

The Impact of the Auditor to Achieve Governance (from the perspective of investors in Amman Stock Exchange Market)

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Abstract

This study investigated the relationship between corporate governance and credibility gap, through financial brokers in Amman Stock Exchange; as they are the shareholder representatives, The research focused on the level of commitment by the auditors on implementing International Audit Standards and Quality Control Standards as independent variables that could affect corporate governance, by using an inferential descriptive statistical analysis results showed a significant positive relationship between International Audit Standards and Quality Control Standards as independent variables and credibility gap. Results also showed that gender, education, and experience are all variables that affect shareholders opinion on corporate governance in a significant and positive manner.

Keywords: *corporate governance, credibility gap, International Audit Standards, and Quality Control Standards.*

1. Introduction

The contemporary environment of business has been subject to many financial crisis followed by multiple inquiries about the role of accounting and auditing profession as well as its ability to capture a true and real image of the financial position of the corporation and the results of its works.

These inquiries have raised doubt in regard to the services and organization in general and detecting the deficiencies and weaknesses in the moral and behavior aspects of the profession. In addition, it discovered the absence of tight mechanisms in the professional standards and lack of professional quality in performance (Rodrigues, 2011).

(Kangarluie and Bayazidi, 2011) added that auditors are responsible for the credibility of information disclosed in the financial statements and reports. The audit profession is not only intended for internal purposes such as satisfying the company and board of directors but also for external parties such as current and future investors, analyzers and governmental authorities etc...Hence, the auditor has a huge responsibility and in order to ensure his work, the International Standards defined a practical framework for their performance.

From Keeffe (1975) point of view, the inability of auditor to perform his job correctly without making mistakes in judging the veracity of the financial statements is due to a larger gap in the information credibility (Responsibility Gap).

2. The Study Problem

The study problem lies in the attempt to measure the governance role of an auditor and defining governance influence on the credibility gap of financial information in order to minimize the magnitude of such gap from the perspective of investors, who have the knowledge of the importance of audit works and quality of disclosure of financial reports. For fulfilling that, the following questions were studied:

1. From an investors' perspective, does the auditor compliance with the International Auditing Standards affect the credibility gap of financial information?
2. From an investors' perspective, does the auditor compliance with the Quality Control Standards affect the credibility gap of financial information?

3. From the investors' perspective, do the demographic factors of these investors (sex, age, experience and qualification) make any difference in the credibility gap of financial information?

3. The Study Objectives

This study aims to identify the governance role of an auditor and its influence on the credibility gap of financial information from the perspective of investors in Amman Financial Market through the following:

1. Defining the influence of auditor's compliance with International Auditing Standards on the credibility gap of financial information from the investors' perspective in Amman Financial Market.
2. Defining the influence of auditor's compliance with Control Standards on the credibility gap of financial information from the investors' perspective in Amman Financial Market.

4. The Study Importance

The importance of this study arises from the influence of this subject in raising the quality of International Financial Reports as well as lack of national studies discussing this subject since it is based on measuring the influence of the rules of auditor's profession on the credibility gap of financial information along with developing the financial practice and auditing profession; hence, reaching the required quality of financial reports prepared by companies.

5. The Previous Studies

The various definitions of the concept and comprehension of governance have caused an increase in the number of previous studies during the past years. O'Sullivan et al. (2008) for example, has studied the importance of governance as a theoretical framework through which the Australian companies should work between 2000 and 2002. The results showed a positive relation between the quality of auditing and the governance system.

Whereas the study done by Kangarluie and Bayazidi (2011) has examined the relation between governance and social responsibility in Tehran Financial Market by distributing a questionnaire for the period between 2003 – 2009 and the results showed that the more the size of company and the demands rates increase, the social responsibility of governance decreases. As for the cash flows, whenever the operational activities increase, the social responsibility of governance increases.

The study of Azira et al. (2010) confirmed the necessity for applying the administrative laws and regulations governing any company whether internal, external or international laws. He further mentioned in his study the importance of some laws that were approved as standards under which the companies should work worldwide. The International Auditing Standards, for example, help in disclosing the financial information in a wide range, as well as supporting and increasing the trust of investors in companies and eventually making correct decisions.

The study made by Thomas, et al. (2010) aimed for suggesting a set of methods for helping auditor to increase the audit effectiveness by adding the unpredictability element to the auditing procedures in order to comply with all requirements of American and International Auditing Standards for preventing and detecting fraud. The study was based on a theoretical analytical approach for each of the auditing standards and 17 methods were suggested for helping the auditor to increase the effectiveness of the audit process.

