1. Introduction

Poor corporate governance practices lead to corporate scandals. The most notorious scandal in Jordan’s history is the Petra Bank bankruptcy in 1989 which had a severe impact, resulting in further corporate collapses and a decrease in the Jordanian Dinar exchange rate from USD 3.35 to USD 1.41 (Al-Awaqleh, 2008).

According to the International Standard on Auditing No. 200, “the purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all
material respects, in accordance with an applicable financial reporting framework.” (ISA No. 200, 2015, para. 3, page 79). External auditors use their reports to communicate with the users of financial statements, such as investors, lenders, and stakeholders. These parties assess investment decisions and lending options based on the assurance provided by external auditors, and they also check if the audit report contains any emphasized matters or modifications.

The need for independent auditors, according to Imhoff (2003), was a direct result of the separation of company ownership and management. In the framework of the agency theory, auditors are responsible for monitoring and controlling the quality of financial reporting and, consequently, are part of the corporate governance system (Beasley and Salterio, 2001). The separation of ownership and management created opportunities for management to use their authority in ways that did not serve the owners’ best interests, thus creating a need for an independent party to provide owners with assurance regarding management assertions (Imhoff, 2003; Leung et al., 2011). Therefore, the reliability of audit report extensively depends on auditor’s independence. This paper seeks to investigate financial analysts’ perceptions of contributors of external auditors’ independence.

2. Research Objective and Question

The objective of this study is to investigate the impact of the external auditor’s independence, in the post-Jordanian corporate governance code implementation period, on the reliability of the audit report. This includes (1) reviewing and critically analyzing related literature of the impact of the audit partner rotation, non-audit services, external auditor’s selection, remuneration, retention, and the role of a well-established audit committee in supporting and communicating with the external auditors and (2) investigating financial analysts’ perceptions qualitatively of enhancers and inhibitors of external auditor’s independence and their impact on the reliability of the audit report.

The research question of this study is: How and why do Financial Analysts’ assessments of the key elements of External Auditor Independence affect their perception of the reliability of the audit report? This question was addressed by (1) reviewing related literature concerning auditor’s independence and (2) by conducting in-depth semi-structured interviews with a concentration on “how” and “why” questions to gain in-depth qualitative, 2013).

3. Research Methodology

Semi-structured interviews are used in this study because there have been few qualitative studies dealing with external auditor’s independence and the role of audit committees as liaisons between corporate governance constituents. Given the current incompleteness of knowledge, interviews offer various useful advantages, such as getting higher response rates, greater depth of information, and the availability of the interviewer to clarify any misunderstood questions. The use of semi-structured interviews provides flexibility that allows new questions and topics to arise as a result of what the interviewee says (Lindlof and Taylor, 2011; Gendron and Bedard, 2006; Al-Lehaidan, 2006). In this way, the insights gained are less constrained by the researcher’s preconceptions of the likely relationships. Qualitative methods can generate a great depth of knowledge and cover a wide range of perspectives in judgment decision-making (Creswell, 2014; Nykiel, 2007). Johnson and Christensen (2016) also added that this approach aims to “obtain in-depth information about participants’ thoughts, belief, knowledge, reasoning, motivations, and feelings about a topic” (p. 202).

According to Johnson and Christensen (2016), typical interviews “last anywhere from 30 minutes to more than one hour” (p. 202), while Creswell (2012) pointed out that effective in-depth interviews require up to ten participants. In this study, 10 in-depth interviews were conducted with financial analysts, their durations ranging from 45 min to 67 min. The interviews were audio recorded and transcribed, and then the transcripts were carefully studied, focusing on themes derived from the respondents’ views and feedback. These themes were categorized to facilitate prioritizing, highlighting, and associating their impact on the reliability of the audit report.
The study sample derived from institutional investors in Jordan rather than individual investors because they are qualified, sophisticated, and knowledgeable in comparison to individual investors. The study sample consists of financial analysts who work in institutional investment companies including insurance companies, investment and portfolio departments in banks, investment funds and companies, retirement funds, mutual funds, and brokerage companies.

4. Literature Review

4.1. Investor reliance on the audit report

Reliability of audit reports refers to a condition, in which investors, and all those interested in a company’s business affairs, consistently find the audit reports and opinions about a company’s financial statements and position to be dependable and credible. Reliable audit reports also reveal whether accounting reports are reasonably free from error and bias and whether the accountants are justified in making a “going concern” assumption. In other words, for the audit report to be reliable, it must give institutional investors adequate information about the quality and comprehensiveness of the accounting reports so that they can decide to what extent they can rely on the accounting reports in making investment decisions.

