

## Measuring the Role of Auditor Governance and its Impact on *the Gap Credibility of Accounting Information*

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### Abstract

The study aimed at measuring the role of auditor governance and its effect on the gap credibility of accounting information; that was done from the point of view of auditors in licensed offices in Jordan. To achieve this goal, the researcher dealt with two kinds of data; those were the secondary and the primary ones. A questionnaire was distributed to the sample which included 261 auditors working at the offices included in the study. It was found that there was an effect for the governance mechanisms for the auditors (auditors' independency, auditors' commitment to auditing standards, auditors' commitment to the job behavior rules, and auditors' commitment to the quality control standards) on the accounting information credibility gap from the point of the auditors.

**Keywords:** Auditor governance, Corporate Governance, Gap Credibility of Accounting Information.

### 1. Introduction

The business ethics are not linked to specific communities, it has become an important issue facing companies in various countries, the concept of ethics has been associated with the company's resources and human potential such as management, accountants, auditors and employees, work, leadership and managers, it is considered a mentor and promoter of good conduct, as well as that this concept has become is important to fill the Position in the company, as they are confirmed by the company's management because it is a self-censorship of the individual, through which they can distinguish between right and wrong in his behavior at work.

In the last decade of the twentieth century the increasing concern of shareholders about some of the practices relating to various aspects of administrative work, as a result of asylum company managements to do a lot of wrong practice, which are a kind of behavior professional non-ethical by management as an agent of the shareholders, in order to achieve their own interests, by exploiting the available flexibility in some of the generally accepted accounting principles.

here it necessary to focus on the role of auditors to carry out the role governance, by activating the corporate governance principles such as independence and neutrality, honesty, integrity, impartiality, transparency, professionalism and other principles concerned with the rules of ethical conduct for the profession, To ensure justice and preserve for shareholders and other parties dealing with the company is their right, and to achieve this must be the commitment of auditors ethical and professional rules to limit those practices that threaten the future of the company to grow and going concern .

Can also corporate governance can play an active role in the areas of financial and administrative reform of public sector institutions and , private Companies, and increase investor confidence in the financial statements, and activate the national investment and attracting investment.

### 2. Research problem

as a result of company managements asylum to making a lot of errors in accounting process Which represent a kind of inappropriate professional behavior by the management And in pursuit of their own interests by exploiting the available flexibility in some of the generally accepted accounting principles To affect in the accounting numbers and the rate of profit, Which forced the need to focus on the auditors to undertake the role of governance, by identifying management responsibilities, so it can show the problem of the study by answering the major next question : Is there an effect of the governance mechanisms of auditor on the gap credibility of accounting information (The independence of auditors, Commitment auditors to International Auditing Standards, Commitment auditors to rules of ethical conduct for the profession, Commitment auditors to standards of quality control)

And grew out of this question the following sub-questions:

- 1- Is there an effect of the independence of the auditors on the gap credibility of accounting information?
- 2- Is there an effect to Commitment of auditors to International Auditing Standards on the gap credibility of accounting information?
- 3- Is there an effect to Commitment of auditors to rules of ethical conduct for the profession on the gap credibility of accounting information?

- 4- *Is there an effect to Commitment of auditors to standards of quality control on the gap credibility of accounting information?*

### **3. Research importance**

The importance of this study because of their impact in the development of quality International Financial Reporting, and because it are based on measuring the impact of the rules of the audit profession of auditor on gap credibility of accounting information and emphasizing the importance of the expansion in the application of this concept in the economic environment, and benefit to development accounting practice and auditing profession, then achieve the quality of financial reports issued by companies

### **4. Research objectives**

The present study aims to measure the role of governance mechanisms of auditor on the gap credibility of accounting information, through the changes and current and continuing developments in the business environment, and how the auditors rule affect in reducing this gap and to measure this role, the researcher choose the auditors working in the audit offices in Jordan

### **5. Research Hypotheses**

Study is based on the following main hypothesis

There is No statistically significant effect at the level of significance ( $\alpha \leq 0.05$ ) of the governance mechanisms of auditor on the gap credibility of accounting information (The independence of auditors, Commitment of auditors to International Auditing Standards, Commitment of auditors to rules of ethical conduct for the profession, Commitment of auditors to standards of quality control) And grew out of this hypothesis the following sub- Hypotheses:

H1: There is No statistically significant effect at the level of significance ( $\alpha \leq 0.05$ ) to the independence of the auditors on the gap credibility of accounting information.

