

Audit Firm Characteristics and Auditing Quality: An Empirical Study of the Listed Companies in Jordan

K Nagendra Babu^a and Maher Hamed Qutesh Al-Fawarah^b

^aProfessor, Dept. of Commerce, University of Mysore, Mysuru, Karnataka, India

^bResearch Scholar, Dept. of Commerce, University of Mysore, Mysuru, Karnataka, India

Abstract

Audit committees serve an essential role in corporate governance by protecting investors through their oversight of a company's financial reporting process and the audit. Quality audits are the trademark of the audit profession. Delivery of quality audits is vital to establishing trust in financial statements relied upon by investors and other stakeholders. Audit committees, given their dual oversight role over financial reporting and audit, are essential in raising market confidence and investor assurance. As there is limited information available for audit committees to measure and evaluate the quality of an audit, this study examines the relation between auditing quality and auditor independence, auditor expertise, audit committee size and no. of meetings held during the year.. Using a sample of 60 respondents made up of finance directors, auditors, shareholders, and financial analysts and employing structural equation modeling technique for data analysis, it was found that auditor independence and auditor expertise have a significant relationship with audit quality. It was found that audit committee size is not a factor affecting audit quality in Jordanian companies. The study recommend auditors should consider audit risk before embarking upon an audit so as to be independent and accountability conscious.

KEYWORDS: auditing quality; audit model, Non_Audit Fee, auditor independence, Expertise

Introduction:

High-quality external auditing is a central component of well-functioning capital markets. Companies with a reputation for credible financial reporting are likely to change auditors when their audit quality is questioned to avoid capital market consequences of unreliable financial reporting (Hennes, Leone & Miller, 2012). However the quality of an audit depends simultaneously on several audit firm characteristics such as auditor independence, auditor experience, size of audit committee and no. of meeting held by audit committee (Suyono, 2012). Auditors express their audit opinions on the financial statements presented to them based on audit evidence. The objective of the audit therefore is to plan and perform the audit to obtain appropriate audit evidence that is sufficient to support the opinion expressed in the auditor's report. Insufficient or inappropriate audit evidence would lead to wrong conclusions or opinion being drawn on the financial statements. The auditor may in fact report that the company is a going concern, when indeed it is not. Eventually the company may collapse and this may lead to litigation being brought against the company's auditors. As an example, Enron's auditor, Arthur Andersen, suffered huge cost of litigation, when Enron collapsed, which

ultimately led to the demise of Andersen. Was it that Andersen was not independent, experienced, and accountability conscious in carrying out the audit of Enron? Is there a link between auditor independence, auditor experience, auditor accountability auditing quality? The objective of this study therefore is to find the relationship between auditing quality (Non_Audit Fee) and audit firm characteristics such as auditor independence, auditor expertise, Size of Audit Committee and no. of audit committee meetings held.

The Center for Audit Quality (CAQ) believes that reliable quantitative metrics regarding the audit, commonly referred to as “audit quality indicators” or “AQIs,” could be used to better inform audit committees about key matters that may contribute to the quality of an audit. Firm-level indicators, which focus on an audit firm’s overall strategies and initiatives, can be used to complement these engagement-level indicators.

Objectives:

1. To identify the factors that determine audit quality with reference to audit committee characteristics.
2. To assess the role of AC in fostering corporate governance on Jordanian industrial firms.

Hypotheses:

H₀₁: There is no relationship between audit committee characteristics – independence, expertise, size and meetings and audit quality (Non_Audit Fee) in Jordanian corporations.

H₁: There is a relationship between audit committee characteristics – independence, expertise, size and meetings Independence and audit quality (Non_Audit Fee) in Jordanian corporations

H₀₂: There is no relationship between the level of compliance with the AC characteristics (including size, independence, expertise, meetings) and audit quality in Jordanian corporations.

H₂: There is a relationship between the level of compliance with the AC characteristics (including size, independence, expertise, meetings) and audit quality in Jordanian corporations.

Review of literature:

Aryan (2015) ,in their study “The relationship between audit committee characteristics, audit

firm quality and companies’ profitability” This study aimed to highlight the role of audit committee and external audit in enhancing companies’ profitability. Since there are contradictions in previous studies results, there is a need to test these relationships in Jordanian context to provide empirical evidence on this issue, especially after the corporate governance application became mandatory since 2009. This study has used industrial sector, which include 91 companies, only 69 companies were included in this study, the other 22 companies were excluded either newly listed or delisted during the study period (2009-2014). Multiple regression were used to analyze the data, the result showed positive relationships between audit committee meeting, audit committee size and companies profitability, while no significant relationship between audit committee composition, audit committee members literacy, audit quality and

companies profitability. Such results would be beneficial to companies' corporate governance committees to play their supervisory role.

