufficient control systems (Detthamrong, Chancharat & Vithessonthi, 2017) (p. 693). In the context of this study, corporate governance refers to the practices used as the variables to be examined. Specifically, these practices (variables) include the two independent variables i.e. audit committee and ownership structure and the dependent variable i.e. audit quality.

1.7.2 Audit Quality (AQ)

Audit quality is defined as a process of the quality of a systematic examination carried out by the external quality auditor or an internal audit team. In this case, auditors use techniques to recognize misstatements in a client's accounting system and subsequently report the misstatements (Sayyar, Basiruddin, Rasid, & Elhabib, 2015). In the context of this study, audit quality constitutes the dependent variable to be investigated and it employs two main dimensions, namely audit fees and audit firm size.

1.7.3 Audit Committee (AC)

An audit committee is a corporate governance tool developed by the Board of Directors of which non-executive directors are used as a means for controlling and monitoring managerial functions including internal auditing, risk management, compliance, and financial reporting (Abdullatif, Ghanayem, Ahmad-Amin, Al-Shelleh & Sharaiha, 2015). In the context of this study, audit committee constitutes the first independent variable and has four characteristics to be investigated. These audit committee characteristics are size, independence, meetings, and financial expertise.

1.7.4 Ownership Structure

The construct of ownership structure refers to the distribution of shares amongst shareholders (owners) as defined by McCann and Vroom (2010). In the context of this study, ownership structure constitutes the second independent variable to be examined which is categorised into three namely government, foreign and family ownership.

1.8 Summary of the Chapter

This chapter addressed the introduction of the study. It is constructed in such a way that would lead to the achievement of the study's objectives. This chapter started with the background of the study followed by the statement of the problem. The chapter then presented the research objectives and research questions which the current research attempts to achieve and answer. Next is the presentation of the significance of study, specifically the theoretical significance and practical significance. Finally, the chapter presented the operational definitions of the key terms. The subsequent chapter presents the literature review.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This study mainly examines the effect of the audit committee characteristics (i.e., Audit Committee Size, Audit Committee Meetings, Audit Committee Independence and Audit Committee Financial Experience) and ownership structure (i.e., Family Ownership, Foreign Ownership and Government Ownership) on audit quality using two measurements (Audit Fees and Audit Firm Size) of the listed industrial companies in Jordan. Specifically, the chapter begins with an overview on audit quality which represents the dependent (outcome) variable of the study including its definitions, foundation, and measurement. Next, the chapter presents the first independent variable in this study namely audit committee including its definitions, foundations, and characteristics (dimensions). The chapter then presents the second independent variable namely ownership structure including its three dimensions of Family, Foreign and Government ownerships. The chapter proceeds with the theoretical underpinning of the study namely the agency theory. The following section addresses the construct of audit quality.

2.2 Audit Quality

Audit quality is defined as the systematic examination carried out by an external quality auditor or an internal audit team. In this case, the auditors use certain techniques to recognise misstatements in a client's accounting system and report the misstatements (Soltani, 2014). Audit quality is conducted to identify any information asymmetry that