CORPORATE GOVERNANCE AND THE GOING CONCERN EVALUATION OF JORDANIAN LISTED COMPANIES AT AMMAN STOCK EXCHANGE

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By

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ABSTRACT

This study aims to examine the relationships between the aspects of corporate governance (ownership structure, board characteristics, audit committee, and audit quality) on going concern evaluation in Jordan. The data from 2009 to 2011 was extrapolated from the companies listed under the industrial and services sector on Amman Stock Exchange, resulting in the final sample of 339 firms after the exclusion of financial sectors and firms of unnecessary data due to the lack of disclosure. Multiple regression analysis revealed a positive and significant relationship between managerial and foreign ownership, board meeting, board size, audit fees, audit firm size and non-audit services with going concern evaluation. The findings also supported the positive and non-significant relationship between audit committee and going concern evaluation. On the other hand, the study drew forth a negative relationship between institutional and family ownership, board independence, and CEO duality with going concern evaluation. Theoretically, the study suggests the application of agency theory may prove more appropriate than accountability theory in describing the practices of corporate governance in developing countries such as Jordan. From a practical perspective, the findings provide feedback to the regulators (e.g. Capital Market Authority and Policy Makers) and the companies in Amman Stock Exchange in a number of ways such as promoting good practice of corporate governance among Jordanian firms. This study finds the corporate governance mechanisms play an effective role for companies as a going concern. In addition, this study opens up avenues for more studies on quality of financial reports.

Keywords: corporate governance, going concern evaluation, Amman stock exchange

ABSTRAK

Kajian ini bertujuan untuk melihat hubungan antara aspek-aspek tadbir urus korporat (struktur pemilikan, ciri-ciri lembaga pengarah, jawatankuasa audit) dan kualiti audit terhadap penilaian berterusan syarikat-syarikat di Jordan. Data bagi tempoh 2009 hingga 2011 diekstrapolasi daripada syarikat-syarikat yang disenaraikan di bawah sektor industri dan perkhidmatan dalam Bursa Saham Amman. Jumlah sampel akhir selepas ditolak sektor kewangan dan firma-firma yang tidak mempunyai data yang diperlukan kerana tidak dapat didedahkan adalah sebanyak 339 buah syarikat. Keputusan regresi berganda menunjukkan terdapat hubungan yang positif dan signifikan antara pengurusan dan pemilikan asing, mesyuarat lembaga pengarah, saiz lembaga pengarah, yuran audit, saiz audit firma dan perkhidmatan bukan audit dengan penilaian berterusan syarikat. Penemuan kajian ini juga menyokong hubungan positif dan tidak signifikan antara jawatankuasa audit dan penilaian berterusan syarikat. Sebaliknya, kajian ini merumuskan bahawa hubungan yang negatif wujud antara institusi dan pemilikan keluarga, kebebasan lembaga pengarah dan dualiti Ketua Pegawai Eksekutif dengan penilaian berterusan syarikat. Kajian ini secara teorinya mencadangkan bahawa teori agensi mungkin lebih sesuai berbanding teori akauntabiliti dalam menerangkan amalan tadbir urus korporat di negara membangun seperti Jordan. Dari perspektif praktikal, hasil kajian ini memberi maklum balas kepada pengawal selia (contohnya autoriti pasaran modal dan pembuat dasar) dan syarikat-syarikat di Bursa Saham Amman dalam beberapa perkara seperti cara menggalakkan amalan terbaik tadbir urus korporat dalam kalangan firma-firma di Jordan. Kajian ini mendapati bahawa mekanisme tadbir urus korporat memainkan peranan yang efektif kepada syarikat sebagai usaha yang berterusan. Tambahan pula, kajian ini membuka ruang kepada lebih banyak kajian terhadap kualiti laporan kewangan syarikat.

Kata kunci: tadbir urus korporat, penilaian berterusan syarikat, bursa saham Amman

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LIST OF ABBREVIATIONS

AC	Audit committee
AFEES	Audit fees
AFSIZ	Audit firm size
AICPA	American Institute of Certified Public Accountants
ANNA	Association of National Numbering Agency
APB	Auditing Practices Board
APB	Auditing Practices Board
APC	Auditing Practices Committee
APC	Auditing Practices Committee
ASB	Auditing Standards Board
ASB	Auditing Standard Board
ASE	Amman Stock Exchange
BCBS	Basle Committee on Banking Supervision
BCCI	Bank of Credit and Commerce International
BRDCEO	CEO duality
BRDIND	Board independence
BRDMEET	Board meeting
BRDSIZE	Board size
CAR	Commission Auditor's Responsibilities
CBJ	Central Bank Of Jordan
CCAB	Consultative Committee of Accounting Bodies
CCAB	Consultative Committee of Accounting Bodies
CCD	Companies Control Department
CEO	Chief Executive Officer
CPA	Certified Public Accountant
DW	Durbin-Watson
FAMOWN	Family ownership
FEAS	Federation of Euro-Asian Stock Exchanges
FONOWN	Foreign ownership
GAAP	Generally Accepted Accounting Principles
GC	Going concern
GCON	Going concern evaluation

GCP	Going concern problem
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standards
IMF	International Monetary Fund
INSTOWN	Institutional ownership
IOSCO	International Organization for Securities Commissions
ISA	International Standards on Auditing
ISIN	International Security Identification Numbers
JACPA	Jordanian Association of Certified Public Accountants
JD	Jordanian Dinar
JD	Jordanian Dinar
JFED	Jordanian Forum for Economic Development
JSC	Jordan Securities Commission
MANGOWN	Managerial ownership
MAS	Management Advisory Services
NAS	Non-audit services
SAS	Statement on Auditing Standards
SDC	Securities Depository Center
SEC	Securities and Exchange Commission in American
SSC	Social Security Corporation
U.K.	United Kingdom
U.S.A	United States
USD	United States dollar
WFE	World Federation of Exchanges

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CHAPTER ONE

INTRODUCTION

1.0 Background of the Study

In the early 1990, the breakdown of Maxwell Corporation coupled with the adverse economic climate urged the establishment of initiatives that fosters external auditor to enhance financial reporting and accountability of listed companies included in the U.K. (Cadbury Report, 1992). In addition, the East Asian financial crisis in 1997 to 1998 was attributed to weak external auditors and ineffective governance practices (Hashim, 2009). This has led to weak confidence of foreign investors over the East Asian capital market, with the inclusion of Malaysia (Leng, 2004; Rahman & Haniffa, 2005).

In 2001, the tragic collapses and losses of giant companies such as Enron Corporation, WorldCom and Tyco International in the United States, which are known to have the best regulated and most efficient capital market in the world, further reinforced the critical need to improve the corporate governance system in both developed and developing countries. Other scandals in various countries such as Parmalat in Italy in 2003, Bre-X and YBM Magnex in Canada in 1997, Royal Ahold in the Netherlands in 2003, Credit Lyonnais and Vivendi, in 1993 and 2002 respectively, Metalgesellschaft in Germany in 1994, and the HIH Insurance Ltd. in Australia in 2001 have all contributed to the going concern of companies throughout the globe. Therefore, there is a dire need to enhance reported earnings quality as the capital market calls for accurate and unbiased financial reporting to place value in securities and build investors' confidence (Pergola, 2005). In a study by Venuti

(2004), 12 companies in U.S.A went bankrupt; and the increase in the rate of bankruptcy was unexpected among the corporate owners and researchers.

Weak corporate governance has also been quoted as the main factor contributing to company failures during the crisis in Malaysia in 1997 to 1998 (Noordin, 1999; Haley, 2000). Companies with financial problems are likely to receive going concern qualification report by the auditor. Therefore, these companies need to enhance their monitoring and controlling mechanism in order to address financial difficulties particularly in relation to the decision making process by the top management (Rahmat, Mohd-Saleh & Iskandar, 2004; Iskandar, Rahmat,No or, Saleh & Ali, 2011).

In Indonesian context, issues surrounding to the reports that issued by the auditor and their association to the problems of going concern have been in the limelight since 1995. It all began with the Summa Bank's collapse although the bank had declared a unqualified audit report prior to its collapse. With the advent of the economic crisis in 1997, the issue of going concern has increasingly been emphasised in the country. According to the evidence, in 1997, 14 firms that issued a unqualified audit report in the prior year, bankrupt in the following year and in 1998, 15 firms issued the same and met the same fate (Haron, Hartadi, Ansari & Ismail, 2009).

The Jordanian economy has also suffered from the financial crisis. Consequently, King Abdullah of Jordan and the Jordanian government have encouraged and invited foreign investors to come to Jordan to overcome those financial distresses. To address this problem, the government had initiated the conference in 2003 to discuss the companies' going concern. The Jordanian government had recommended and requested all stakeholders of going-concern companies such as auditors, managers

and researchers to seek for consideration and studying the code of corporate governance. The conference regarding companies going concern and real reasons related to their failure was held in Amman in 2003. As a result, the Conference came up with the following suggestions: (a) the existence of erroneous practices of some Jordanian auditors is caused by the lack of practical and scientific experience. This has an effect on the evaluation of a firms' going concern ability. (b) There is the existence of financial and social problems affecting the auditor's independence to express his neutral opinion on financial statements and evaluating a company's going-concern ability (Albasheer, 2003).

The conference has also concluded that the company's capability of achieving objectives and equity can be ensured by applying laws and regulations on all managers and workers. Companies' failure has almost affected the Jordanian economy since 1989. The Jordanian economy has changed since 1989 regarding the companies' bankruptcy. Moreover, such concerns have a significant impact on the Jordanian economy. It is known also that the bankruptcy of companies' issues plays significant role in both the academic and business world. Furthermore, companies going concern has become an important political economic issue since the increase in the public awareness due to companies bankruptcy in Jordan.