H2: There is No statistically significant effect at the level of significance ( $\alpha \leq 0.05$ ) to the Commitment of auditors to International Auditing Standards on the gap credibility of accounting information

H3: There is No statistically significant effect at the level of significance ( $\alpha \leq 0.05$ ) to the Commitment of auditors to rules of ethical conduct for the profession on the gap credibility of accounting information

H4: There is No statistically significant effect at the level of significance ( $\alpha \leq 0.05$ ) to the Commitment of auditors to standards of quality control on the gap credibility of accounting information

### **6. The Study Limits:**

Sample was selected from auditors working in the audit offices in Jordan, because they have the adequate knowledge in audit process and the quality of disclosure in international financial reporting.

### **7. Previous Studies and Theoretical Literature:**

#### *7.1. Previous Studies*

Pattanayak 2013, "Impact of the Debt-Equity Ratio on the Corporate Governance of the Banking Sector in Spain" the study analysis of the impact of the debt-equity ratio on the Corporate Governance of the banking sector in Spain. A look at how Spain dealt with the recent economic recession by Corporate Governance reforms in the banking sector. Issues such as legal regulation of the Corporate Governance framework, ownership structure before and after the reforms are examined.as a result the Spanish case shows that change does not have to be radical or involve a transformation of the entire corporate governance system to have major effects on a national economy and significant implications for labor management

Matar, &Nour 2007, "The Compliance of Jordanian Shareholding Companies with the Principles of Corporate Governance: An Analytical Comparative Study between the Banking and the Industrial Sectors" This study aims at evaluating the extent to which Jordanian shareholding companies comply with the principles of corporate governance. To achieve this objective, the researchers conducted a field study on a sample of (20) shareholding companies working in the banking and industrial sectors. The sample represents about 32% of the population size, the major findings of this study were that while those companies stick with corporate governance principles within a range between very weak and strong levels, but generally they, as one unit, stick with those principles at a moderate level

Robert W. McGee, 2007, " Corporate Governance in Russia: A Case Study of Timeliness of Financial Reporting in the Telecom Industry"

The present study focuses on the timeliness of financial reporting, which is an element of transparency. Specifically, it looks at the telecommunications industry in Russia and computes the number of days it takes companies to receive an audit opinion, then compares the time lag to the number of days it takes non-Russian companies in the telecommunications industry to receive an audit opinion. The study concludes that Russian

companies take longer to report financial results than do non-Russian companies. Larger Russian companies take less time to report their financial condition than do small Russian firms, but the difference is not significant. The same was true for the non-Russian companies included in the sample. Companies using Russian Accounting Standards took significantly less time to report financial results than did companies using either International Financial Reporting Standards (IFRS) or US generally accepted accounting principles (GAAP)

## 7.2. Theoretical Literature

### 7.2.1 The concept of corporate governance

A lot definition provided by researchers around this term depending on their views, the IFC defined Corporate Governance as: System which is used by companies management of and control in their work, other know its as: Integrated system of financial control and non-financial control, which is used to control on the company's management. In addition, it A group of ways which they can to make investors decision to achieve a reasonable profit for their investment.

#### 7.2.1.1. Principles of corporate governance

The application of corporate governance is in accordance with the principles and standards reached by the Organization for Economic Cooperation and Development in 2004, which is the following:

The Rights of Shareholders

- 1- The Equitable Treatment of Shareholders
- 2- Ensuring the Basis for an Effective Corporate Governance Framework
- 3- The Role of Stakeholders in Corporate Governance
- 4- Disclosure and Transparency
- 5- The Responsibilities of the Board

As a result of what the external auditor is giving confidence and credibility to accounting information, by expressing his opinion in the neutral, validity and fairness of financial statements prepared by the economic units through the report being prepared by him and included in the financial statement, so The role of the external auditor has become an essential and effective in the field of governance, because it limits the conflict between owners and management of economic units, as it limits the problem of information asymmetry and reduces the problem of deviation in the economic units.