Karim, Robin, and Suh (2016) in their study titled "Board structure and audit committee monitoring: Effects of audit committee monitoring incentives and board entrenchment on audit fees" addressed two research questions. First, are audit fees related to the presence of common members in audit and compensation committees (committee overlap)? Second, are audit fees related to whether board membership is protected by the use of a staggered voting system (board classification)? Using a treatment effects model to control for endogeneity, we find a negative relationship between audit fees and committee overlap, which is consistent with the argument that committee overlap is associated with weak corporate governance and that in an environment with weak governance, monitoring efforts by the audit committee are similarly weak. We find a positive relationship between audit fees and board classification, indicating that firms with classified boards seek greater monitoring, which is consistent with the prior literature which suggests that such firms seek the "quiet life" and wish to avoid reporting-related problems.

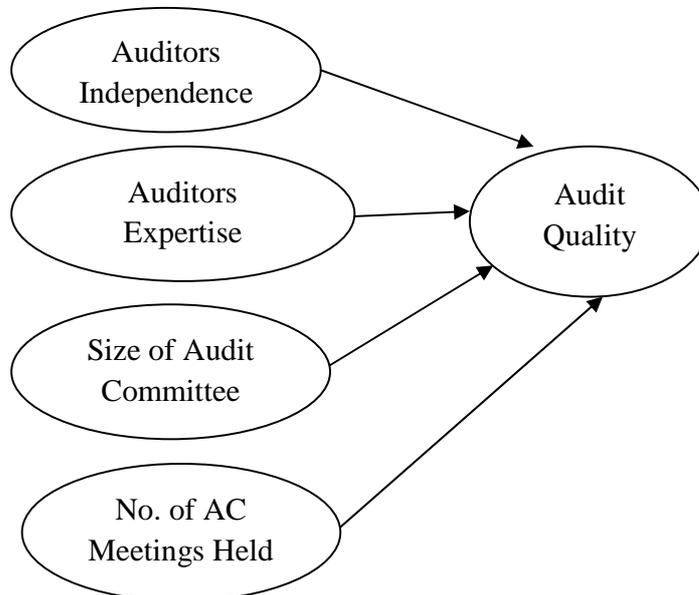
Alzoubi (2017) performed research on the topic "Audit quality, debt financing, and earnings management: Evidence from Jordan" This paper presented the initial evidence regarding the relationship between audit quality, debt financing, and earnings management in Jordan. The study used the cross-sectional version of the modified Jones model, in which discretionary accruals were employed as a proxy for earnings management. Generalized least squares regression was employed to examine the influence of audit quality and debt financing on earnings management using a sample comprising 72 industrial companies during the selected period from 2006 to 2012. The results suggested that audit quality (auditor tenure, size, specialization, and independence) and debt financing (low debt) diminish the potential of earnings management, and, in turn, enhance the financial reporting quality. Invariably, high debt would raise earnings management risk. This research raises probable implications for policy-makers in Jordan and other countries to consider in formulating a more comprehensive and reliable audit system.

Razani and Xia (2018) Conducted a study "The Influence of Audit Tenure and Audit Committee on Earnings Quality"; This study aims to test the effect of the length of auditor tenure and audit committee on earning quality measured by the absolute value of discretionary accruals. A sample of 465 companies has been selected and data covering the period 2009-2014 has been collected from these firms, where 2325 observation were used in this analysis. The data collected form CSMAR and analyzed using GLS regression analysis. This study found that the short audit tenure on Chinese listed company in Shenzhen Stock Exchange has a significance negative influence on earning quality, meanwhile this study found that audit committee which is measure by the size of the committee does not has a significance influence on earning quality. This study suggests that auditor should have a longer tenure to gain

adequate knowledge of client’s business. Moreover companies should strengthen the role of their audit committee in monitoring financial reporting process by improved their activity and financial knowledge of the member.