The audit report is the primary medium of communication between auditors and the company stakeholders (Arens et al., 2017; Hatherly and Skuse, 1991). The growing interest about financial reports and the extent to which they could be trusted by investors and stakeholders suggests that they should be prepared objectively and audited by an independent and neutral body, this body normally being the independent external auditors.

Different sorts of audit reports have a significant impact on investor reactions toward the capital market (Herbohn et al., 2007). Gómez-Guillamón (2003) investigated the extent that institutional investors rely on the audit report in investment and financing decisions in Spain. The study surveyed a sample of head officers of credit institutions who actively make investment and credit decisions and managers of investment and analysis companies. The study showed that the types of audit opinion (clean, qualified, disclaimer, or adverse) provided by the external auditor affected the institutional investors in their investment and lending decisions.

4.2. The role and the potential support by an audit committee

The International Standards on Auditing (ISA) require auditors to communicate significant findings, arising from or discovered during the financial statement audit, with the appropriate persons charged with the governance of the organization, these persons usually being the audit committee (Colbert, 2002). ISA No. 260 (communications of audit matters with those charged with governance) and ISA No. 265 (communicating deficiencies in internal control to those charged with governance and management) provide guidance on communicating matters of interest to the governance body of an entity (IFAC, 2015). Jubb et al. (2012) argued that, under these standards, the external auditors have a responsibility to discuss with the audit committee all significant audit matters, deficiencies in internal control and any pressure, restriction, and disagreements with company management in relation to the accounting. Jubb et al. (2012) also added that the audit committee must support auditors and ensure that they are free of management pressure during the course of the audit.

The audit committee has been considered a safeguard of the external auditor’s independence (albeit among some other factors and bodies) due to its role in overseeing the financial reporting system and monitoring compliance with the regulatory instructions (ISB, 2000, para. 14). Goodwin and Seow (2000) argued that the investors, auditors, and managers all believe that a powerful and effective audit committee support external auditors to perform their job effectively and independently.

Abdel-Qader (2002) pointed out that the AICPA, the Treadway Commission, and the SEC have affirmed that the main objective of audit committees is to foster auditors’ independence. Abdel-Qader (2002) argued that an external auditor’s independence is enhanced when the auditor has direct
communications with and a path to an independent party. Therefore, the existence of an independent audit committee is seen as enhancing and reinforcing the quality of the auditor’s work and thus mitigating control of management over the financial reporting process. The committee should review the scope of the audit, significant accounting estimates and provisions, and policies on external audit services, thus helping the auditors reach an independent opinion in the audit report.

Green (2006) argued that “a more independent audit committee means a more independent auditor” (p. 12), while Levitt (1998), the former US Securities and exchange commission chairman, stated that “qualified, independent and tough-minded audit committees represent the most reliable guardians of the public interest.” Abbott et al. (2000) found that companies with audit committees with independent members, and which meet at least twice a year, are associated with a less likelihood of both fraud and malpractice, and therefore, increasing the trust and the reliability of the audit report.

The difficulty and the vagueness associated with reporting about the going-concern principle may put the auditor under pressure of the executive management. Independent and effective audit committee members could help mitigate such pressure by supporting the auditor in any conflicts with management (Parker, 2000). It is expected that a non-executive audit committee independent of the company management is more likely to support the external auditors when they face any management pressure to issue an unqualified opinion when the assumption of the entity’s ability to continue as a going concern is questionable (McMullen, 1996).

Carcello and Neal (2003) investigated the relationship between audit committee characteristics and auditor dismissals following the issuance of a going concern opinion between 1988 and 1999. The study utilized the previous study’s methodology to, this time, investigate the relation between the likelihood that the company dismisses its external auditor and the qualities of the audit committee of that company. The study concluded that audit committees with a higher percentage of independent members and financial expertise shield the auditors from dismissal especially after expressing a going-concern opinion.