Since the Scientific Conference in Jordan entitled Going Concern No.5 (2003), there was very little concrete achievements even until today. Regarding this issue, numerous meetings have been held but the external auditor commitment in his report about of the company's going concern has been limited, and many of the company's going concern problems remain unsolved. Several studies have been conducted pertaining to the company's going concern, such as those done by Matter (2000) and

Asfor (2003). However, they are still limited in numbers. The reason for the external auditor does not articulate the companies going concern problems in his report remains as an issue.

Regarding the empirical studies, the reporting of going concern information in companies' annual reports are still lacking by the external auditor. Shwiyat (2004) noted that the disclosures about the problems of the companies going concern are still inadequate. Here, the researcher addresses the ownership structure factor, board characteristic factor, audit committee factors, and quality factor on the external auditor evaluation of the companies going concern under ISA No. 570. This study hopefully solves some problems on this issue.

Audit standards require auditors to assess whether a substantial uncertainty exists as to the capability of the customer to keep on as a going concern. However, this assessment should consider management's plans and ability to mitigate periods of financial distress successfully. Such plans and ability often reflect corporate governance factors including attributes of control, oversight, and support for management's strategies and actions (Parker, Peters, Turetsky, 2005). Despite the fact that prior literature documents' numerous associations between corporate governance factors and financial distress, less is known about how these factors are potentially incorporated into the auditor's going concern assessment (Parker *et al*., 2005). This phenomenon (companies' failure) is not new and does not happen only in Jordan but also in other countries such as U.S.A, U.K. and Indonasia. In 1720 for instance, the "South Sea Bubble Scandal Company" crashed and the total market value of this company exceeded the wealth of the England's economy. It was the

most significant event in the English economy and this event was set as a precedent in the history of auditing (Cangemi & Singleton, 2003).

Society has carved out a vital trust relation role for independent auditors, which is absolutely essential for the effective functioning of the financial markets and the economic system (Duska, 2005; Guiral, Rodgers, Ruiz and Gonzalo, 2010). In addition, Moral seduction theory suggests that auditors are morally compromised by the perceived consequences of their opinions. The root of the auditing problem appears to be as a result of an unintentional bias rather than dishonesty (Guiral *et al.*, 2010).

At the center of the financial scandals is the auditor's opinion about the client's ability to continue in existence, that is, an assessment of the client's probability to go bankrupt. The emanation of this audit opinion is extremely important for the financial statement users because (1) it is interpreted as an early warning signal regarding the future of the company and (2) may significantly affect investors and other third partie's decisions in terms of re-allocation of credit (Guiral *et al.,* 2010).

Jordan also could not escape from corporate mischief and misconduct. This is evident from the collapse of Shamayleh Gate crisis in 2006 in which this crisis generated and reinforced interest in consolidating the foundations and principles of corporate governance as well as the importance of the external auditor's in the Jordanian economy. In addition several Jordanian companies tricked a number of Jordanian banks in order to obtain credit facilities totalled over U.S.A $ l billion that sparked financial scandals, the absence of corporate governance system among the Jordanian firms has encouraged such scandals. Thus, Jordan has displayed an

important interest in consolidating the corporate governance pillars and external auditors by sponsoring a series of legislative, economic and financial reforms that proposed to promote transparency, accountability and the rule of law in the country's economic system. Recently, all these corporate governance constraints are viewed as paramount to create conducive environment to definite shareholders and those who hold interests in losing enterprises, to destabilizing both the national economy and the climate of investment (JFED, 2003).

In 2006, Magnesia Company suffered from bankruptcy which led to losing 130 million JD. The Council of Ministers had sent these cases to the Attorney General for inspection and resulted in legal proceedings (Jodeh, 2006). The bankruptcy of Jordanian companies had also affected the local society whereby it increased unemployment. Large capitals that were transferred outside of the country had also negatively affected the investments in Jordan. Those problems are still affecting the Jordanian economy up until now. Many companies have encountered failure and bankruptcy and there is no indication in the external auditor report about the probability of that failure. The practical reality of auditing had also showed that there is a big gap between what the auditor expects and what he really does (Asfor, 2003).

From the auditing perspective, the going concern concept means that external auditors give their opinion about the company's ability to continue its activities. Nevertheless, the external auditor does not guarantee the future viability of the entity (AICPA, 1997).

In March 2008, International Auditing and Assurance Standards Board (IAASB) had approved the International Standard on Auditing (ISA), No. 570, for auditing, aiming to assist the external auditors to perform their activities in case there are doubts about

the preparation of financial statements with regards to going concern. International Standard on Auditing ISA No. 570 is effective for audits of financial statements beginning on or after 15th December, 2009. That standard has provided some guidelines through which the going concern or the ongoing of the company can be predicted. When it comes to planning the audit procedures for evaluating the outcomes of the company's activities, the auditor must use the going concerns assumption and the auditor's report in establishing the credibility of the financial statements. However, the going concern assumptions do not guarantee the far future, since the fixed period is only for one year. As such, the auditor should take going concern risks derived from the financial statements or from other sources (AICPA, 1997).

The financial statements provide the information to the user about the economic resources of an enterprise and this financial information must be useful and clear to determine those users as owners, lenders, suppliers, potential investors and creditors, customers, managers, directors and taxation authorities, financial analysts and labour unions. Therefore, the auditor's task is to express his opinion on the fairness of these statements. Sometimes, there are doubts about the ability of the company's going concern. William Casey, former chairman of the Securities and Exchange Commission has expressed the importance of this situation on the auditor evaluation function:

> *"Auditors sometimes find themselves so uncertain about a company's viability as a going concern that they find themselves unable to give an opinion as to the overall fairness of the financial statements, which rest after all on the implicit assumption that there is an on going business here which can reasonably be*

expected to continue operating for an indefinite period in the future. We think it is imperative that such prime candidates for bankruptcy or reorganisation procedures are spotted at the earliest possible moment so that investors may guide themselves accordingly" (Casey, 1972).

The users of the financial statements such as investors need to make investment decisions based on the reliability of those statements. Because of this, the role of the external auditor is not just limited to the traditional role of auditing financial statements and giving technical opinion that gives a clear and accurate picture about the financial centre and the production of the company's past activities, but the external auditor must take into consideration the firm's future ability to continue its business. When the company faces any financial difficulties such as inability to fulfil its commitments and suffers losses, the role of the external auditor becomes of high importance in evaluating the ability of the company to continue. This will protect the interests of the financial statement users and help them make their investments decision. Ultimately, this could also protect the social and economic stability in Jordan. Furthermore, if the accountant does not provide the necessary information, the external auditor will not be able to evaluate the companies going concern and may not give the right decision to the investors.

The gap in information stems from the separation of corporate ownership from management that called for the demand for control and monitoring devices (internal and external) (Walsh & Seward, 1990; Weir, Chappell & Kacelnik 2002). Internal mechanisms may include monitoring of the board of directors while external ones include external editors' report and market control. Based on the agency theory, there

is an array of conflicts that manifests in circumstances where management is separated from the ownership (Berle & Means, 1932; Adelopo, 2010).

The corporate governance and manipulation in financial statements are motivated by the recent interest showed by the government of Jordan in corporate governance. Thereafter, the listed companies at Amman Stock Exchange (ASE) should form boards and committees to apply corporate governance mechanisms. Securities Law issued in 2002 also requires the public companies to apply corporate governance to enhance the transparency and accountability of financial statements in Jordan. After the financial crises in 2008, the Jordan Securities Commission issued the "Corporate Governance Code for Shareholding Companies Listed on the Amman Stock Exchange" to define the responsibilities and duties of boards and committees in public companies.

1.1 Problem Statement

Conflicts of interest between managers and other parties to the firms arise because managers effectively control firms' assets but generally do not have a significant equity stake in their firms (Berle & Means, 1932; Jensen & Meckling, 1976). Due to these conflicts, major companies such as Enron and Worldcom have collapsed (Habbash, 2010). These conflicts cannot be resolved completely through contracts because it is costly, if not impossible; to write and enforce complete contracts (Fama &Jensen, 1983; Hart, 1995). Thus, in a world with incomplete contracts, corporate governance mechanisms arise to mitigate these conflicts and to assist the firm to protect their investments to ensure continuity. Corporate governance mechanisms (such as ownership structure, board of directors, audit committee and audit quality, etc) differ in terms of their costs and benefits. In this study, the optimal combination

of governance mechanisms is chosen to assist the firms in their continuity by limiting the conflicts between corporate managers and shareholders. Such mechanisms are likely to vary systematically across firms because these costs and benefits likely vary with firm characteristics (Leftwich, Watts & Zimmerman 1981; Agrawal & Knoeber, 1996; Boone, Field, Karpoff & Rahega, 2006; Watts, 2006).

The information's quality in the financial statement is highly related to the added credibility from the external auditor. This credibility has been questioned and raises many doubts after some spectaculars and well publicised firms. For instance, Enron in 2001 and WorldCom in 2002, both in U.S.A collapsed shortly after an unqualified (clean) audit report had been issued (Pound, Willingham, & Carmicheall, 1997; Al-Awaqleh, 2008; Habbash, 2010).

In Jordan, the economy relies heavily on the financial aids from overseas countries and taxes from Jordanian companies. This reliance is due to the lack of natural resources and raw materials. Over the last decades, particularly in 1989, Jordan suffered a severe economic crisis resulting in the decrease of financial strength and bankruptcy of many companies which then lead to the decrease of exchange rate of Jordanian Dinar (from 1JD = USD3.35, to USD1.41 after the crisis) in addition to the increase rates of unemployment in the country. For instance, the bankruptcy of Petra Bank led to the loss of JD 200 million (USD 670 million) (Asfor, 2003).