Amin, Malangkecewara, Lukviarman, Suhardjanto, and Setiany (2018) studied on the title “Audit Committee Characteristics and Audit-Earnings Quality: Empirical Evidence of the Company with Concentrated Ownership” This study examined the effect of board characteristics on earnings quality moderated by audit quality on companies with concentrated ownership. Board, in this study, referred to an audit committee that assists the board of commissioners to monitor the earnings report. Moderating regression analysis was used in this study to examine the impact of ownership concentration on the earnings quality monitoring model. The examination was conducted on sub-samples based on the level of ownership concentrations, i.e. 10, 20, 50, 80, 90 %. This study found four characteristics of the audit committee that influence the earnings quality. Three of them (independence, expertise and size) had positive effects; the other one (meeting) gave negative effect on earnings quality. Audit quality moderates the effect of audit committee characteristics on earnings quality, except for expertise (accounting and finance). The impact of the ownership concentration level increases as the concentration escalated from 10 to 80 %, but then weakened at 90 % level. The study revealed the debilitating limits of the concentration monitoring.

Figure 1 :Hypothesis model of Audit Quality Factors



Source: Compiled by author

Statistical Tools

Descriptive analysis is performed that includes sample values such as the mean, median and standard deviation as well as skewness and kurtosis of all sample

variables. This then follows by the Pearson correlation matrix to investigate the bivariate association amongst the variables. Then OLS multivariate regression technique is employed to examine the relationship between a single dependent variable and various explanatory variables. The assumptions include: (1) Normality - The errors (residuals) should be normally distributed (2) Linearity - The relationship between the predictors and the response variable should be linear. (3) Homoscedasticity - The error variance should be constant (4) Independent - The errors associated with one observation should not be correlated with the errors of other observations. (5) Multicollinearity - There should be no exact collinearity among predictors. The statistical software SPSS has been used to conduct the above statistical analysis.

Sampling :

The population for the study consists of Industrial firms listed on the Amman Stock Exchange for the period 2012 – 2017 during which only those companies that existed throughout this period were considered.

Measurement of Independent Variables

This study uses a number of variables to proxy for audit committee characteristics. It is possible since current governance disclosures in the Jordan make explicit recommendations in relation to specific audit committee characteristics (i.e. size, independence, meeting frequency and expertise) and also require details of compliance with these recommendations to be disclosed in the annual report (ASE, 2017). Consequently, this study utilises these disclosures to construct the key independent variables necessary for this investigation. The main independent variables of interest and their measurement constructs are as follows.

Audit Committee Independence

Audit committee independence is a continuous variable, measured as the proportion of audit committee members declared as independent by the board. According to the Jordanian corporate governance codes 2010), 'A non-executive director is considered independent when the board determines that the director is independent in character and judgement, and there are no relationships or circumstances which could affect, or appear to affect, the director's judgment'.

Audit Committee Expertise

The essence of audit committee expertise is captured using governance expertise. Audit committee's financial expertise is a continuous variable, measured as the proportion of audit committee members with overall financial expertise. The notion of overall financial expertise is measured using the current definition of financial expertise which includes members with work experience as a certified public accountant, auditor, chief financial officer, financial comptroller or accounting officer. This also includes members with work experience such as an investment banker, financial analyst, or any other financial management role and/or a chief executive officer, chairman or company president. This suggests that the term financial expertise could entail the accounting and finance expertise, as well as an expertise in the preparation of financial.

Audit Committee Size

Audit committee size is a continuous variable and is measured in absolute terms. The information on the audit committee size was collected by hand using corporate governance section of annual reports of each company.

Audit Committee Meetings

Audit committee meetings is also a continuous variable, measured as the number of audit committee meetings held for the whole year .The information on audit committee meetings was handpicked and collected using the corporate governance section of the annual report of each company.

Empirical Research Models and Tests

This study utilizes empirical proxy to test the hypotheses set out for this study. The proxy, i.e. Non_Audit fee ratio, investigate the association between audit committee characteristics and audit quality.

Audit Committee Characteristics and Audit Quality Model:

This stage of the study utilizes the empirical models that makes use of the corresponding variables containing the absolute values for each of the four audit committee characteristics currently recommended as best practice for Jordanian listed companies (ASE, 2017)(Jordan Corporate Governance Codes). The empirical model testing the relationship between the audit committee characteristics and audit quality using Non_Audit Fee as proxy to measure audit quality is as follow.

Non_Audit Fee Model

Model: $\text{Non_Audit Fee} = \beta_0 + \beta_1\text{ACSIZE} + \beta_2\text{AC\%IND} + \beta_3\text{ACMEETINGS} + \beta_4\text{AC\%FINEXP} + \varepsilon$.