The study of Daske et al. (2008) has tested the economic effects of complying with the International Financial Reporting Standards (IFRS) around the world. The study analyzed the influence of the market liquidity and cost of capital through the use of a large sample of assigned companies that apply the IFRS standards. The study found out that the capital benefits only occur in the countries that provide incentives and follow tight regulations. In addition, it focus on improving the quality of financial reports. Moreover, by comparing the mandatory and voluntary enforcement of international standards, we found that the influence of working capital is more obvious on the business of companies that voluntarily applied the standards. Then, all companies committed to apply the international standards after identifying their influence.

Abu Ojaila and Hamdan Study in (2009) aimed at exploring the extent of the Jordanian industrial public stock companies listed in Amman exchange market in managing profits as one of the factors that lead to the rise of the current financial crisis, as well as measuring the level of incorporate governance within these companies. The most significant result is the reversed relationship between profits management and corporate governance.

In the study of Abdullah (2011), the researcher has identified the influence of governance on the information credibility gap from the auditor's point of view. He has

also measured many variables such as the auditor's independence and compliance with the international auditing standards, the rules of moral behavior for the audit profession and the standards of quality control. His study was based on the analytical descriptive style. The study found out that all variables affect the information credibility gap from the auditors' point of view.

6. Literature review

6.1 Governance

The term Governance has many definitions and concepts. The study of Cakar and Alakavuklar (2011) defined governance as the prevention of management failure and any bad intentions as well as the attempt to cover some matters not covered by law. Whereas Cadbury (2000) has stated that it is the way for managing and controlling any company.

Ma'atoofi and Ahmadian (2011) described it as a specific mechanism enabling investors to follow and direct the administration in a satisfactory manner for both parties. Kangarluie and Bayazidi, 2011 added that governance is a mediatory tool between the parties, and auditors are responsible for the quality of financial statements and reports issued by the companies.

Abdullah (2011) confirmed that the internal control systems set by the company must be followed in applying the rules of governance whereas the auditing committees will verify the efficiency and effectiveness of such application and present recommendations to the board of directors. Abdul-Wahab and Shihata (2007) also confirmed that governance is achieved through a collection of legal, economic, financial rules and systems as well as the instructions and directions issued by the administration to carry out and perform the work correctly in all the activities inside the company.

6.2 The Credibility Gap of Information

The credibility gap of information (Responsibility Gap) is defined as the difference between what is expected or demanded by the investor from the company and it's real position as in the financial reports. Salehi and Rostami (2009) have added that the professional administration is responsible for providing users with information and auditors should give their opinions about such information. In the study of Abdullah (2011), he mentioned that the auditor should establish basis for ethics inside the organizations as well as reducing the deception and

misrepresentation of financial statements. Whereas the administration should improve the control process and strengthen the organization process of auditing and its standards. Keffe (1975) stated that most of the cases had filed suit against the auditors due to their failure in assessing financial reports and statements.

6.3 International Auditing Standards:

The international auditing standards are the basic principles and practices issued by the International Committee of Auditing Practices formed by the International Federation of Auditors and expected to be followed by the professional societies. The application of standards enable auditors to perform their job efficiently and work on developing auditors abilities so they could follow up the constant and accelerating changes in the corporation environment. Roberts et al. (2004) mentioned that the auditing standards support the process of financial disclosure; hence, increasing the trust of investors and helping them to make better decisions. He further stated that the auditing standards assist in the process of following the companies' compliance with the standards of quality control and setting the policies and methods of auditing.

6.4 Quality Control Standards:

The quality control standards define the extent of the auditor's compliance with the rules and systems of work appeared (Fraser, 2010). Abdullah (2011) described governance as a tool of illumination and enlightenment and that the enforcement of quality control standards increases the governance effectiveness and improves the degree of transparency and clearance. Also ethics play an important role in controlling the audit job. It represent the measures and standards for the moral values and behaviors governing the professional work that will be carried out in the work environment (Stralser, 2008).

7. The Study Hypotheses

The study was based on the following basic hypotheses

H01: There is no influence of a statistical significance at the level of significance ($0.01 \geq \alpha$) of governance mechanisms for the auditor on the credibility gap of accountancy information from the perspective of investors.

The following sub-hypotheses have originated from this hypothesis as follows:

Sub-Hypothesis: There is no influence of a statistical significance at the level of significance ($0.01 \geq \alpha$) of the auditor's compliance with the auditing standards on the credibility gap of accountancy information from the perspective of investors.