The economic situation in Jordan is still from the bad situation to worse due to the political situations in neighboring countries such as Syria, Iraq, Egypt and Palestine which negatively influence of Jordanian economy because more than one and half million refugees are staying in Jordan (Jordan Zad, 2013). In another bankruptcy

case, Magnesia Company had lost JD130 million. The Council of Ministers has sent these cases to the Attorney General for inspection and resulted in legal proceedings (Jodeh, 2006). The bankruptcy of Jordanian companies has also affected local society with increased unemployment. Large capitals that were transferred outside the country have also affected investment in Jordan in a negative way. Those problems still affect the Jordanian economy until now. Many companies have encountered failure and bankruptcy and there is no indication in the external auditor report about the probability of that failure. The practical reality of auditing also showed that there is a big gap between what the auditor expects and what he really does (Asfor, 2003).

In detail, according to the Companies Control Department (CCD), the statistics showed that from 2000 to 2011, there were 44 bankruptcy cases in Jordanian companies. 26 companies (59%) were from the industrial sector, 15 companies (34%) from services sector and 3 companies (7%) from the financial sector (http://www.ccd.gov.jo/2012). Globally, such bankruptcy cases were attributed amongst others to the weak corporate governance practices (Iskandar *et al.,* 2011). Such unexpected bankruptcy of the Jordanian companies would not affect the companies' owners only, but also other financial statements users, such as investors, creditors, and the economy in general.

Consequently, an early warning of bankruptcy can be taken as a precaution to establish and to lower the risk and danger levels of company bankruptcy or distress. Therefore, going concern is one of the most important concepts underlying financial reporting. This study sheds the light on the role of going concern due to its importance in the financial accounting and it's responsible for insuring that the companies will continue its activities without any problems in the future. Despite that

the going concern is a crucial underlying assumption for the financial statements preparation, but the company's ability to continue as a going concern is still a mysterious issue. In addition, the issue of going-concern has received little attention in Jordan and the precaution of bankruptcy cannot be guaranteed (Alkhatib & Al Bzour, 2011). Therefore, the Jordanian government issued the Corporate Governance Code in 2009 by Amman Stock Exchange, and forced the Jordanian companies to commit to the requirements of the governance code since 2009 (Alkhatib & Al Bzour, 2011). However, the World Bank (2004) and the International Monetary Fund (IMF) had evaluated the status of corporate governance in Jordan. They concluded that the corporate governance of Jordanian companies remains at a relatively late stage. This can be attributed to the performance of the audit committees which is poor and ineffective due to the restrictions on audit committees' work and the weak independency of their members (Abdullatif & Al-Khadash, 2010; Ajeela & Hamdan, 2011; Bawaneh, 2011).

The need to examine the relationship between corporate governance and going concern evaluation is by the recent interest shown by the government of Jordan in corporate governance especially after the Company Law no. 23, 1997 was issued. Thereafter, the listed companies at Amman Stock Exchange (ASE) should form boards and committees to apply corporate governance mechanisms. Securities Law issued in 2002 also requires the public companies to apply corporate governance to enhance the transparency and accountability of financial statements in Jordan. After the financial crises in 2008, the Jordan Securities Commission issued the "Corporate Governance Code for Shareholding Companies Listed on the Amman Stock Exchange" to define the responsibilities and duties of boards and committees in public companies.

Ideally, an empirical study of governance mechanisms would conduct a joint examination of the entire set of internal and external governance mechanisms that collectively could ensure the continuity of Jordanian firms. Therefore, based on the above discussions, this study would further investigate the impacts of corporate governance mechanisms on going-concern evaluation in Jordan in order to bridge the gaps in the literature. To the knowledge of the researcher, there are very few studies which examined such relationship. Hence, this study addresses the subject matter which may provide insights on the effectiveness of corporate governance mechanisms with regards to going concern evaluation (Iskandar *et al.,* 2011).

1.2 Research Questions

Consequently, the following questions are raised:

1. What is the relationship between the ownership structure (managerial, institutional, foreign, family ownership) and the going concern evaluation in Jordanian listed companies?
2. What is the relationship between the board characteristics (independence, CEO duality, size and board meeting) and the going concern evaluation in Jordanian listed companies?
3. What is the relationship between the audit committee and the going concern evaluation in Jordanian listed companies?
4. What is the relationship between the audit quality (fees, audit firm size and non-audit services) and the going concern evaluation in Jordanian listed companies?

1.3 Research Objectives

The research objectives of this study are as follows:

1. To examine the relationship between the ownership structure (managerial, institutional, foreign, family ownership) and the going concern evaluation in Jordanian listed companies?
2. To examine the relationship between the board characteristic (independence, CEO duality, size and board meeting) and the going concern evaluation in Jordanian listed companies?
3. To examine the relationship between the audit committee and the going concern evaluation in Jordanian listed companies?
4. To examine the relationship between the audit quality (fees, audit firm size and non-audit services) and the going concern evaluation in Jordanian listed companies?

1.4 Scope of study

There are three sectors in Amman Stock Exchange; these sectors are namely (financial, industry and service sector). This study uses only two sectors (industry and service sector), because there are more companies suffered from bankruptcy in these sectors. This study has chosen the industrial sector and services sectors which contain 72 and 58 firms respectively, the industrial sector makes up 48% and services sectors makes up 23% of Amman Stock Exchange (ASE), there were 44 bankruptcy cases in Jordanian companies. 26 companies (59%) were from the industrial sector, 15 companies (34%) from services sector and 3 companies (7%) from the financial sector (http://www.ccd.gov.jo/2012). This study uses data from

2009 to 2011 as a result of the implementation of the policy of corporate governance in Jordan, which began in 2009. The final sample was 339 firm-year observations, 51 firms were excluded from the sample due to the unavailable the necessary data in these firms. Companies in the financial sector were excluded because they have different Code of Corporate Governance issued by the Insurance Commission and Central Bank of Jordan (Al-Akra, Ali & Marashdeh, 2009). Additionally, they apply certain disclosure requirements and different financial ratios (Alkhatib & Al Bzour, 2011). This is also because only three bankruptcy cases have occurred in the financial sector (CCD, 2012). Thus, the industrial and services sector is more suitable to test the relationship between corporate governance and going concern evaluation in Jordan.

This study was limited to the data of Jordanian companies after 2009, in other words, after it has become imperative for the Jordanian listed companies to apply the rules of corporate governance. Therefore, this study used only data from 2009 to 2011 because the financial reports of Jordanian companies after 2011 have not been published yet.

Moreover, according to Bawaneh (2011) who stated that in reality, the banking sector in Jordan serves in accordance with the standards of the Central Bank of Jordan based on the Basle Committee on Banking Supervision (BCBS) requirements through improving the procedures of corporate governance conducted by the banks. On the other hand, Al- Haddad, Alzurqan and Al-Sufy (2011) reported that the level of commitment of the Jordanian listed companies' corporate governance principles were weak, where they found that the high level of commitment was in favor of the banking sector.

1.5 Significance of the Study

It has been construed that the study lends to the existing body of research by providing the pragmatic information to the audit profession, research field, and related governmental operations. In the ensuing subsections, the benefits of this study are comprehensively explained.

As far as the researcher is concerned, there appears that there are few studies that examined the connection between the corporate governance mechanisms (including ownership structure, board characteristics, audit committee, and audit quality) and the going concern evaluation in Jordan. Thus, this study aims to look into the functionality of mechanisms of corporate governance, in relation to the going concern evaluation (Iskandar *et al*., 2011). Moreover, this study also adds on to the existing studies in the literature, as this is the first of its kind to examine the influence of internal ond external corporate governance mechanisms in the going concern evaluation. The contribution appears by way of looking into different corporate governance mechanisms and through using more representative techniques for prior mechanisms. Also, the present study adds to the literature review by assessing new variables that have yet to be experimented with in past researches. These variables consist of the ownership structure, board characteristics, audit committees and audit quality with the going concern evaluation.

As such, this study is carried out in one of the Middle Eastern countries, which is Jordan. The country currently runs on under-developed financial markets and mediocre regulations and corporate supervision (Chahine & Tohme, 2009). Moreover, the Middle Eastern tradition has a stringent power hierarchy and segregation between the different parties in the companies (namely among the rulers

and ruled, employers and staff) (Hofstede, 1980). Henceforth, the research lends to the set of studies that have been carried out in the Arab context, in which the exercise of corporate governance is still at the developing stage.

1.5.1 Theoretical Contribution

A number of prior researches have analysed the connection among corporate governance and the going concern evaluation. The evidence from this study will propel the experimentation in a more extended duration, in order to warrant results that can be generalised and give pragmatic explanation. Additionally, the outcome of this study will prove useful for future research as it gives experiential evidence concerning agency conflicts in developing countries, namely Jordan. This study also adds to the present literature regarding to the corporate governance studies this may promote further research on corporate governance and the going concern evaluation in other regions.

Managerial ownership and strong structure of governance have used the agency theory in order to limit agency conflict. Previous literatures that are related to the corporate governance which have focused on the agency theory does not find conclusive evidence to support the theory. Thus, this study contributes to the previous literature via employing different theories to support the evidences which are not consistent with the agency theory. These complementary theories namely 9 accountability theory, resource dependence theory, stewardship theory and signalling theory along with the agency theory.

As far as the researcher is concerned, the current research is the first of its kind to incorporate a systematic study in Jordan that ascertains the aspects which contribute in evaluating the going concern of the companies through the corporate governance assessment. The results from this study add to the existing practical information in enhancing the knowledge and sense of responsibility of the external auditor through assessing the company's going concern, based on the ISA No. 570.