Dependent variable:

Non_Audit Fee

Independent variables:

AC Size = number of audit committee members;

AC Meetings = Number of audit committee meetings held during the year;

AC % Ind = Percentage of audit committee members who are independent non-executive directors;

AC % Fin Exp = Percentage of audit committee members who are financial experts.

Table 1: Descriptive Statistics of the Audit committee characteristics for 10 industries for the entire period of study

Statistics	Independence	Expertise	meetings	size	Non_Audit Fee
Mean	0.49	0.26	3	2	1
Median	0.67	0.33	4	3	1
Standard Dev.	0.277042	0.206492	1.812448	1.244626	0.400607
Kurtosis	-0.75293	-0.54563	-0.88796	-0.04637	0.272234
Skewness	-1.03264	0.169386	-0.79744	-1.31025	-1.50686
Minimum	0.00	0.00	0	0	0
Maximum	0.67	0.75	6	5	1

The above Table 1 shows the overall mean, standard deviation, kurtosis and Skewness. The results of the analysis of the data showed that on an **average**, the industries in the sample have an independence value of 0.49 over the entire period of study of six years. The mean of Expertise for the entire period is 0.26, meetings is 3, size is 3, Non_Audit Fee is 1

The standard deviation for the entire data including all 10 industries under study for independence is 0.2770, Expertise is 0.2065 and Non_Audit Fee is 0.401, the low value indicates that most of the values are very close to the mean. However, the high values of standard deviation for meetings is 1.813 and Size is 1.245 which indicates that the data points are spread out over a wider range from the mean.

The value of kurtosis for the entire data set is independence (-1.0326), Expertise (0.1694), meetings (-0.7974), Size (-1.3103), Non_Audit Fee (-1.507) respectively which is much lower than the kurtosis of the normal distribution (3.0). It can be inferred from the above values that the dataset has lighter tails than a normal distribution.

The skewness values of independence (-0.7529), Expertise (-0.5456), meetings (-0.8880), Size (-0.04637), Non_fees (0.2722) respectively all less than -1 and greater than 1 which indicates that the distribution is highly skewed for the entire data set.

Hypothesis Testing

Table 2: Correlation matrix:

		Independence	Expertise	Meeting	Size	Non_Fees
Independence	Pearson Correlation	1	-.105	.000	-.253	-.211
	Sig. (2-tailed)		.426	.998	.051	.105
	N	60	60	60	60	60
Expertise	Pearson Correlation	-.105	1	.634**	.782**	-.149
	Sig. (2-tailed)	.426		.000	.000	.255
	N	60	60	60	60	60
Meeting	Pearson Correlation	.000	.634**	1	.579**	.008
	Sig. (2-tailed)	.998	.000		.000	.954
	N	60	60	60	60	60
Size	Pearson Correlation	-.253	.782**	.579**	1	-.118
	Sig. (2-tailed)	.051	.000	.000		.368
	N	60	60	60	60	60
Non_Fees	Pearson Correlation	-.211	-.149	.008	-.118	1
	Sig. (2-tailed)	.105	.255	.954	.368	
	N	60	60	60	60	60

The important cells we look at are above or below the main diagonal, which contain the correlation coefficient for the correlation between the variables independence, expertise,

meetings, size and Non_Audit Fee its p-value, and the number of complete pairwise observations that the calculation was based on.

The results of the above Table 2 have been interpreted as follows:

- Pearson correlation coefficient for independence and expertise is -0.105 ($p=0.426$) which is insignificant ($p > .001$) for a two-tailed test), based on 60 complete observations (i.e., cases with non-missing values for both independence and expertise).
- Pearson correlation coefficient for independence and meeting is 0.000 ($p=0.998$) which is insignificant ($p > .01$) for a two-tailed test), based on 60 complete observations (i.e., cases with non-missing values for both independence and meeting).
- Pearson correlation coefficient for independence and size is -0.253 ($p=0.051$) which is insignificant ($p > .001$) for a two-tailed test), based on 60 complete observations (i.e., cases with non-missing values for both independence and size).
- Pearson correlation coefficient for independence and Non_Audit Fee is -0.211 ($p=0.105$) which is insignificant ($p > .001$) for a two-tailed test), based on 60 complete observations (i.e., cases with non-missing values for both independence and Non_Fee).
- Pearson correlation coefficient for expertise and meeting is 0.634 ($p=0.000$) which is significant ($p < .001$) for a two-tailed test), based on 60 complete observations (i.e., cases with non-missing values for both expertise and meeting).
- Pearson correlation coefficient for expertise and size is 0.782 ($p=0.000$) which is significant ($p < .001$) for a two-tailed test), based on 60 complete observations (i.e., cases with non-missing values for both expertise and size).
- Pearson correlation coefficient for expertise and Non_Audit Fee is -0.149 ($p=0.255$) which is insignificant ($p > .001$) for a two-tailed test), based on 60 complete observations (i.e., cases with non-missing values for both expertise and Non_Fee).
- Pearson correlation coefficient for meeting and size is 0.634 ($p=0.000$) which is significant ($p < .001$) for a two-tailed test), based on 60 complete observations (i.e., cases with non-missing values for both meeting and size).
- Pearson correlation coefficient for meeting and Non_Audit fee is 0.008 ($p=0.954$) which is insignificant ($p > .001$) for a two-tailed test), based on 60 complete observations (i.e., cases with non-missing values for both meeting and Non_Audit Fee).
- Pearson correlation coefficient for size and Non_Audit Fee is -0.118 ($p=0.368$) which is insignificant ($p > .001$) for a two-tailed test), based on 60 complete observations (i.e., cases with non-missing values for both size and Non_Fee).

Normality Testing

The purpose of normality testing is to know that all data of independent and dependent variables have normal distribution. In this research, normality testing is used based on Kolmogorov-Smirnov, in which if the asymptotic significance (two tail) is higher than alpha ($\alpha = 0.05$), so all data have normal distribution.

Table 3: One-Sample Kolmogorov-Smirnov Test

			Independence	Expertise	Meeting	Size	Non_Fees
N			60	60	60	60	60
Normal Parameters ^{a,b}	Mean		.509290	.242200	2.8342	2.231635	.842195
	Std. Deviation		.1077708	.1201377	.94442	.7139076	.1776027
Most Extreme Differences	Absolute		.149	.160	.213	.173	.296
	Positive		.136	.123	.109	.124	.187
	Negative		-.149	-.160	-.213	-.173	-.296
Test Statistic			.149	.160	.213	.173	.296
Kolmogorov-Smirnov Z			1.678	1.733	3.486	3.007	3.744
Asymp. Sig. (2-tailed)			.007	.005	.000	.000	.000

Based on the output of One-Sample Kolmogorov-Smirnov Test, the value of the variable Asymp.Sig for variables independence(0.007), Expertise (0.005), Meeting(0.000), Size (0.000), and Non_Fee (0.000) is <0.05 and hence the data is not normally distributed.

Linearity:

Linearity means that the predictor variables in the regression have a straight-line relationship with the outcome variable. Linearity test aims to determine the relationship between independent variables and the dependent variable is linear or not. The linearity test is a requirement in the correlation and linear regression analysis.

Non_Audit Fee (Dependent Variable) and Independence, Expertise, Meetings & Size (Independent Variables)

Table 4 (a):
ANOVA Table

			Sum of Squares	df	Mean Square	F	Sig.
Non_Audit Fee * Independence	Between Groups	(Combined)	.911	12	.076	3.756	.001
		Linearity	.083	1	.083	4.115	.048
		Deviation from Linearity	.828	11	.075	3.723	.001
	Within Groups		.950	47	.020		
Total			1.861	59			

Table 4 (b):

ANOVA Table

	Sum of Squares	df	Mean Square	F	Sig.
Non_Audit Fee Between Groups (Combined)	1.556	17	.092	12.581	.000
* Expertise Linearity	.041	1	.041	5.702	.022
Deviation from Linearity	1.514	16	.095	13.011	.000
Within Groups	.305	42	.007		
Total	1.861	59			

Table 4 (c):

ANOVA Table

	Sum of Squares	df	Mean Square	F	Sig.
Non_Audit Fee Between Groups (Combined)	1.475	20	.074	7.447	.000
* Meeting Linearity	.000	1	.000	.011	.918
Deviation from Linearity	1.475	19	.078	7.838	.000
Within Groups	.386	39	.010		
Total	1.861	59			

Table 4 (d):

ANOVA Table

	Sum of Squares	df	Mean Square	F	Sig.
Non_Audit Fee * Size Between Groups (Combined)	1.477	14	.105	12.354	.000
Linearity	.026	1	.026	3.051	.088
Deviation from Linearity	1.451	13	.112	13.069	.000
Within Groups	.384	45	.009		
Total	1.861	59			

Interpretation of Test Results Output Linearity (Non_Audit Fee)

Based on the ANOVA Output Table 4 (a) to 4(d), value sig. Deviation from Linearity of 0.001, 0.000, 0.000 and 0.000 < 0.05, it can be concluded that there is no linear relationship between the dependent variable No_Audit Fee and the independent variables – Independence, Expertise, Meeting and Size

Conclusion of Linearity Test:

As the values of sig. Deviation from Linearity for the audit characteristics independent variables (independence, Expertise, Meetings and Size) and Audit Quality dependent variable (Non_Audit Fee) are all less than 0.05, it is concluded that no linear relationship exist between independent variables and dependent variables.