Sub-Hypothesis: There is no influence of a statistical significance at the level of significance ($0.01 \geq \alpha$) of the auditor's compliance with the quality control standards on the credibility gap of accountancy information from the perspective of investors.

H02: There are no differences of a statistical significance at the level of significance ($0.05 \geq \alpha$) on the credibility gap of accountancy information from the investors' perspective due to the demographic factors of these investors (sex, age, experience and qualification).

8. The Study Methodology

This study was based on the sources of initial data as the statistical analytical and deductive descriptive style was used in this field study. That was done through the questionnaire of the study objectives taken from the study of Abdullah (2011) distributed on the investors and the PASW statistics 18 software for analysis purposes was used.

8.1 The Society and Sample of Study

The study society consists of the financial investors represented by the private mediation offices of investment in Amman Financial Market. The distributed questionnaires reached 125 nos. and 102 of them were returned.

8.2 Results Analysis

The study results indicate that most of the research subjects are males, as their rate almost reached 67%; 76.5% of them had bachelor degrees and 45% were less than 30 years old whereas 37% were between 31-35 years old. The ages of remaining responders were more than 35 years old. The results also showed that 37% had less than 5 years experience and a similar rate for those having 6-10 years experience whereas 6% had more than 15 years experience as detailed in Table (1).

Table 1: The Descriptive Analysis (Demographic Variables)

Demographic Variable	Type of Variable/ Category	Number/Value	Percentage %
Sex	Male	68	66.7%
	Female	34	34
Age	30 Years or Less	46	45.1
	31-35	38	37.3
	36-40	14	13.7
	41-45	4	3.9
Qualification	Diploma	12	11.8
	Bachelor Degree	78	76.5

	Master Degree	12	11.8
Experience	Less than 5 Years	38	37.3
	6-10	38	37.3
	11-15	20	19.6
	More than 15 Years	6	5.9

8.3 The Reliability of Study Tool

In order to specify the extent of internal consistency between the variables and accuracy of the questionnaire, the reliability coefficient was calculated through the Cronbach Alpha Equation. As a result of deducing the statistical results, alpha value was 0.9737 which is a high and acceptable rate for purposes of scientific research. The results further indicate the efficacy, accuracy and consistency of the study tool with its objective; hence, strengthening the results reliability and increasing the degree of its veracity and credibility.

8.4 Answering the Study Questions

For answering the study questions, the arithmetic means, standard deviations and materiality for the answers of research subjects were calculated. It was found that the arithmetic mean of the variable of quality control standards equaling (4.1070) was higher than that of the variable of international auditing standards equaling (3.9559). Thus, the answers of responders were prone to approving the questions of quality control standards rather than those of international auditing standards as mentioned in Table (2).

Table 2: The Descriptive Analysis (Arithmetic Mean & Standard Deviation)

Variable Name	Arithmetic Mean	Standard Deviation	Materiality	Degree
International Auditing Standards	3.9559	0.6576	3	High
Quality Control Standards	4.1070	0.66169	1	High
Credibility Gap of Information	4.0801	0.68977	2	High

What is the relation between the international auditing standards and the quality control standards as factors of governance on the credibility gap of accountancy information from the perspective of research subjects?

In Table (3), the Pearson Correlation Coefficient showed a strong relation between independent variables and dependent variable. The result had also statistical significance.

Table 3: Pearson Coefficient

Variable	International Auditing Standards	Quality Control Standards
Credibility Gap of Information (Pearson Coefficient)	0.787	0.795
Credibility Gap of Information (Correlation Coefficient)	*0.000	*0.000

* It has a statistical significance at the significance level of $(0.01 \geq \alpha)$

8.5 Testing of Hypotheses

H01& The first Sub Hypotheses: For testing the veracity of this hypothesis, the analysis of variance and regression was used for testing the forecasting ability of the sample related to identifying the influence of international auditing standards as one of the governance dimensions of the credibility gap of information. It was found that the contribution rate of independent variable in interpreting the variance of the dependent variable has reached (0.615) as well as an increase in the value of (F) at the significance level (0.000) provided that it has a statistical significance at a significance level of (0.01) as showed in Tables (4) & (5).