### 7.2.2. The concept of audit

This function exceeding the traditional limits of audit to become To become a broad concept Perform the functions of a comprehensive audit, operational audit, some authors define audit as: the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and establish criteria, auditing should be done by competent, independent person.

#### 7.2.2.1. Audit areas

Audit process classified accordance to Purposes to the following

- 1- Financial Statement Audits: is conducted to determine whether the overall financial statement(the information being verified) are stated accordance with specified criteria, normally the criteria are generally accepted accounting principles (GAAP)
- 2- Compliance Audit: the purpose of compliance audit is to determine whether the auditee is following specific procedures, rules, or regulations set by some high authority.
- 3- Operational Audit: is a review of any part of an organizations operating procedures and methods for the purpose of evaluating efficiency and effectiveness.

### 7.2.3 The Gap Credibility of Accounting Information

numerous reports and research Have confirmed on the role of the auditor to restore the confidence of accounting information, Sarbanes- Oxley Act (2002) determine elements of the supply chain financial reports which can play an important role in restoring confidence in the accounting information: Management, Board of Directors ,the independent auditor, information distributors, third-party analysts, investors and stakeholders in general.

The report of the International Federation of Accountants has reached to the multiple results of which are linked to the role of the auditor:

- 1- The need to develop and strengthen the ethics of organizations.
- 2- Management of the organization must be focused on increasing the effectiveness of the management and supervision of the financial statements.
- 3- Reduce or minimize the motives of misinformation and misrepresentation of financial statements.
- 4- auditor independence issue Must be given to the more attention in the context of corporate governance

Abbadi indicate that the most important qualitative characteristics of accounting information are:

- 1-adequate
- 2 - Reliability (Verifiability)
- 3 – neutrality.
- 4 - comparability

- 5 - timeliness
- 6 - understandability
- 7 – materiality and disclosure.

### 8. Population and the Study Sample

The study population consists of audit offices in Jordan, that are (82) offices at the time of the study, the study questionnaire was addressed to the auditors working in these offices, The study sample was chosen from auditors working in audit offices in Jordan, the method in the selection of a sample study is Convenience Sample: "A sample where the selection units from the population through the availability of appropriate persons to be distributed". The questionnaire has been distributed by hand on a sample of the study, the number of questionnaires that were distributed were (325) questionnaires, (261) questionnaires were recovered which were suitable for analysis. Thus, the percentage of recovered and valid questionnaires for analysis is (80%).

### 9. Analyzing the data related to the study fields:

The Arithmetic means and standard deviations for the variables corporate governance of auditor, and gap credibility of accounting information explained in the following tables

Table 1: Arithmetic means and standard deviations for independent variables questions (The independence of auditors, Commitment auditors to International Auditing Standards, Commitment auditors to rules of ethical conduct for the profession, Commitment auditors to standards of quality control) (n=261)