4.3. External auditors’ independence

Auditing or assurance services can be defined as an analysis of an auditee’s financial statements conducted to improve the quality and reliability of the presented information for the users of the financial statements, enabling them to make informed investment decisions. This includes checking accounts to prove their truth and fairness by an independent third party and the issue of a credible and independent opinion in a special report (Gray and Manson, 2015; Arens et al., 2013; Strawser and Strawser, 2001; Whittington and Pany, 2012). The ISB considered external auditors’ independence to provide significant benefits to investors and other users of financial information. The ISB stated “auditor independence helps ensure quality audits and the reliability of the financial reporting process, which also may lead to increased confidence in that reliability” (ISB, 2000, para. 28-a). Moreover, in paragraph 28-c, the ISB added that external auditors’ independence is also beneficial to the company management, board of directors and to the audit committee, ensuring the credibility of the financial reporting prepared by lower-level management.

The concept of independence is one of the most important foundations on which the auditing profession is built. Knapp (1985) defines auditor independence as the auditor’s ability to resist pressure from the client (i.e., the company being audited). Potential ethical dilemmas exist in any situation where auditors face outside pressure to compromise their professional integrity (e.g., management pressure to decide in favor of the appropriateness of the accounting policies chosen by management) (Leung et al., 2011). Furthermore, potential problems arising from a close relationship between the auditors and company management may compromise the external auditor’s independence (Cadbury Report, 1992).

The auditing profession and the business society are interested in ensuring that the users of the audit report perceive auditors as being independent (independence in appearance) and that the auditors actually maintain an unbiased attitude throughout the audit (independence in fact) (Arens et al., 2013).
Auditors’ independence and the quality of the audit can be enhanced by (1) support from effective audit committee who has the right to discuss audit fees and tenure (Naser and Hassan, 2016; Patel, and Singh, 2016), (2) auditor rotation (Arens et al, 2013), and (3) the provisions of non-audit services.

4.4. Independence dilemma (in Jordan) in relation to auditors selection, rotation, and non-audit services

Audit committees are expected to choose the external auditors, presenting their choice of audit to the board of directors who usually have the final say (although, legally, the shareholders have the final say). The board of directors normally accepts the auditor proposed by the audit committee. It is also expected that the external auditor should report any problems to the audit committee. As such, the audit committee is, in effect, the guarantor of the auditor’s independence, an independence that is enhanced if the audit committee, not management, is truly responsible for selecting the audit. By selecting truly independent auditors and enforcing the integrity of the auditing process in the face of possible opportunistic behavior by management, audit committees serve the best interests of company shareholders (Alleyne et al., 2006).

In the case of Jordan, personal relationships play a pivotal role in the external auditor selection process. Malkawi (2008) pointed out that, in practice, the board of directors and the company management selects the external auditors and, moreover, set the auditors’ remuneration, negatively impacting the independence of the external auditors. Zureigat (2011) argued that family-owned companies in Jordan tend to hire external auditors based on personal relationships; therefore, the study recommended moving the authority of nominating the external auditors to the audit committees. Moreover, Matar (1994) found that the role of the directors in appointing, dismissing, and setting audit fees was the most influential factor affecting external auditors’ independence. However, the study found significant negative impact of other factors on the external auditor’s independence, such as audit tenure, non-audit services, and audit fees.

A lack of written audit committee charters in Jordan has possibly affected the auditor selection process. The lack of such systematic guidelines affects the work of audit committees and may contribute to them compromising their own objectivity and failing to operate in the company stakeholders’ best interests, especially in decisions to nominate an external auditor (Khsharmh, 2003; Ameera, 2004). For instance, Al-Saudi (2007), pointed out that personal relationship between the audit committee and the auditors affected the selection process of the external auditors, in the perception of the audit committee members. He attributed this to the absence of systematic procedures regulating external auditors’ nomination by audit committee.

External auditor’s selection and retention dilemmas have been experienced in other countries. In the USA, in response to Enron’s scandal, Abdel-khalik (2002) pointed out that, in practice, auditor-related decisions are taken by the company management, and even non-executive members of the board of directors are often chosen by the executives. To resolve this dilemma, Abdel-khalik proposed establishing another board, independent of the company board of directors and the company management, whose sole function will be to select, retain, and compensate the external auditors.

In Jordan, factors affecting decisions to select and change the external auditors have been investigated by these quantitative studies (Al-Qam, 1997; Khsharmh, 2003; Al-Saudi, 2007). Khsharmh’s study (2003) suggested that to mitigate the influence of the board of directors in the external auditor’s selection, the selection should be made by the Ministry of Trade and Al-Qam (1997) recommended establishing non-executive qualified audit committee to approve the appointment of an external auditor. Al-Saudi (2007) concluded that audit committees in Jordan had no standards for the process of selecting auditors and that personal relationship between audit committee members and auditors affects the selection process. The study also revealed that both of audit fees and audit committees’ powers affect the nomination process.