To date, the corporate governance researches were propelled by the agency's perspective, whereby companies applied different mechanisms of corporate governance in order to monitor agency conflict in companies. Different internal and external mechanisms which are corporate ownership structure, cheresteristics board of directors, audit committee and auditor quality are developed in the current study in order to fulfill this objective to minimise the conflict within companies, particularly among managers and shareholders. The results from this study will reinforce the perception concerning the relevance of the above mentioned hypothesis, through defining the attitudes of the going concern evaluation in the Jordanian business setting.

Verification from different countries are in favour of the agency theory, as companies with better corporate governance structure support more of the going concern to firms (Parker *et al.,* 2005; Iskandar *et al*., 2011). The result from this study will bridge the gap among corporate governance literature and the going concern evaluation. The study also gives evidence in ascertaining if the same means can be used in developing economies like Jordan.

Verified proof from the U.S.A and the U.K. are in favor of the accountability theory, since companies with better governance structure incorporate more going concern evaluation companies. The result from this study will lessen the differences within the corporate governance literature and validate if the same means can be used in the going concern evaluation in a country such as Jordan.

This study supports the comprehension on the validity of the aforementioned hypotheses in defining the behavior (or attitudes) regarding to the practices of governance and the process of financial reporting in the Jordanian business environment. In addition, this study provides evidence related with the agency theory that advocates the going concern evaluation companies serves as a useful component in minimising agency conflict. The study pays special attention to the evaluation of the efficiency of the structure of corporate governance in mitigating agency conflict, through analysing company's business and the going concern. Moreover, to assess the efficiency of governance structure of Jordanian firms, the main result from this study ascertains if the present structure of governance is useful in advancing another agency tool which is the going concern evaluation.

1.5.2 Practical Contribution

1.5.2.1 Corporate

Financial reporting functions as a means to evaluate a company’s financial position in order to predict the company’s prospective trends and their goals. Users of financial reporting are comprised of corporate managers, creditors, financial analysts, executives and investors, who will apply the results from their examination to help them in their main decision making. Addressing the aspects that shape the financial

reports will enhance the reliance on the figures of financial reports and form of confidence and reliance in decision making.

The results of the current study are helpful to the corporate managers who are interested with the quality of financial statements and the practices of corporate governance in their companies' team of financial analysts, directors who, in turn, would sustain the business activities through making investment decisions, analyse the financial reports and keeping abreast with the interviews conducted on the representatives in order to earn better understanding into the company's future and managerial efficiency. Hence, the findings from current study are vital as they will emphasise on contributing aspects in the going concern of the company, which would concurrently provide them with better access to financial report.

Financial position of a corporate is assessed for the purpose of predicting the future prospects of the firm. This assessment is carried out based on the content of financial information of the firm. The content of financial information is made use by various stakeholders in financial sectors such as investors, managers, business executives, creditors and financial analyst for decision making. Adequate knowledge about the determinants of financial statement will enhance reliance on its figures and consequently result in informed decision making.

Financial analysts with the task in decision making pertaining to investment are also given the duty to assess the financial reports and to keep abreast with the interviews conducted with the company's delegates. The purpose of this delegation of duty is to attain a thorough insight into the firm's prospective future and administrative competence. Thus, results from this study are crucial in establishing the factors that

cultivate the accounting practices of the company, as well as aiding them in the comprehensive evaluation process of the financial reports effectively. The results are hopefully served as a platform in presupposing the going concern for their respective firms.

1.5.2.2 Managers and Auditors

The findings from this study are beneficial in improving the level of quality of financial reporting as well as to the practices of corporate governance in their companies. The determined management and owners should benefit from the current research by addressing their effects on accounting practices and policies, as they are acknowledged by other financial statements' users; thus, this should repel them from manipulating the wealth of firms for their own interest.

Findings from this study also supply information to auditors who are confronted with different decisions related to the company's going concern. Moreover, some perception of audit quality factors provided by the current study proved that the integration of the firm size, audit fees and non-audit services do enhance the auditors' ability to assess the company's going concern. and stated that the burdens of an entire facility ororganisations encourage consistent enhancement of the auditor’s ability to assess the company’s going concern (Gray & Manson, 2000).

1.5.2.3 Creditors

Creditors will also find this study useful, as the findings may give them an idea in evaluating potential clients. Due to the fact that past researches have proven that

creditors are in need of more going concern, they may be more focused on forms that have power and leverage in the going concern evaluation. Henceforth, the outcome from this study is beneficial for auditors to focus on audit quality.

1.5.2.4 Regulators

The bureau of regulators in Jordan should be certain of the extent of compliance among Jordanian listed firms to the particular principles of the Jordanian Code of Corporate Governance, namely the binary of Chairman/CEO, board independence and board size. Given the findings of the current research, it depicts some infringements regarding the role of CEO/Chairman, board size and board independence.

1.5.2.5 Stakeholders

The other contribution of this study focuses on techniques to secure stakeholders' interests through the delegation of independent non-executive directors. Having an independent body for administration is one of the means to get non-executive directors who are independent. This body administers their operations, and makes all listed firms choose and appoint independent directors. Hence, those who qualify to serve as independent non-executive directors can register with the independent organisation. Later, firms that need independent directors will contact the regulatory body to make a selection. Thus, creating a board of committee comprising of independent directors with the right experience and skills in certain domains may provide the required quality of independent directors, including family businesses.

Furthermore, despite the endorsement and establishment for the listed companies in ASE to have an audit committee based on the corporate governance code of 2009,four companies claimed that they did not form an audit committee until towards the end of 2009. Hence, this study highlights the significance of observing the code, laws and instructions by the companies and the need to reprimand the delinquent companies.

1.5.3 Contribution to the Policy Makers

The Jordanian policy on corporate governance focuses on good governance principles for the affluence and responsibility in the capital markets. The Jordan Securities Commission also has established a code of corporate governance for the listed companies in Amman exchange market in 2009. The primary objective of corporate governance code in the Jordanian firms is to reinforce the responsibilities and functionality of the board of directors of firms and audit committees in Jordanian firms. However, despite the endeavors by the government of Jordan in corporate governance in promoting the best corporate governance in Jordan, many researchers and policy makers debated over the issue of whether the same structure of governance in developed markets may effectively acts in a markets that have a different economic culture, legal system, and firms' structure.

This study gives a clear view on the impact of corporate governance on the going concern of Jordanian companies. This view assists the regulatory bodies in Jordan such as (specifically, the Jordan securities commission) to evaluate the level of corporate governance in Jordanian firms. Additionally, this study provides an awareness and understanding on the bodies and relevant authorities of whether or not

the present practices of corporate governance in Jordanian firms do produce the expected outcome.

1.6 Definitions of Terms

The current study has adopted the following definitions being the most appropriate for the purposes and objectives of this study

1. **Corporate Governance:** Kim (2006) defined good corporate governance as the key principles of accountability, fairness, transparency as well as responsibility in managing a firm.
2. **Going Concern:** "An entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations" (MIA, 2008).
3. **Going Concern Evaluation:** it's refers to the financial indications that used to provide a clear image about the financial situation of the company. Altman has categorised the firms into three levels based on his model, which are strong, moderate and weak based on the Z score percentage (Altman, 1968).
4. **Ownership Structure:** this study defines the ownership structure as the distribution of shares to amongst owners according to McCann and Vroom (2009). This study categories the ownership structure into managerial, institutional, foreign and family ownership.
5. **Board of Director:** board of directors represents the highest form of internal control to monitor top management including the CEO (Lara, Osma & Penalva, 2007). This study employs four major characteristics of board namely board independence, CEO duality, board size and board meeting.

6. **Audit Committees:** Audit Committee is one of the committees that establish by board of directors to undertake the following: Review financial statements and management commentary. Support financial supervision and increased accountability. Ensure that management adequately develops and adheres to internal controls and accounting policies. Review the Internal Audit Department's conclusions on a regular basis and ensure that management actsupon the Internal Audit Department's recommendations diligently. Ensure compliancewith applicable regulations and recommend the external auditor for appointment (ASE, 2013).

7. **Audit Quality:** it's refers to the willingness to report any material manipulation or misstatements that will increase the material uncertainties and/or going concern problems (Bradshaw et. al., 2001). This study employs three main dimensions that refer to the audit quality which are audit fees, audit firm size and non audit service.

1.7 Organisation of the Study

This study is organised based on a standard thesis format, with the content categorised into five chapters. Chapter One contains the study background of the study, problem statement, research questions and objectives. Scope of the study, significant and contribution of the study are also mentioned. Difenition of terms and organisation of the study are illustrated.

Chapter Two contains a literature review starts with the overview of corporate governance and concept of going concern. External auditors' evaluations on the

going-concern ability as well as the underlying theories have also presented. The relevant literature in the relationship between corporate governance and going concern evaluation is mentioned in this chapter. Finaly, chapter summary is presented at the end of Chapter Two.

Chapter Three explains the research framework and hypotheses development. Methodology of this study that includes research design, sample and data collection, unit of analysis, method of data collection and operational definition and measurement of variables have mentioned. Finaly, chapter summary is presented at the end of Chapter Three.

Chapter Four focuses on the main regression assumptions, descriptive statistics, correlation analyses and multiple regression analysis. This chapter also describes the hypothesis testing.

Chapter Five also elucidate on the overview of the study and the discussion of the hypothesis. Contribution and limitation of the study along with the suggestions for future research are illustrated in detail. Lastly, chapter summary is offered at the end of this chapter.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter illustrates literature review centered on the corporate governance and going concern evaluation, the relationship between independent variables which are ownership structure, board of directors, audit committee and audit quality with going concern evaluation. Underlying theories and the the financial ratios that are deemed as an indicators for the going concern evaluation are also illustrated.