Number	Statement	The Arithmetic Mean	Standard Deviation	Ranking
<b>Field(1)</b>	<b>The independence of auditors</b>			
1	Auditor give priority to company's benefit over his the individual interests.	3.7854	0.8387	1
2	Commitment auditor to independence in his neutrality, and thinking	3.6552	0.9178	2
3	The auditor Justice to provide information to stakeholders of the company to ensure its continuation.	3.5096	0.9428	3
	<b>Total Field/ The independence of auditors</b>	3.6496	0.8911	High
<b>Field(2)</b>	<b>Commitment auditors to International Auditing Standards</b>			
4	The auditor's ability to match the information published in the financial statements in the accounting system with required in international standards	3.5326	0.8610	2
5	The auditor's ability to process audit operation based on international accounting standards	3.1609	0.9232	3
6	Agreement the work of auditor with international accounting standards about audit in the form of the balance sheet and its competent.	3.9004	0.8122	1
<b>Field(3)</b>	<b>Total Field/Commitment auditors to International Auditing Standards</b>	3.5276	0.8265	High
	<b>Commitment auditors to rules of ethical conduct for the profession</b>			
7	Honesty and integrity which is characterized by the auditor and the bias to his personal interests	3.9843	0.7892	1
8	The Value and efficiency of the auditor work and the compare between the interests of a private third party	3.6143	0.9214	3
10	The auditor's ability to gain client confidence and keeping his secrets	3.6714	0.9124	2
<b>Field(4)</b>	<b>Total Field/ Commitment auditors to rules of ethical conduct for the profession</b>	3.7563	0.8335	High
	<b>Commitment auditors to standards of quality control</b>			
10	Commitment to the auditor's to contractual or statutory conditions	3.8767	0.9634	1
11	Commitment the Management of the company's to the application the international and domestic accounting standards and local	3.7523	0.9267	2
12	Strength of the internal audit management inside the company	3.5697	0.8720	3
	<b>Total Field/ Commitment auditors to standards of quality control</b>	3.7329	0.8904	High

Table no. (1)/ Field (1) shows the degree of The independence of auditors measurement in all paragraphs are high, the arithmetic mean ranged between (3.7854-3.5096), paragraph (1) occupied the first rank, with the

arithmetic mean of (3.7854), and paragraph (3) occupied the last rank, with the arithmetic mean of (3.5096), the arithmetic mean of the total field / The independence of auditors was(3.6496) with a High degree.

Table no. (1)/ Field (2) shows the degree of Commitment auditors to International Auditing Standards measurement in all paragraphs are high, the arithmetic mean ranged between (3.9004-3.1609), paragraph (6) occupied the first rank, with the arithmetic mean of (3.9004), and paragraph (5) occupied the last rank, with the arithmetic mean of (3.1609), the arithmetic mean of the total field / Commitment auditors to International Auditing Standards was(3.5276) with a High degree

Table no. (1)/ Field(3) shows the degree of Commitment auditors to rules of ethical conduct for the profession measurement in all paragraphs are high, the arithmetic mean ranged between (3.9843-3.6143), paragraph (7) occupied the first rank, with the arithmetic mean of (3.9843), and paragraph (8) occupied the last rank, with the arithmetic mean of (3.6143), the arithmetic mean of the total field / Commitment auditors to rules of ethical conduct for the profession was(3.7563) with a High degree

Table no. (1)/ Field (4) shows the degree of Commitment auditors to standards of quality control measurement in all paragraphs are high, the arithmetic mean ranged between (3.8767-3.7523), paragraph (10) occupied the first rank, with the arithmetic mean of (3.8767), and paragraph (11) occupied the last rank, with the arithmetic mean of (3.7523), the arithmetic mean of the total field / Commitment auditors to standards of quality control was(3.7329) with a High degree

Table 2: Arithmetic means and standard deviations for dependent variables questions(Gap Credibility of Accounting Information) (n=261)

Number	statement	The Arithmetic Mean	Standard Deviation	Ranking
1	Deficiency in the information contained in the financial statements to meet the user's needs	3.5689	.71	4
2	Deficiency in delivery the information to decision makers in a correct time	3.2601	.78	7
3	Inability to verify the information that can be relied upon	3.4745	.72	6
4	Lack of the provided information credibility	3.8434	.78	1
5	The inability to future predict and find out deviations and their causes then processed it	3.5078	.74	5
6	Deficiency in provided information to received in correct time	3.8012	.72	2
7	Lack of the provided information by the auditor to comprehensive, effective and efficient	3.7856	.77	3
8	Deficiencies in control on operations and provide information to support decision-making	3.2592	.78	8
<b>Total Field / Gap Credibility of Accounting Information</b>		<b>3.5621</b>	<b>.75</b>	<b>High</b>