The provision of audit and non-audit services by one audit firm to the same client, and the resulting potential impairment of the independence of the auditor when issuing the audit report, has repeatedly been a controversial issue. Non-audit services are all services provided by the incumbent
external auditor that is not considered as an audit. Such services may include bookkeeping, tax services, financial information systems design and implementation, management consultation, and any service other than the audit service. In the United States, the Sarbanes–Oxley Act (SOX) (2002) banned audit firms from providing most non-audit services. In Jordan, there were also many criticisms directed at the non-audit services provided by auditors to their clients.

Abdel-Qader (2002) pointed out that Jordanian commercial laws did not require public companies to disclose non-audit services. The study argued that to maintain integrity, objectivity, and independence, the public accounting firm should not act as internal and external auditor for the same entity. In the same context, Malkawi (2008) also noted that the Law of the Audit Profession of 2003 in Jordan does not specify whether auditors can perform non-audit services. These changes in the structure of services provided by audit companies must also be addressed by regulators, perhaps placing appropriate restrictions on the type or value of services that an audit firm can provide.

Mandatory rotation of audit partners plays a role in enhancing auditor independence. Nagy (2005) pointed out that enforcing mandatory rotation of auditors would break the auditor’s expectation that the audit client is a perpetual source of income as well as bring a fresh and perhaps more skeptical point of view to the audit.

Both the revised 8th Directive of the European Countries (Council of the European Communities, 2006) and the United States’ SOX require key audit partner rotation every 5 years. In the context of Jordan, Omari (2003) referred to the impact of audit firm rotation on the auditors’ independence. The study indicated that the tenure of audit firms was almost unlimited, negatively impacting external auditors’ independence. Al-Khadash and Al-Sartawi (2010) also recommended audit partner rotation to reinforce external auditors’ independence in Jordan. Swaiti’s (2006) proposed model for the role of audit committees in Jordan suggested mandating audit partner rotation every 5 years.

4.5. Summary of literature review

Audit report is the medium of communication with the users of the financial statements. Financial analysts, among other users, pay significant attention to contents of the audit report since the issuance of clean unmodified audit report lends the financial statements credibility, while the issuance of modified or adverse audit opinion sends clear warnings to the users about the entity’s ability to continue as a going concern. Therefore, objectivity and neutrality of the audit report depend on the independence of the external auditor.

External auditor’s failures to provide adequate warning were attributed, by Jordanian literature, to the external auditor’s lack of independence, which has been compromised by (1) inadequate audit fees, (2) providing significant non-audit services, (3) unlimited audit partner tenure, (4) lack of support from audit committees of both external and internal auditors, (5) insufficient laws and regulations, (6) social and personal relationships between the auditors and the board of directors and the management, and (7) management pressure on the auditors and weak corporate accountability (Swaiti, 2006; Malkawi, 2008; Abdullatif, 2006; Dahmash, 1989; Matar, 1995; Matar, 2000; Momany, 1994; Al-Awaqleh, 2008; Hamdan, 1996; Abu-Tapanjeh, 2006; Al-Saudi, 2007; World Bank: Accounting and Auditing, 2004; Bani-Ahmad, 2000; Al-Basheer 2003; Malhas, 1992).

This study aims to shed light on enhancers and inhibitors of external auditor’s independence and their impact on the reliability of the audit report and to fill a gap in the existing quantitative Jordanian literature regarding the perceived reliability of the audit report and to complement existing quantitative researches by providing qualitative findings and possible interpretations for quantitative studies.

5. Qualitative Analysis and Results

5.1. Participant’s financial experience

As mentioned earlier, 10 in-depth interviews were conducted with financial analyst. For the purpose of this section; the 10 interviewees will be referred to as subjects (A) to subject (J). The following Table 1 reviews their practical experiences as financial analysts.
5.2. Analysis of participants perceptions

There is consensus among respondents that external auditor’s independence was perceived as the cornerstone of the auditing profession and that it enhances the integrity and the reliability of the audit report and consequently the audited financial statements. The participants also viewed that the objectivity and neutrality lead external auditors to produce unbiased and reliable reports. The main themes and key remarks that have been derived from the financial analysts of the influence of how and why external auditor’s independence affected their perceptions of the reliability of the audit report were (1) the negative impact of management pressure placed on external auditor; (2) the vital role of an independent, strong, and effective audit committee in nominating, compensating, communicating and overseeing the external auditor’s work; (3) the negative impact of both non-audit services provided by auditors to their clients, and a lack of audit partner rotation provision (before the establishment of the JCGC).