2.1 The Concept of Going Concern

The financial reports are made based on the presumption that the company will continue to perform in the coming years. During the finalisation of the review, the auditor has to address the validity of assuming that the company is a going concern, and that the going concern theory is an issue that must be considered by the auditor throughout the last review prior to the preparation of the audit report. Nevertheless, the going concern assumption has since been a limited directive in the accounting literature, until the issuance of the SAS 34 (Statement on Auditing Standards 34) in 1980.

Therefore, the Auditing Standards Board (ASB) decision was necessary for replacing the SAS 34 due to a complaint requiring a provision of an adequate warning of impending failure by auditors. A new standard SAS 59 (Statement on Auditing Standards 59) was implemented to make an assessment on the ability to continue as

going concern. Some accountants think this standard SAS 59 is confusing versus its predecessor SAS 34 (Guy & Carmichael, 2002, John Stephen).

In doing so, the going concern concept is one of the most important accounting concepts that have long been a tenet of financial accounting. It has been called an assumption, a basic fixture, and a postulate. It has usually been stated somewhat and it is willing to continue operation for the near future. It is also important to other related fields such as finance and management, though they might use different terms. Killough and Koh (1986; 1988) showed that the evaluations of going concern status is difficult and the existing external auditing guidelines are adverse in terms of bankruptcy, continuity, liquidity problem, financial distress, insolvency and going concern.

Therefore, this has led to some accounting researchers to conclude that in making going concern assessments the auditor is still very much on his own, having to rely virtually entirely on his subjective judgment and experience. The tools available for formulating a qualified going concern opinion are not adequate" (Zavgren, 1983). The researchers also have to sustain the use of objective statistical prediction models. Altman and McGough (1974), focused on the idea that companies do not fail suddenly or in an unpredictable fashion, and they are the outgrowths of the bankruptcy prediction literature. In the same year, they have suggested that the models and methodologies used in bankruptcy prediction research could be applied to the prediction of going concern continuity. Thus, they studied six studies about the prediction models regarding going concern. These studies are divided into two:

1. The first are concerned with predicting the companies going concern status.

2. The second are concerned with predicting the auditors' going concern qualification for companies with going concern problems. The external auditor can use statistical models to predict the going concern status of companies. The aims/uses of the models are as follows:

   a. Models can provide objective and clear information to an auditor's subjective judgment in making going concern evaluations.

   b. Models are important analytical tools; the external auditors use them when discussing problems with clients and recommending changes in the financial statements.

   c. The external auditor can use these models to determine the type of audit opinion that is appropriate and his beginning of the audit. It is also useful for the investors and creditors for the prediction regarding their companies' going concern ability and for avoiding investment in a company that is predicted to have a low probability of going concern ability. While many have some thoughts on what is a going concern, so far, there is no clear definition of going-concern from the perspective of auditing standards in Jordan. Accounting standard also does not provide appropriate guidance regarding "when" it is not appropriate to assume going concern ability; not "what" is going concern. They also consider using ISA No. 570 rather than SAS 59. Auditors in Jordan are probably more conservative than US counterparts in rendering going concern opinion; which is an interesting empirical question. If such case is true, then we could possibly see more going-concern opinion being issued in Jordan as compared to the U.K. and the U.S.A.

To conclude, the assumption of going concern is important in the financial accounting because the corporate will continue its activities without any problems in

the future. The external auditor can use the report or prediction models such as Altman Model (1968) to evaluate the going concern of firms.

A going-concern opinion is issued based on the ability of the audit member to assess the company's practices objectively and endure any customers' pressure (DeFond, Raghunandan & Subramanyam, 2002; Khurana & Raman, 2004). Additionally, in opposition to the discretionary accruals, it was noted that little measurement error accompanies the audit opinions; therefore, an alternative for audit quality was found in the intention of the auditor to issue a going-concern qualification. This was employed greatly, leading to replace the quality of audit (Francis & Krishnan 1999, Reynolds & Francis 2000, DeFond, Wong & Li 2003). However, the probability of issuing going-concern qualifications with the purpose of measuring the audit quality and independence is adopted in this study.

Issuing a going concern qualification based on certain standards of independent auditing, No. 17, and the standard of auditing No. 1324 becomes a necessity, particulary when the firm is doubted mainly in its capabilities to accomplish a going concern for the coming 12 months since the beginning of the opinion of auditor. This going concern is evaluated, taking into consideration financial, operational and several other issues.

This study emphasises mainly on the link between financial crisis and issuing opinions of going-concern. However, previous studies have extremely documented the financial ratios' bankruptcy signaling effect. Beaver (1966) proved, using empirical evidence, that cash flow/ total debt, related to financial ratios, can produce signals of much importance statistically before the actual business failure really occures. This analysis was extended by Altman (1968) through improving a

discriminant function including ratios in a multivariate analysis. Ohlson (1980) chooses 9 independent variables based on the arguement that they are useful in anticipating bankruptcy. However, data derived from developed markets are mainly employed by researches, and to the best of our knowledge, the role carried out by means of financial proportions in fomulating opinion of the auditor's out of the emerging market rarely takes place.

It seems that the Chinese auditing standards require auditors check the company's financial stress and assess its current conditions. In addtion, the study of Al-Awaqleh (2008) is based on researches conducted in developed countries and adopts several monetary ratios with the purpose of measuring the financial pressure and facilitating the role of the auditors in evaluating the ability of the company in coping with the imposed regualtions and avoiding bankruptcy. To be more specific, liquidity proportion: current one, profitability proportions: return on assets, leverage ratio: debt one, and cash inflows ratio: processing cash flows over sum assets are considered in this study. However, the following points justify the abovementioned ratios. First, current ratio symbolises the ability of the company to cope with the committment to credit providers and many agencies of the government. Second, returns on asset impress the owners of investing by the effective way adopted by the company in transforming assets to income. Third, ratio of debt represents the amount of the whole funds offered by the creditors. Finally, cash that is accepted by lenders represents the most liquid asset. Consequently, failure is predicted effectively through net cash inflow from operations.

Propensity to qualify and auditor independence agency costs may increase due to asymmetrical information between managers of comapanies and outside

investors.This necessitates getting information that is reliable and valuable (Watts & Zimmerman, 1983). The independent auditor's reputation determines greatly the business reality revealed in the financial statments of the firm; therefore, investors can exploit this reputation in evaluating the reliability of those statements (Chaney & Philipich, 2002).

The auditors shoulder the reponsibility of evaluating the customers' going-concern uncertanties and reporting its appropriateness. On the other hand, the relationship between the client and the auditor may be exposed to damage due to a qualified opinion. Thus, the audior may be refused by the client who remains healthy after issuing the going-concern opinion (Ryu & Rho, 2007).

Customers are the source of economic dependence; therefore, auditors are likely to adjust independence by means of issuing a better audit opinion with the aim of keeping the customer and avoiding the reputation as a hard-liner that issues routinely qualified opinions. However, when the client is exposed to bankrupt, auditors are endangered of being sued, particularly when they are unable to include in the audit report a caution within a year of bankruptcy. Hence, to what extent the fee dependence on the customer risks the independence of audit remains an empirical matter. Obviously, this study employs mainly developed countries' data. Craswell, Stokes and Laughton (2002) examined publicly reported Australian audit fee data from 1994 to 1996 and discovered that the auditor fee dependence' level does not influence the auditors' intention in qualifying their opinions. This proves a high audit quality which is associated, according to some authors, to the Australian professional body of legislations. It was clear that these anticipate firms to adopt controlling

methods to inhibit fee dependence from influencing the activities of the independent auditor judgment.

DeFond, Raghun and Subramanyam (2002) tried to find another confirmation related to this matter by examining the intention of auditors in issuing a going-concern audit opinion in the market of U.S.A, but they were not able to discover a link between audit fees and going-concern opinions.

In 1990s, new auditing standards were exploited by China in its attempt to enforce credibility in its capital markets. Consequently, and based on the consistency with the rising auditor independence, DeFond, Wong and Li (2003) discovered that the modified opinions' frequency grew 9 folds, following the employment of the novel standards in late 1990s. However, the last decade witnessed several high profile lawsuits against firms of accounting, among which are Sichuan Deyang, Shenzhen Yuanye, Beiijing Zhongcheng, Hainan Xinhua, etc. Audit failure led to the collapse of Zhongtianqin, the largest Chinese auditor in 2000. Chinese investors have the right of getting back their investing loss from auditors, who caused the failure of audit. In addition to litigation and reputation costs, and due to violating or noncompliance to the regualtions and legislations, Chinese auditors are exposed to costly governmental penalties or "punitive measures," among which are pecuniary, closing the business, license revocation and civilian criminal charge. Several dimensions resulted from the association between audit independence and audit fee caused by both reputation costs as well as litigation ones since the economic dependence.

Propensity to qualify and auditor identity, it was suggested by other studies that the firms of Big four international accounting, KPMG, Deloitte, PwC and Ernst and

Young are considered as the supplier for high quality audits and enhancing financial statements assurance associated with other firms of non-Big four audit in the markets of US. Based on the arguement of DeAngelo (1981), Simunic and Stein (1996), Francis and Krishnan (1999), the Big-Four's role is to supply higher quality audits with the aim of protecting the firm's reputation and avoiding litigation costs. In order to strengthen the auditor's efficiency, it was certified that the Big-Four invest greatly on auditor training field. Moreover, the size and huge customers' portfolio equip these Big four with the financial strength opportunity to stand again or give up a client in urgent conditions (Khurana & Raman, 2004). Furthermore, Lennox (1999) reveals in his study that the Big four may be sued and exposed to great damage awards because of their perceived "deep pockets."