Non_Audit Fee:

Model 2: Non_Audit Fee: (Dependent Variable)

Table 5(a)

Descriptive Statistics

	Mean	Std. Deviation	N
Non_Fees	.842195	.1776027	60
Independence	.509290	.1077708	60
Expertise	.242200	.1201377	60
Meeting	2.8342	.94442	60
Size	2.231635	.7139076	60

Table 5(b):

Variables Entered/Removed^a

Model	Variables Entered	Variables Removed	Method
1	Size, Independence, Meeting, Expertise ^b	.	Enter

a. Dependent Variable: Non_Audit Fee

b. All requested variables entered.

Table 5(c):

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. Change	
1	.329 ^a	.108	.043	.1737304	.108	1.665	4	55	.171	.482

a. Predictors: (Constant), Size, Independence, Meeting, Expertise

b. Dependent Variable: Non_Fees

From the above regression analysis shown in table 5(c), the value of R (represents simple correlation) obtained is 0.329 which indicates moderate correlation and R Square value is 0.108. Further the adjusted R square value was found to be 0.043 which indicated that there was a only a small contribution of 4.3%. The value obtained for standard error of estimate is 0.17373 and the value of comparison of coefficient of determination and Durbin – Watson statistic based on the first difference level of data is 0.482

The Durbin-Watson statistic obtained is 0.482 (nearer to 0) which is between 0 and less than 2 and therefore the data is positively auto-correlated.

Interactions in regression- An interaction is the combined effect of two independent variables on one dependent variable. Interactions in SPSS must be calculated before including in a model.

Regression ANOVA:

Analysis of variance (ANOVA) is a collection of statistical models used to analyze the differences among group means and their associated procedures (such as “variation” among and between groups), which was developed by statistician and evolutionary biologist Ronald Fisher

Table 5(d):

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.201	4	.050	1.665	.171 ^b
	Residual	1.660	55	.030		
	Total	1.861	59			

a. Dependent Variable: Non_Audit Fee

b. Predictors: (Constant), Size, Independence, Meeting, Expertise

Table 5(d) indicates that the regression model predicts the dependent variable significantly well. The "**Regression**" row and the "**Sig.**" column, indicates the statistical significance of the regression model that was run. Here, $p = .171$, which is greater than 0.05, and indicates that, overall, the regression model statistically insignificantly predicts the outcome variable (i.e., it is not a good fit for the data).

In regression ANOVA, the value of F obtained is 1.665 which is less than the critical value 3.65 and also $p = 0.171$ is greater than $p = 0.05$ and thus is highly insignificant.

The **Coefficients** table provides us with the necessary information to predict the relationship between the dependent variable Non_Fee and the audit committee characteristics (Independence, Expertise, Meeting and Size), as well as determine whether Independence, Expertise, Meeting and Size statistically significantly fit to the model (by looking at the "**Sig.**" column). Furthermore, we can use the values in the "**B**" column under the "**Unstandardized Coefficients**" column, as shown below::

Table 5(e):

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.115	.155		7.209	.000		
	Independence	-.453	.222	-.275	-2.041	.046	.895	1.117
	Expertise	-.274	.325	-.186	-.844	.402	.336	2.978
	Meeting	.042	.032	.226	1.337	.187	.568	1.760

Size	-.043	.054	-.173	-.798	.428	.343	2.912
------	-------	------	-------	-------	------	------	-------

a. Dependent Variable: Non_Audit Fee

$$\begin{aligned} \text{Non Audit Fee} &= \beta_0 + \beta_1 \text{AC\%IND} + \beta_2 \text{AC\%FINEXP} + \beta_3 \text{ACMEETINGS} \\ &+ \beta_4 \text{ACSIZE} + \epsilon \\ &= 1.115098878 - 0.452684894 * \text{AC\%IND} - 0.27429706 * \\ &\text{AC\%FINEXP} \\ &+ 0.04246743 \text{ACMEETINGS} - 0.043145011 \text{ACSIZE} + \epsilon \end{aligned}$$