“It is [the independence] considered the cornerstone of the audited financial reports”

Subject A
"Undoubtedly, external auditor’s independence plays a vital role in increasing the reliability of the audit report"

Subject B

"External auditor’s independence is the backbone of the auditing profession, without this independence, there will be neither value nor meanings of the professional auditor’s report"

Subject C

"Users of the of the financial statements seek the feeling of confidence in the soundness of the financial reports and they seek the reliability and confidence by appointing independent external auditors"

Subject G

"Independence is the ability to work objectively without bias, and is an indispensable necessity that would increase the credibility of the of the audited financial information"

Subject E

"The emergence of the need for an independent external auditor stems mainly from the existence of a conflict of interest and a gap between shareholders and the company management"

Subject H

External auditor’s independence is the cornerstone of the auditing profession, and furthermore, it has established a suitable climate to create the profession"

Subject I

"Undoubtedly, external auditor’s independence leads to the objectivity and reliability of the audit report"

Subject J

Subject A pointed out that the reliability of the audit report is enhanced when external auditors enjoy high standards of independence requirements whether those of the JACPA or those required by the ISA.

Subject A

"External auditor cannot express an independent opinion unless being neutral and objective . . . and must be strong enough to avoid any possible management pressure"

Interviewer: "could you please explain why independence is important and how to achieve that?"

Subject: "Again I want to repeat that the priority of corporate governance is to generate confidence amongst investors and users of the audit report. " Subject A explained that in regard to “why, that is because the absence of objectivity and neutrality increases the likelihood of investor’s doubt in the validity of the financial statements;” in regard to “how” subject A answered that “by adopting effective corporate governance that describes and distributes responsibilities, tasks and the rights of each party including external auditors. Additionally, compliance with the ethics code of conduct reinforcing objectivity and independence."

Subject B referred to the importance of satisfying independence conditions of the international standards; however, the subject affirmed the role of the professional association in maintaining auditor’s performance.
Subject B
“The output of auditing profession which is the independent audit report depends on the external auditor’s independence and performance. Independence also reinforces their attitudes against executive management pressure.”

Interviewer: “How could the independence of the external auditors be protected beside the compliance with ISAs?”

Subject: “It is the role of the auditors’ professional associations to promote the profession and it should solve the audit fees dilemma, to help auditors not to compromise their duties as to what happened with the case of Enron and Arthur Anderson. Another important point is the nomination process of the external auditors must be carried out with full transparency and clarity, and it should be in the hand of the audit committee.”

Subject C also commented on the necessity of enjoying the highest levels of independence and its role of detecting frauds and errors. Subject C explained these levels of independency by referring to the international standards by the IFAC and local regulations whether these are set by the association of certified public accountants or by companies’ law, in addition to independence in fact and independence in appearance, and finally the subject added “auditors are human beings, where some of them have a strong personality and others have a weak personality while for some others the religious morals play a significant role in their character.”

“External auditor’s Independence and neutrality criteria raised many arguments between auditors and interested parties because it is associated with the attitude and mind of auditors” and that is why it is difficult to find an accurate definition of the independence as explained by Subject E. However, when asked how to reinforce external auditors independence, the subject replied, the auditors should be neutral, honest, and fair with all parties and provide opinions that are not biased or in favor of any specific body. Subject E argued that the most important issue or concern that might impair an auditor’s independence is management pressure. Subject E explained in more details how that pressure could be practiced on auditors:

Subject E
“The company management represents the greatest source of pressure on the auditor which is at the same time a source of non-confidence of users of financial statements”

Interviewer: “What do you mean by management pressure on auditors and how do they practice it?”

Subject E: “Management pressure and intervention might start with the beginning of auditor’s job in the company even by setting their fees and by making them concentrate on particular accounts, hindering and delaying in providing them with requested audit evidence and hinder the auditors from disclosing frauds and errors and even of some financial facts that are of interest to other parties. The management may also intervene in setting audit fees which negatively affect their independence. Finally, in order to ensure auditors’ independence they should not intervene in day-to-day operational and administrative procedures which are the duties of the executives.”