Not all firms deserve to be audit listed companies. For instance, out of 7500 firms in China that offer statutory audit services, only so few ones, about 60 firms, which fullfill specific requirements based on size, experience and track record, are worthy to be audit listed. Both the CSRC and the CICPA review these audit listed firms orderly, whereas unlisted ones are reviewed only by the CICPA. The basic plan of the government is establishing about ten big competitive home-grown accounting firms and two hundred medium sized ones by 2015. With regard to CPAs number, statistics demonstrate that more than 7 million people have been involved in the examinations, starting with establishing the National CPA Certification Examination in 1991; however, few 155,000, were successful in passing the exam by the end of 2009, among which are eighty five thousand people working in the CPA job. However, in China, the high standards to be a CPA, together with the severe penalty when noncompliant to regualtions, ensure qualified and efficient auditors who maintain high quality.

2.2 External Auditor Evaluation on the Going-Concern Ability

The Auditing Practices Board (APB) in the United Kingdom (U.K.) and the Republic of Ireland was established in 1991 by the Consultative Committee of Accounting Bodies (CCAB). The APB pronouncement is to advance standards of auditing and provide a framework of practice for the exercise of the auditor's role. It has issued many Statements of Auditing Standards (SAS). On the other hand, the Auditing Practices Committee (APC), which was established in 1976, has issued auditing standards and guidelines to improve the quality of auditing and reduce the probability of audit failure. By using these standards guidelines and applying them can increase the users' confidence on the audited company's financial information. This will also increase the value of auditing by complying with the reporting requirements. Auditing standard SAS 130 (Statement on Auditing Standards 130) shows clearly the director's responsibilities in determining the company's going concern.

Therefore, the auditor's should have confident and more concerned about the use of the going concern basis; to which the company should be adequately disclosed in its financial statements. SAS 130 (paragraph 21) stated that the auditors should evaluate the adequacy of the means by which it is appropriate for the directors to adopt the going concern basis in preparing the financial statements. These statements should also include disclosures relating to going concern, which give true and fair views. The auditor must examine the financial statements in order to give his opinion about the company's going concern. Therefore, the auditor should plan and perform procedures to indicate the concern about the entity's ability to continue his work (Gray & Manson 2000).

Thus, Guy and Carmichael (2002) highlighted the auditor's evaluation in case of significant doubt regarding the entity's ability to continue as going concern in a limited time that does not exceed a year over the balance sheet data. They studied various auditing procedures to determine the conditions and events that indicate issues of going concern. According to them, the external auditor must consider analytical procedures via substantive tests and the planning and stages of overall review should involve procedures that cover the following issues; negative trends in the company, issues of inventory like slow movement, issues of receivable collectibles, and financial issues of liquidity and solvency.

In this respect, the auditor should have reviewed and have knowledge of subsequent events such as the bankruptcy of a major customer, contrary condition that figures in the balance sheet data. On the other hand, there are also other problems related to the company's going concern such as (1) collapsing and drawbacks of the market price related to the inventory, (2) problems related to banks such as discontinuance of line of credit, and (3) expropriation or losses of some of the assets.

Moreover, the auditors should review and have regards of compliance with the short-term and the long-term debt and loan agreements or commitments in debt default. In addition to reviews and reading of the minutes of the meetings of stockholders, board of directors, and board committees may indicate to (1) the external auditor regards all of the potential expensive litigation, (2) regarding loss of lines of credit by the banks or from others, (3) regarding loss of a major supplier by the external auditors and their effects on the company's going concern, and (4) review on any changes in the operation of the business due to significant losses.

In fact, the external auditor must inquire of the legal counsel about any claims, contract violations, copyright or patent infringement, and evaluate possible significant losses and illegal acts. Besides that, confirmations regarding financial support that relates to bank credit or loss of third party guarantees of entity indebtedness.

Thus, there are also indications of going-concern problems that need to be regarded by the external auditor such as: (i) Negative trends that have effects on company's going concern. It includes the following (a) declining sales of the company, (b) increasing costs, (c) operating losses, (d) working capital deficiencies, (e) negative cash flows from operations, (f) adverse key financial ratios.

In relation to that, another important indication should be considered such as (ii) Internal matters related to company. It includes the following (a) chaotic and inefficient accounting system related to company works, (b) loss of key management or operations personnel, (c) substantial dependence on the success of particular projects, (d) work stoppages of the company or other labour difficulties, (e) uneconomic long-term commitments, (f) need to significantly revise operations.

A third indication related to company's going concern was highlighted by Guy and Carmichael (2002) as external events. This indication covers; a) legal proceedings that relate to the works of the company, b) legislation/similar issues that may hinder operating ability, c) loss of major franchise, license or patent, d) loss of a major customer/supplier, e) uninsured disasters/catastrophes like earthquake, flood and drought. The fourth indicator is the possible financial difficulties that include a)

default/loan or similar company agreements, b) arrearages in dividends, c) refusal of trade credit from suppliers, d) non-adherence with statutory capital needs, and e) new finance sources or methods.

Therefore, ISA No. 570 statements included in paragraph 26 state that when events/conditions have been determined, they cast considerable doubts on the ability of the entity to continue as going-concern. When this happens, the auditor has to a) review the future plans of management according to the assessment of going-concern, b) collect enough audit evidence to accept or reject the material uncertainty through procedures this includes the consideration of effect of management plans and other mitigating factors.

In that case, the external auditor will have to use certain auditing procedures in his evaluation on the company's going-concern ability (Guy & Carmichael, 2002). In relation to that, the following are the audit procedures that external auditor must follow regarding his evaluation on company's going-concern ability as stated by ISA No 570:

1. Analysis and discussion of cash flow, and future expectation with the administration of the company,
2. Analysis and discussion with the management regarding the periodically financial statement,
3. Review important events after the date of general budget, profits and losses in order to obtain matters affecting the company's going concern ability.
4. Review the conditions of bonds and loans agreement.
5. Review the shareholders conference report and administration council and other committees for related to problems faced by the company.

6. Demand of legal information concerning litigations against the company requested by the legal office.
7. Evaluation of the company's situation through admissions offered from agents.
8. Discussions related to the company strength and weaken.

showed in his study that an auditor should perform certain procedures when he finds any doubts about the going concern of the company to overcome those doubts. By using these procedures, the auditor can evaluate the going concern of the company by utilising all the information needed to accomplish his mission. The shareholders will also be satisfied regarding the future of the company concerned. However, if the company does not provide the necessary information, the auditor must report to the management of the company. Hence, AL-Basheer (2003) advises that external auditors should do their job in accordance with the international standards, rules and regulations, which maintain the role and ability of the auditor to evaluate the going concern of the company to keep the rights of the shareholders, workers, suppliers, treasury and all concerned.

In doing so, going concern is one of the most important concepts underlying financial reporting. This concept directly affects the financial statements. For instance, if the company fails, the assets of the company would need to be valued on different basis from that of historical cost. The company may face some problems such as problems in fixed assets and current assets or with debtors. There are other problems related to the company's going concern according to the international auditing standards. Nevertheless, the auditor must report any problem in his report

and give an early warning to the management about any probable failures (Badawy, 2004; Jabou & Aby Mu'amar, 2005).

Moreover, Gray and Manson (2000) also emphasised that if the company fails, the stakeholders and users of financial statements may readily lead to questions as to why they were not informed of the potential failure. The auditor was the recipient of criticism upon the company's failure where there had been no inkling of the failure in the annual report. If there is an issue concerning the company's going-concern ability, the auditor has to disclose it in the audit report by inserting an explanatory paragraph following the opinion paragraph to disclaim any opinion as mandated by ISA No.570. In addition, the auditor's conclusion should be written in the report with the terms, 'basis doubt and going concern'. An example of an explanatory paragraph concerning the ability of going concern will read as follows:

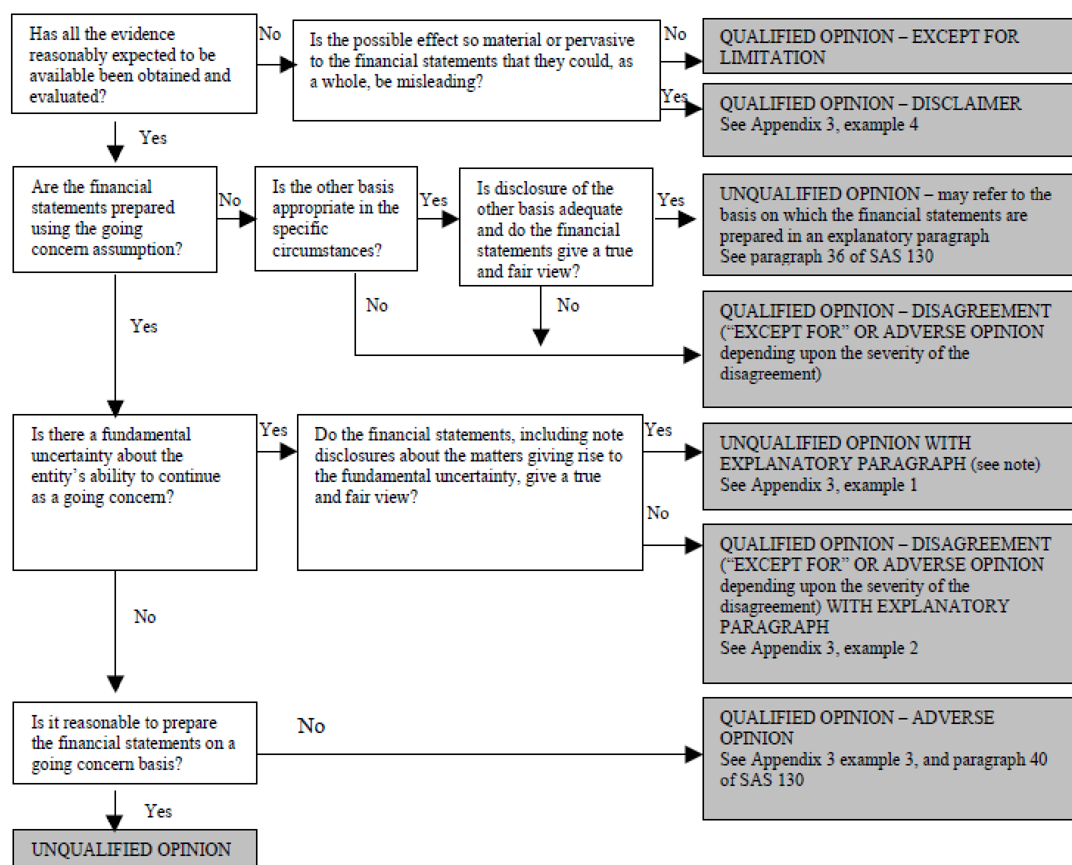
This financial statement has been drawn up to assume that the company will continue as a going concern. As explained in Note X to the financial statements, the company has experienced losses from operations and has a net capital deficiency that provides significant doubt to its ability to continue as a going concern. This note also includes the management's plans regarding these matters. The financial statement excludes any adjustment that may stem from the uncertainty outcome (Guy & Carmichael, 2002).