Table 5(f):

Residuals Statistics^a

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.739521	1.023343	.842195	.0583674	60
Residual	-.4451125	.2604787	.0000000	.1677378	60
Std. Predicted Value	-1.759	3.104	.000	1.000	60
Std. Residual	-2.562	1.499	.000	.966	60

a. Dependent Variable: Non_Audit Fee

A table of Residual Statistics and a histogram is obtained. The mean of an *unstandardized* residuals have a mean of zero, and so do standardized predicted values and standardized residuals.

Non_Audit Fees:

Table 6(a):

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.201	4	.050	1.665	.171 ^b
	Residual	1.660	55	.030		
	Total	1.861	59			

a. Dependent Variable: Non_audit Fee

b. Predictors: (Constant), Size, Independence, Meeting, Expertise

The first four combined hypothesis states that independence, experience and accountability affect audit quality (Non_Audit Fee) simultaneously. From the result of F-test, it is known that the calculation of F results in 1.665 with the probability value of 0.171 which is greater than α (0.05). This value is compared with the value on the F table (critical value), i.e., 2.76. Since Fstatistic (1.665) is smaller than that of critical value (2.76), and also the probability value of 0.171 is greater than α (0.05), the first combined hypothesis in this research is rejected.

Table 6(b):

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.083	1	.083	2.713	.105 ^b
	Residual	1.778	58	.031		
	Total	1.861	59			

a. Dependent Variable: Non_Audit Fee

b. Predictors: (Constant), Independence

From the result of F-test, it is known that the calculation of F results in 2.713 with the probability value of 0.105 which is larger than α (0.05). This value is compared with the value on the F table (critical value), i.e., 3.79. Since $F_{\text{statistic}}$ (2.713) is lesser than that of critical value (3.79), and also the probability value of 0.105 is greater than α (0.05), the first hypothesis in this research is rejected (that is there is relationship between audit committee Independence and Audit Quality (No_Fees) in Jordanian corporations)

Table 6(c):

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.041	1	.041	1.322	.255 ^b
	Residual	1.820	58	.031		
	Total	1.861	59			

a. Dependent Variable: Non_Audit Fee

b. Predictors: (Constant), Expertise

From the result of F-test, it is known that the calculation of F results in 1.322 with the probability value of 0.255 which is larger than α (0.05). This value is compared with the value of the F table (critical value), i.e., 3.79. Since $F_{\text{statistic}}$ (1.322) is lesser than that of critical value (3.79), and also the probability value of 0.255 is greater than α (0.05), the second hypothesis in this research is rejected (that is there is relationship between audit committee Expertise and Audit Quality (No_Audit Fee) in Jordanian corporations)

Table 6(d):

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.000	1	.000	.003	.954 ^b
	Residual	1.861	58	.032		

Total	1.861	59			
-------	-------	----	--	--	--

- a. Dependent Variable: Non_Fees
- b. Predictors: (Constant), Meeting

From the result of F-test, it is known that the calculation of F results in 0.003 with the probability value of 0.954 which is larger than α (0.05). This value is compared with the value of the F table (critical value), i.e., 3.79. Since $F_{\text{statistic}}$ (0.003) is lesser than that of critical value (3.79), and also the probability value of 0.954 is greater than α (0.05), the third hypothesis in this research is rejected (that is there is relationship between audit committee Meeting and Audit Quality (No_Audit Fee) in Jordanian corporations)

Table 6(e):

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.026	1	.026	.823	.368 ^b
	Residual	1.835	58	.032		
	Total	1.861	59			

- a. Dependent Variable: Non_Audit Fee
- b. Predictors: (Constant), Size

From the result of F-test, it is known that the calculation of F results in 0.823 with the probability value of 0.368 which is larger than α (0.05). This value is compared with the value of the F table (critical value), i.e., 3.79. Since $F_{\text{statistic}}$ (0.823) is lesser than that of critical value (3.79), and also the probability value of 0.368 is greater than α (0.05), the fourth hypothesis in this research is rejected (that is there is relationship between audit committee Size and Audit Quality (No_AuditFees) in Jordanian corporations)

Non-Fees:

Table 6(f)