Table no.(2)/ shows the degree of Gap Credibility of Accounting Information measurement in all paragraphs are high, the arithmetic mean ranged between (3.8434-3.2592), paragraph (4) occupied the first rank, with the arithmetic mean of (3.8434), and paragraph (8) occupied the last rank, with the arithmetic mean of (3.7523), the arithmetic mean of the total field / Gap Credibility of Accounting Information was(3.2592) with a High degree

### 10. Results of testing the hypotheses of the study using multiple regressions:

Table 3: The results of testing simple linear regression for the effect of the independence of auditors on the gap credibility of accounting information (n=261)

R <sup>2</sup>	R	Sig.	t	Standardized Coefficients	Unstandardized Coefficients		variables
				Beta	Std. Error	B	
.186	.431	.000	3.993		.500	1.998	Constant
		.000	3.939	.431	.123	.485	Independence

Depending on the results shown in the table above Statistical decision accept the alternative hypothesis (There is statistically significant effect to the independence of the auditors on the gap credibility of accounting information)



Table 4: The results of testing simple linear regression for the effect of to the Commitment of auditors to International Auditing Standards on the gap credibility of accounting information (n=261)

R <sup>2</sup>	R	Sig.	t	Standardized Coefficients	Unstandardized Coefficients		variables
				Beta	Std. Error	B	
.159	.398	.000	3.580		.250	3.082	Constant
		.001	3.580	.398	.065	.233	Independence

Depending on the results shown in the table above Statistical decision accept the alternative hypothesis (There is statistically significant effect to the Commitment of auditors to International Auditing Standards on the gap credibility of accounting information)

Table 5: The results of testing simple linear regression for the effect the Commitment of auditors to rules of ethical conduct for the profession on the gap credibility of accounting information (n=261)

R <sup>2</sup>	R	Sig.	t	Standardized Coefficients	Unstandardized Coefficients		variables
				Beta	Std. Error	B	
.110	.332	.000	7.423		.385	2.855	Constant
		.005	2.898	.398	.095	.274	Independence

Depending on the results shown in the table above Statistical decision accept the alternative hypothesis (There is statistically significant effect to the Commitment of auditors to rules of ethical conduct for the profession on the gap credibility of accounting information)

Table 6: The results of testing simple linear regression for the effect to the Commitment of auditors to standards of quality control on the gap credibility of accounting information (n=261)

R <sup>2</sup>	R	Sig.	t	Standardized Coefficients	Unstandardized Coefficients		variables
				Beta	Std. Error	B	
.192	.339	.000	3.957		.512	1.890	Constant
		.000	3.957	.462	.149	.479	Independence

Depending on the results shown in the table above Statistical decision accept the alternative hypothesis (There is statistically significant effect to the Commitment of auditors to standards of quality control on the gap credibility of accounting information)

## 11. Results

The study reached to several results including the following:

Independence of the auditors influences the credibility gap of accounting information from the perspective of auditors, where the results show the importance of honesty and integrity which is characterized by the auditor and the bias to his own interest

11.1. The existence of the effect of the commitment of auditors towards accounting standards on the credibility gap of accounting information from the perspective of auditors. where the results show the importance of working agreement the auditor with the international accounting standards.

11.2. The results showed also the importance of honesty and integrity that must be characterized by the auditor and the bias to his own interest, and behavior in determining the remuneration of the methods affect his independence.

11.3. The results show the importance of commitment to the auditor's legal or contractual requirements. With the provision of professional services and consulting the company under the audit.

## 12. Recommendations:

Depending on the results, the following recommendations were achieved:

12.1. The auditors' independency should be given the deserved importance due to its effect on the accounting information credibility gap.

12.2. Auditors should commit to the auditing standards by studying and analyzing those standards to guarantee their ability to respond to the international standards.

12.3. The necessity of auditors' commitment to the job behavioral rules.

12.4. Professional organizations of accounting and auditing should make sure that auditors are committed to the quality control standards since it influences the accounting information credibility gap.

12.5. Activating the different composing elements of the corporate governance represented in board of directors and the auditing committee, and giving them the independency which helps them do their duties.

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