Hence, ISA No. 570 needs a paragraph in the auditor's report explaining that suitable going concern disclosures have been in the financial statements. This is based on the notion that the going concern assumption is the basis to the financial statements preparation when there are considerable issues arising from the assumptions

appropriateness. In Edwards's (1993) study, he asked auditors how they reach their decisions if there is significant doubt concerning the company's client ability to continue as going-concern. Will they modify their audit reports? They evaluated the case on an eleven-point scale, with a strongly negative rating (-5) indicating support for the decision to include an explanatory paragraph about continuity in the audit report. In addition, a 0 rating indicated neutrality and a strongly positive rating (+5) indicated lack of necessity for an explanatory paragraph. If the auditor decides to change his report, an explanatory paragraph will be added like the loss of operations in the current year, the continued availability of trade credit, a possible liability from litigation, a possible loss of a major customer, the potential sale of a patent and current ratio that is closing in on the limit established in the loan contract. Hence, the auditor may reasonably be cautious and more sensitive to elements that point towards a future going concern problem. In the U.S.A, twelve publicly traded firms in 2001 were the recipients of an unqualified opinion regarding their most recent financial statements drawn up before they filed for bankruptcy. Moreover, according to Venuti (2004), the audit opinions included in the explanatory paragraph did not reflect the auditor's significant doubt regarding the entity's ability to continue as a going-concern.

Under SAS 130, if there is no doubt as to the company's going concern, the auditors have to specifically refer to the aspect of going concern in the financial statements/audit report. However, if there are doubts, the auditors will consider if more disclosures are needed in the financial statements. They should include an explanatory paragraph on the going concern issues, refer to the non-disclosure of the audit report, and provide an actual and just view. Also, if there are doubts as to the going concern ability, the auditor will agree to the use of the going concern aspect in

drawing up the financial statements. In SAS130, a flowchart explaining the going concern basis is to be reproduced in the financial statements. This flowchart is depicted in Figure 2.1.



Source: "Statement of Auditing Standards 130 Going Concern" Al-Awaqleh, 2008.
Figure 2.1: *SAS 130: The Going Concern Basis in the Financial Statements*

In conclusion, there are many auditing standards and guidelines to improve the auditing quality and reduce the probability of audit failure. Therefore, the auditor is responsible for the evaluation of the firms' going concern under the ISA No.570 and providing confidence to the financial statements users. In this respect, to keep the rights of the shareholders, workers, suppliers, treasury and all the sides concerned, this study studies the role of the external auditor in evaluating the ability of going concern in the public shareholding companies in Jordan. Furthermore, the auditor

must present any problems occurred in his report and give an early warning to the management about any probable failure in addition to explanatory paragraph about the going concern problems in his report and give a true and fair view.

2.3 Roles of the Auditors Regarding Company's Going Concern and Auditing and Accounting Standards Relevant to the Company's Going Concern

Jordanian external auditors should consider the standards laid down by the international accounting and auditing standards like ISA No. 570. Additionally, they have to comply with the Jordanian laws and reg (ulations (Jordan Company Law No. 22 (1997), and the Law of Career of Accounting No. 73 (2003) when evaluating the going concern of the company.

2.3.1 Auditing and Accounting Standards Relevant to the Going Concern.

The Auditing Standard Board (ASB) has issued in January 1, 1989, Standards No. 59, to replace SAS No. 34. According to SAS No. 34, an auditor gives the opinion related to the entity's going concern ability compared to the new standard, which goes a long way towards addressing concerns not dealing with qualification by the prior standard. The practitioners have many questions after issuing Standard No. 59 such as how to execute the new guidelines, how to document that fulfilment, why CPA is concerned about this standard and why ASB issued Standard No. 59. There are others questions about the auditor's responsibility for evaluating a client's ability to continue in existence. This could be seen when some companies failed shortly after the issuance of the auditor's report. The auditors' report did not even mention the possibility that the company might not continue its activities. The new standard decided that auditors needed to have more support works. So, when doubts arise as to

indications about the going concern assumption, CPA reporting responsibility is considered the best. Some practitioners are dissatisfied and confused about their responsibility under SAS No. 59, against SAS No. 34. SAS No. 59 shows the evaluation procedures and audit objectives related to conditions and events that indicate a substantial doubt about company's going concern. Many accountants do not understand the conditions under which a favourable evaluation of management plans by the auditor as described in SAS No. 59. It may take a long time to prepare the working papers and in some cases, disclose the notes to financial statements (Goldstein, 1989).

There are three noteworthy changes from SAS No. 34 to SAS No. 59. There are as follows:

Table 2.1
Changes from SAS No. 34 to SAS No. 59

SAS No. 34	SAS No. 59
SAS No.34 required from auditors to consider going concern just when the indications about company going concern appear.	SAS No.59, paragraph 5, does not specified additional audit procedures about company going concern. Itjust requires the auditors to consider going concern assumption status for every audit work.
SAS No. 34 required a qualified audit report in case of uncertainty regarding the recoverability of assets and the classification of liabilities.	In SAS No. 59, if the auditor observes any substantial problems or indications of doubts about the company going concern, this standard requires the auditor modify of the audit report.
SAS No. 34 merely required a qualified "subject to" opinion"	SAS 59 requires the auditor to add an explanatory paragraph in his report about the substantial doubt

Source: Al-Awaqleh (2008).

As such, the shift from SAS No. 34 to SAS No. 59 is not required in additional audit procedures but in the going concern consideration in all audits (Jodi & Bell, 2006).

Moreover, in the context of the U.S.A, the shift from SAS No. 34 to SAS No. 59 concerning goingconcern is debatable. This arises from the continuous auditor's perception of examining the financial statements' reliability. Additionally, as observed by Holder-Webb and Wilkens (2000) going concern sources covered in SAS No. 59 are furtherexact compared to related reports covered in SAS No.34. The indeterminateness of the findings is partially attributed to the various macroeconomic situations between the periods upon which the standards are applicable.

However, the 'expectation gap' standards, also known as the 1988 established standards stipulates that the auditor actively carried out the going concern expectation test for every clients (SAS No. 59), with SAS No. 58 replacingof word 'subject to' qualified view if a firm was deemed to have issues of going concern and replaced it with the auditor's inclusion of an explanatory paragraph applying the terms 'substantial doubt' together with 'continue in existence'. Therefore, the going concern auditor opinions remained an extensive topic in both auditing and accounting studies. During the annual audit program, it is important for the auditor to review the auditing standards that relate to the company's going concern, consider the standards in the accounting report and adhere with the country's laws and the audit regulations (Johnson & Bin Abdulah, 2006).

In addition to this, the American Institute of Certified Public Accountants (AICPA) issued the going concern status in 1981 through SAS 34 under the title the "Auditor's Considerations about an Entity's Continued Existence". Also, the AICPA issued SAS No. 59 in 1988 under the title of an "Entity's Ability to Continue as a Going Concern" which are utilized as a guidance. Nevertheless, there is evidence indicating that the going concern opinion does not have significant informative value. The

auditor's responsibilities regarding the evaluation of the going concern assumption and analytical procedures are provided by SAS No. 59. They may determine conditions that indicate possible substantial doubt of the ability of the company to continue as going concern. In fact, SAS No. 59 is the present authoritative guidance that can assist auditors in evaluating the companies' going concern. They require auditors to play an active role in their evaluation.

Alternatively, a survey conducted revealed that most of the respondent auditors were convinced that current standards are sufficient (AICPA, 1988) and they believe that evaluation of going concern demands significant judgments and that every case has to be analysed individually. However, SAS No. 34 fails to provide extensive guidance as to when the auditor should transform the audit opinion on the basis of unreliable data that shows the entity's ability to continue as a going concern. SAS No. 34 was actually issued in reaction to cases wherein the auditor's judgment was focused on following the failure of business. It considers cases like; a) the requirement of management plans when evidence of audit procedures shows that the company's ability to continue as a going concern is ambiguous (paragraph 3), b) ambiguous information including negative cash flow stemming from operations, recurring operating losses, debt default, loss of major personnel and litigation (paragraph 4), c) mitigating factors that may counteract the effects of contrary information such as ability of assets disposal, availability of sources for borrowing/capital, and the ability to minimise expenses/delay expenditures (paragraph 5), c) auditors consideration of contrary information and mitigating factors (paragraphs 7 and 8, d) auditors review of management's reaction to the contrary information and to evaluate the plans effects and feasibility (paragraph 9). On the basis of this evaluation, the auditor should judge the suitability of changing

audit opinion to show uncertainty regarding the concerning status of the entity paragraph 11(AICPA, 1981; AICPA, 1988).