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.115	.155		7.209	.000		
	Independence	-.453	.222	-.275	-2.041	.056	.895	1.117
	Expertise	-.274	.325	-.186	-.844	.402	.336	2.978
	Meeting	.042	.032	.226	1.337	.187	.568	1.760
	Size	-.043	.054	-.173	-.798	.428	.343	2.912

a. Dependent Variable: Non_Fees

Hypothesis 1:

Hypothesis states that independence, expertise, Meeting and Size affect Audit Quality. (Non_Audit Fee)

From the output of the regression, the result shows that :

a. Value of t-test for variable of independence is -2.041 which is lesser than critical value (1.67), and the probability value of 0.056, is almost equal to alpha (0.05). It means that independence does affect audit quality.

b. Value of t-test for variable of Expertise is -.844, which is smaller than critical value (1.67), and the probability value of 0.0402 is higher than alpha (0.05). It means that expertise does not affect audit quality.

c. Value of t-test for variable of meeting is 1.337, which is smaller than critical value (1.67), and the probability value of 0.187 is higher than alpha (0.05). It means that no. of meeting does not affect audit quality.

d. Value of t-test for variable of size is -.798, which is smaller than critical value (1.67), and the probability value of 0.428 is higher than alpha (0.05). It means that size does not affect audit quality partially.

Hypothesis 2:

H02: There is no relationship between the level of compliance with the AC characteristics (including size, independence, expertise, meetings) and fostering corporate governance on industrial Jordanian firms.

H2: There is a relationship between the level of compliance with the AC characteristics (including size, independence, expertise, meetings) and fostering corporate governance on industrial Jordanian firms.

In accordance with Jordanian Companies Law, majority of **members** in audit committees must be independent directors. Some companies were not found to be compliant with this criterion. For an audit to be conducted in a company, **qualified** auditors ought to be appointed by the board of directors. According to the research, none of the companies under study disclosed the qualification of the audit committee members or the activities of the committee and only few companies disclosed having independent directors in their audit committees. It was not possible to assess the extent to which audit committees ensure external and internal auditors' independence and effectiveness.

As most of the Jordanian companies under study did not comply with the Jordanian Audit committee charter, the level of compliance with the AC characteristics was very low. This in turn did not foster corporate governance and heavily impacted the audit quality directing the respective companies to comply with Jordanian

Companies Law and Audit committee charter. No relationship between level of compliance and AC characteristics (size, meetings, independence and expertise) and audit quality in Jordanian companies was found. Similarly, no relationship between level of compliance and AC characteristics (size, meetings, independence and expertise) and corporate governance in Jordanian companies was found. Hence, null hypothesis 2 was accepted.

Conclusion:

Conclusion We studied the relationship between audit firm characteristics and audit quality. The study found out that audit firm characteristics to a large extent affect audit quality. We find that auditor independence leads to an increased level of audit quality. The result of this study has shown that auditors in Jordanian firms are exercising an independent behaviour in carry out their audit functions. A non-significant relationship between auditor expertise and audit quality in Jordanian firms was found. This shows that expertise is not a factor influencing audit quality in Jordan. An auditor may be experienced but may not exercise due care and diligence in carry out his audit work. Also the recent need for auditors to be held liable for not exercising due care and attentiveness has brought the accountability consciousness into the minds of Jordanian auditors. This has increased the quality of auditing in Jordan.

References:

- Alzoubi, E. S. S. (2017). Audit quality, debt financing, and earnings management: Evidence from Jordan. *Journal of International Accounting, Auditing and Taxation*.
- Amin, A., Malangkucecwara, M., Lukviarman, I. N., Suhardjanto, D., & Setiany, E. (2018). Audit Committee Characteristics and Audit-Earnings Quality: Empirical Evidence of the Company with Concentrated Ownership.
- Amman Stock Exchange. (2014). Corporate Governance Code for Shareholding Companies Listed on the Amman Stock
- Aryan, L. (2015). The relationship between audit committee characteristics, audit firm quality and companies' profitability. *Asian Journal of Finance & Accounting*, 7(2), 215-226
- Karim, K., Robin, A., & Suh, S. (2016). Board structure and audit committee monitoring: Effects of audit committee monitoring incentives and board entrenchment on audit fees. *Journal of Accounting, Auditing & Finance*, 31(2), 249-276
- Razani, F. Z., & Xia, L. (2018). The Influence of Audit Tenure and Audit Committee on Earnings Quality. *Journal of Accounting Management and Economics*, 19(1), 1-10.
- Zikmund. (2000). *Business Research Methods*, 6th (ed) Dryden Press