Subject I is also consistent with Subject E in regard to management intervention and pressure by stating that “the company management has many reasons and motives to put pressure on auditors in order to appear to the public as one of best director teams, even if that leads the management to distribute unrealized profits.” Subject I added that the company management might intervene in selecting particular auditors who are willing to achieve their goals.

“The more the independence of the external auditor, the more the confidence of the shareholders and other users of the financial statements and in the work of the external auditors and their audited financial statements”

Subject H

While Subject J affirmed that to maintain the vital role of the auditing profession, the complete independence concept must be realized in its two sides; those are independence in mind and independence in appearance and they must not be separated but be in parallel with each other as the
absence of one of them may weaken or eliminate the effect of the other one. Subject J added that – which is consistent with the point of views of I and E – bring independent in preparing an audit report and in gathering audit information and evidence, contribute greatly in lending much confidence to the audit report, and consequently increasing the reliability of the audited financial statements.

The interviewees have also discussed many factors affecting external auditor’s independence and those factors which lead to increases in the credibility of the audit reports such as the roles of audit committees, audit fees and remuneration, auditor’s selection, auditor’s rotation, and the provision of non-audit services.

There was consensus on the role of the audit committee in nominating external auditors, except one subject who preferred to reserve this role to shareholders in the general assembly, justifying that by: “The issue of selecting and dismissing external auditors should not be left in the hands of the body that manages and prepares the financial accounts, rather, it should be in the hands of the owners of the company” Subject J

However, this point of view does not represent a matter of discrepancy since the selection of the auditors is still in the hands of the shareholders at the general assembly meeting, but the Jordanian Corporate Governance Code (JCGC) stated the role of the audit committees in nominating the external auditors.

Subject I pointed out that the issue of audit fees might be used by the company management to affect the work of the auditors. However, although it is the power of the board and audit committee to select external auditors, Subject C noted that it is common in some Jordanian companies that executive managers dominate the board of directors and “it seems to you that they are like one team”. Subject C noted that it is common in some of Jordanian listed companies that executive managers dominate and control the board of directors and “it seems to you that they are like one team” regardless of the supervisory duty of the board of directors.

Subject I stated that “the company management may put direct and indirect pressure by using their influence of the nomination, re-nomination, dismissing and setting their fees. this caused developed countries to place this decision in the hand of an independent and experienced body which is the audit committee” Subject F also stated that “external auditor’s independence is affected by audit fees, nomination and dismissing.” this comment is also consistent with the viewpoints of Subject G and Subject E who added that “to overcome this problem, the authority of appointing, remunerating and dismissing the auditors must be authorized by the audit committees” to avoid any possible factor that could be used by the company management.

Subject D affirmed the vital roles of audit committees in reinforcing external auditor’s independence, especially if it is composed of independent members: “In my opinion, the most important body that can ensure the neutrality and the independence of the external auditors is the audit committee. therefore the Jordanian Securities Commission should oversee the nomination process of the audit committee members. to sum up summary, truly independent audit committee may result in selecting effective auditors that the users of the their reports can depend on for decision making.”

Auditor rotation was perceived to enhance external auditor’s independence as mentioned in the literature section. However, this factor received little comments by the participants (Probably because the interviewer researcher has not mentioned or reminded the subjects of these factors because doing so might lead the interviewees to certain answers).

Subject C pointed out that there have been many debates about the impact of providing non-audit services to author’s client where Subject C stands for prohibiting these services. Subject C added that “the JACP should play crucial roles in overseeing non-audit services.” While Subject G commented that “in some developed countries, non-audit services were prohibited to reinforce external auditor’s independence.” Subject E pointed out that “providing consultation and managerial services to the same company client considered one of the important factors that affect the independence standard and surrounds the audited financial statements with suspicion regarding its credibility.”

Subject E concluded that “despite the different opinions of the impact of providing non-audit services I would prefer prohibiting it, however I appreciate that the JCGC limited the provision of non-audit services.”
Audit partner’s rotation was described by Subject G as one of the factors that aim to reinforce external auditor’s independence “it decreases the financial interests that may arise between the external auditors and their clients and consequently increasing auditor’s independence.”