Table 4: The Results of Variance Analysis for Testing the First Sub-Hypothesis

	Degrees of Freedom df	Total Squares	Mean of Squares	F Value	F Significance Level	Adjusted R2
Regression	1	29.752	29.752	162.551	*0.000	0.615
Mistake	100	18.303	0.183			

* It has a statistical significance at the significance level of $(0.01 \geq \alpha)$

Table 5: Results of Regression for Testing the Influence of International Auditing Standards on the Credibility Gap of Information

Variable Name	B	Beta	Standard Mistake	T	T Significance Level
International Auditing Standards	0.825	0.787	0.065	12.750	*0.000

* It has a statistical significance at the significance level of $(0.01 \geq \alpha)$

The table above indicates the influence of international auditing standards as one of the governance dimensions on the credibility gap of information from the perspective of investors as T appeared with a statistical significance of 0.000 and that increased the value of B and Beta.

The Second Sub-Hypothesis: For testing the veracity of this hypothesis, the analysis of variance and regression was used for testing the forecasting ability of the sample related to identifying the influence of quality control standards as one of the governance dimensions of the credibility gap of information.

It was found that the contribution rate of independent variable in interpreting the variance of the dependent variable has reached (0.629) as well as an increase in the value of (F) at the significance level (0.000) provided that it has a statistical significance at a significance level of (0.01) as showed in Tables (6) & (7).

Table 6: The Results of Variance Analysis for Testing the First Sub-Hypothesis

	Degrees of Freedom df	Total Squares	Mean of Squares	F Value	F Significance Level	Adjusted R2
Regression	1	30.386	30.386	171.981	*0.000	0.629
Mistake	100	0.177	17.668			

*** It has a statistical significance at the significance level of $(0.01 \geq \alpha)$**

Table 7: Results of Regression for Testing the Influence of International Auditing Standards on the Credibility Gap of Information

Variable Name	B	Beta	Standard Mistake	T	T Significance Level
International Auditing Standards	0.829	0.795	0.063	13.114	*0.000

*** It has a statistical significance at the significance level of $(0.01 \geq \alpha)$**

The table above indicates the influence of quality control standards as one of the governance dimensions on the credibility gap of information from the perspective of investors as T appeared with a statistical significance of 0.000 and that increased the value of B and Beta.

H02: By deducing the results, there are differences of a statistical significance at the level of significance ($0.05 \geq \alpha$) on the credibility gap of accountancy information from the investors' perspective due to the variables of sex, years of experience and qualification. As for the age of research subjects, the results showed no differences of a statistical significance due to such variable. The results shown in Table (8) showed that males are more aware than females of the credibility gap of accountancy information. Whereas regarding the scientific degree, it was found that the more the research subjects were qualified, the more they realized the credibility gap of accountancy information. It was further discovered that the research subjects whose experience exceeded 15 years were more aware of the credibility gap of accountancy information than others.

Table 8: The Univariate Analysis for Testing the Second Basic Hypothesis

Name of Variable	Variable Categories	Arithmetic Mean	F Value	F Significance Level	Df
Sex	Male	4.2083	7.509	*0.007	1
	Female	3.8235			
Age	30 Years or Less	4.1051	1.448	0.233	3
	31-35	4.1404			
	36-40	3.7500			
	41-45	4.3750			
Qualification	Diploma	3.5139	5.093	*0.008	2
	Bachelor Degree	4.1410			
	Master Degree	4.2500			
Experience	Less than 5 Years	4.3202	3.475	*0.019	3
	6-10	3.9254			
	11-15	3.8417			
	More than 15 Years	4.3333			

* It has a statistical significance at the significance level of $(0.01 \geq \alpha)$

9. Conclusion

This study aimed at defining the extent of governance influence on the credibility gap of information by measuring two variables namely: the international auditing standards and quality control standards. The results showed a positive relation of a statistical significance between the international auditing standards and the credibility gap of information. The same for the quality control standards.

As for the demographic variables, the study results showed a positive relation of a statistical significance between the variables of sex, qualification and experience.

10. Recommendations

In the light of the results that have been reached, this study recommends the following:

- a. Ensuring the auditor's compliance with the auditing standards through the study and analysis of these standards for confirming their ability to respond to international standards as well as confirming the auditor's ability to perform his task properly and following any amendments in accountancy processes.
- b. The necessity for the professional organizations of accountancy and auditing to ensure the auditors' compliance with the quality control standards by checking the independence of internal auditor and the company's ability to fulfill the legal or contractual requirements.

c. The control and supervision parties of companies should issue a manual clarifying the basic principles of corporate governance system and enforcement guidelines in addition to the need to work on supporting all aspects related to corporate governance inside companies.

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