6. Discussion and Conclusions

The financial analysts demonstrated high levels of awareness of the importance of the contributors of auditor’s independence and to their impact on the reliability of the audit report. The participants pointed out that recent corporate collapses resulted in a questioning of the roles of the directors and both external and internal auditors. Based on the interviews conducted in this study, external auditors’ independence is seen as the cornerstone of the auditing profession and should lead to reliable and credible, free of errors and misstatements, and financial statements. This is consistent with the study of Pott et al., (2009) who pointed out the value of the assurance provided by the external auditors to shareholders relies on the auditor’s perceived ability to detect breaches, irregularities, and errors in the financial reporting system, in addition to the auditor’s perceived ability to resist management pressure to hide some or all of those breaches.

The results also agree with The ISB definition of auditor’s independence as “freedom from those pressures and other factors that compromise, or can reasonably be expected to compromise, an auditor’s ability to make unbiased audit decisions” (ISB, 2000, para. 4). The ISB also stated that “quality audits improve the reliability and enhance the credibility of the financial reporting process, thereby contributing to its usefulness and to the efficient functioning of the capital markets, which serves the public interest” (ISB, 2000, para. 3). Both this statement and the previously mentioned definition emphasize the key role of external auditors’ independence in the perceived reliability of the audit report.

Figure 1 shows two aspects of auditor’s independence, that is, independence in fact and appearance as well as the extent to which they are essential parts of maintaining the objectivity of an auditor’s performance (Strohm, 2006). The finding is also in conformity with Fearnley and Beattie (2004) who argued that failure of the external auditor’s independence is enough to undermine the audit process and leads to a loss of trust in the financial reports, thus destabilizing the capital market.

According to Duska et al. (2011), there is no “absolute (degree of) independence” or “total independence” (p. 127). They argued there will always be some interest and bias among auditors. This, however, led for calls to reform corporate governance and for proposing models to secure both external auditors and audit committees’ independence (Shbeilat, 2014; Abdel-khalik, 2002). The findings of this study, based on the

![Figure 1: External Auditor Independence and Reliability of the Audit Report](http://www.aaafr.com.au)

This figure is quoted from Strohm (2006, p. 19).
analysis of the qualitative data, also showed that a well-established audit committee plays a significant role in reinforcing auditor’s objectivity, performance, and supporting them against management pressure by reinforcing their impartial attitude and their independence both in fact and appearance.

7. Contributions and Practical Implications

The objective of this study is to gain insights into the perceptions of institutional investors of the determinants and boosters of external auditor’s independence and their role of increasing the reliability of the audit reports. This study seeks to fill a gap in the existing quantitative Jordanian literature regarding the perceived reliability of the audit report. This study contributes to complement existing quantitative researches by providing qualitative findings and possible interpretations for quantitative studies. Semi-structured interviews are used in this study because there have been few qualitative studies dealing with Jordanian corporate governance in general. This study also has critically analyzed empirical studies related to corporate governance and linked them with the instructions of corporate governance to get comprehensive view of potential weaknesses, such as the existence of some non-independent members among audit committees. This has negatively affected their effectiveness in the auditor’s-related decisions; especially auditor’s selection, retention, and setting their fees, which has been overridden by the management.

The insights gained could be used as follows: (a) Better targeting of enforcement actions by regulators of companies and auditors so as to have a positive impact on the stock market, (b) the evidence would provide an important message for communicating to directors the impact that their governance decisions will have on institutional investors’ willingness to invest in their shares, (c) targeting of enforcement actions by regulators for empowering audit committees in terms of their independence, financial experience, and equip them with the sole power of nominating, communicating, retaining, setting auditor’s remuneration, and approving non-audit services. Finally, (d) this study also suggests a direct election of the audit committee members be conducted during the general assembly, and that only independent, experienced, and qualified in the field of accounting and finance are allowed to be candidates.

8. Limitations and Suggestions for Future Research

The findings of this study provide useful insights into how the external auditor’s independence affects institutional investors’ perception of the reliability of the audit report. The study focused on the roles of audit committees, the provision of non-audit services and audit rotation; however, there are other variables contribute to enhancing the level of confidence provided by external auditors such as the role of accounting professional associations, the impact the code of professional ethical conduct in relation to auditing, and the auditor’s values and religious background. The impacts of those factors have not been investigated in this study and, thus, left for future researches. Moreover, this study was conducted in a developing country; therefore, the qualitative findings of the study must be considered in this context, and caution should be exercised in applying the findings outside this context.

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