2.3.2 Jordan's Auditing And Accounting Standards With Regards To The Going Concern Rules And Regulation

Auditing in Jordan follows standards issued by the International Accounting and Auditing Standards to examine the financial statements of auditors like Standard ISA No.. 570 entitled, "Company's Going Concern for Safe National Economy". The public shareholding entities employ standards of accounting and auditing based on the economic and political environment. For instance, the Jordanian Association of Certified Public Accountants (JACPA) auditing standards are consistent with International Standards like the Planning Standard No. 300. ISA No. 570 was issued for the company's going concern. It mandates auditor's consideration of the appropriateness of the clients' going-concern assumption in all its engagements. This is not, however, to dictate that auditors should create specific procedures in their attempt to determine the issue of going-concern. It also prescribes that auditors should be aware of any event or condition that may go against the assumption of going-concern. It depends on the nature and disclosure of significant ongoing concern issue, emphasising the matter to auditors, a qualified opinion, or a disclaimer. In sum, ISA No. 570 was issued to fill the gap between auditors and clients when it comes to the assumption of going-concern, and this is quite timely as it was issued during the financial crisis in Jordan in the 1980s.

2.3.3 Law and Regulation

There is another relevant standard, SAS No. 120, which was issued in 2000. It's stressed on the consideration of law and regulations directly related to items in the financial statements. The auditor is required to obtain audit evidence that a client has complied with law and regulation. These law and regulations are contained in certain companies act sections and provide a legal framework within which the entity conducts its business. They are central to the entity's ability to conduct its business and hence to its financial statements (SAS 120, paragraph 28). These obligations include: 1. Acquisition of an understanding of the laws and regulations relating to the entity and industry in determining what the entity does to ensure its compliance with the law and regulations, 2. Inspection of any correspondence with relevant authorities, 3. Discussion with management if they are aware of any non-compliance with law and regulations, 4. Acquisition from the director's written confirmation that they have disclosed all occasions of which they are aware where the entity has not complied with law and regulations, and the actual or potential consequences of such non-compliance.

In line with that, these obligations are applied when the auditor is aware that the information has indicated the possibility of non-compliance with the events. Certain laws or regulations and potential have effected on the financial statements as the potential endangers its going-concern status or its ability to operate (Gray & Manson, 2000).

2.3.4 Directives of Disclosure and Auditing and Accounting Standards

On February 12, 1998, the Directives of Disclosure and Auditing and Accounting Standards No. 1 were issued and published in the Official Gazette on April 16, 1998. They were enforced on September 1, 1998. They were issued to cater to the maintenance of fair dealings in securities, the enhancement of investment and savers' trust and to realise transparency in the market consistent to International Standards. The directives are characterised as it requires the specifications of reports and information from public shareholding companies and their filing with the Commission to enhance transparency, it requires the application of International Auditing and Accounting Standards for public shareholding companies, it requires the specification of conditions applied by the auditors of the accounts of entities under the Jordan Securities Commission (JSC).

The objectives require public shareholding companies to declare their operations preliminary report within 45 days following the financial year end. They are requested to forward their annual reports to the JSC and declare yearly statements within three months following the fiscal year end. They should also submit its half-yearly statement within a month after the end of the mid-year. They have to announce any material changes to the JSC and submit material information relating to the dealings (Securities Law, 2002). The law is included in Article No. 107 and the following points should be considered as a violation of the law provisions; a) submitting erroneous/misleading data in any document submitted to the commission, b) offering/selling securities based on false/misleading data of the rights and privileges provided by the security offered/sold, and of the nature of the business issuers, its success, the conditions and future prospects of the financial issuers, c) certifying erroneous or misleading financial statement violating accounting standards

and the standard of auditing provided by the auditor or accountant. The accountant/auditor is liable for any damages/losses experienced by any party resulting from the former's misleading financial statements, and finally, d) any misrepresentation deception associated to securities or any unlawful act associated to the licensed activities according to the law provisions.

According to Article No. 110, any person violating the provisions provided by the law, regulations, instructions or decisions issued shall be fined of an amount not more than one hundred thousand (JD100, 000) Jordanian Dinars in addition to a fine of not less than twice of the amount, and not over five times of the same, depending upon the profit made or loss avoided by committing the violation.

Holistically, the external auditor must adhere to the Jordanian Laws and International Auditing Standards, as the external auditor's role is crucial in evaluating the going concern ability of companies. The auditor must be equipped with the comprehensive knowledge of the civil law since there is a possibility for the financial statement clients to take legal action against him for any losses due to any mishap in his professional conduct. The Jordanian Company Law No. 22 established that the auditor responsibility in the institution and its future. According to the Statement No. 193, the code established the tasks of the auditor that he has the sole right to determine the firm's performance.

2.4 The Jordanian Business Environment

Jordan is described as a small Arab country characterised by a population of six million citizens. Jordan primarily depends on depends on foreign grants to finance budget deficits. The government of Jordan was instructed by His Majesty King

Abdullah II to chart an integrated economic program on 25th October, 2001, in order to precipitate the economic reforms and enhance the living standard and quality of Jordanians. This was aimed to minimise the dependence on such foreign grants. As a result, the Jordanian Government introduced an important step which called Economic Transformation Program (ETP) on November, 2001 in oreder to activate the role of economic private capital through institutionalising of private-public partnerships, creating the institutional and legal framework to enhance the level of economic investment, and precipitating the privatisation process by improving the legislative and institutional ambiance (King Abdullah II, 2008).

2.4.1 Revision for the Related Local Legislations in Jordan

On the basis of Jordan Securities Commission (2007), the pioneering Jordanian company was established in 1929 and by 1973, the first Jordanian financial market has been established and referred to as the Amman Financial Market. In Jordan, the capital market has provided considerable qualitative transformation of operations based on international accounting and auditing standards. This was compounded by the Securities Law No. 22 (1997), which is deemed as a monumental law in the capital market in Jordan. As a result, three major institutions arose from the Amman Financial Market by 1997 namely, the Jordan Securities Commission (JSC), Amman Stock Exchange (ASE), and the Securities Depository Center (SDC).

2.4.1.1 Amman Stock Exchange (ASE)

In 1999 saw Amman Stock Exchange replacing the Amman Financial Market by way of its management and financial autonomy. The functions of ASE thus: (i)

provide firms with the means of boosting their capital base, (ii) promote effective establishment of prices and impartial and transparent trading to sustain the active market in listed stocks, (iii) provision of adequate infrastructure for exchange of securities and publication of rates and (iv) monitoring, structuring market transaction, and coordination with JSC (when necessary) to ensure strict observance to the regulation, a fair transaction, likewise to safeguard the investor from deceitful information.

Aimed at fulfilling the set requirements by the International Accounting and Auditing Standards and other relevant procedures, ASE works in collaboration with the Jordanian Securities Commission (JSC). The ASE has also established collaborative links with several international associations, like World Federation of Exchanges (WFE), Federation of Euro-Asian Stock Exchanges (FEAS), the Union of Arab Stock Exchanges, and also belong to the International Organisation for Securities Commissions (ASE, 2009).

2.4.1.2 Jordanian Securities Commission (JSC)

The Commission's Monitoring Instructions No. (1) 1998 states in Chapter 6, Article 42 states that:

a. International Accounting Standards as established by the International Accounting Standards Board shall be employ on the entire entities covered under the Commission’s monitoring.
b. All discrepancies between the securities lawand standards, shall be resolved through the law.

c. As stated in Article No. 14, the International Accounting Standards established by the Board of International Accounting Standards are ratified by all concerned dependent upon the monitoring of the Commission and they shall be the basis for drawing up financial reports (JSC, 2007).

2.4.1.3 Securities Depository Centre (SDC)

With ratification of the Securities Law No (23) of 1997, the Securities Depository Centre (SDC) was established as a public service institute (MIT, 2008). Recognition was granted to the SDC by JSC as the only agency for the issuance of numbering in Jordan in charge of International Security Identification Numbers (ISIN) for the Association of National Numbering Agency (ANNA). The SDC's functions include:

1. Securities Registration
2. Securities Deposit
3. Securities protection and ownership transfer
4. Settlement and clearance of securities transaction.

This sectionconducted a review of related Jordanian local legislations. The Jordanian Association of Certified Public Accountants (JACPA) was instituted in 1988 in compliance with the International Accounting and Auditing Standards. JACPA has remained the sole agency regulating accounting and auditing practices for companies until in 1997 when the ASE collaborated with the International Organisation for Securities Commissions (IOSCO) that compelled application of the IAS as ordained by the IAS Board. Since then, the adherenceto IAS has been made compulsory. JACPA functions to oversee the bookkeeping procedures together with the implementation of International Accounting and Auditing Standards in Jordan

(JACPA, 2006). Aimed at systematising the legal condition of the businesses and safeguard the shareholders' interests is the companies' law. The revised law promulgated in 1989 as an extension to the basic legislations, in which it calls for the compulsion in organising accounts by the respective companies and maintaining the financial reports as necessitated by the GAAP or IAS (Al Akra *et al*., 2009). The company Law No. 22 (1997) was later established which made it mandatory for the companies to conform to the IAS (MIT, 1997).

According to Article 184, Observance of Accounting Principles, a public shareholding company shall organise its accounts and manage its registers and books according to international accounting and auditing standards. In the same article, in paragraph C/1, it states that the law determines the standards followed by the companies. Specifically, it states that the specialised professional entities shall employ recognised International Accounting and Auditing Standards and rules. This is supported by paragraph C/4, which states that in case of any conflict between standards and law, the law dominates.

2.5 Role of External Auditor in Jordanian Public Shareholding Companies

To assess the impartiality of the submitted financial reports as presented by firm's executive, autonomous public accountants are appointed to serves as external auditors in Jordan. In a situation of any suspicions with the presentation made by the firm's executive, the auditor should carry out the proper procedures to resolve the inadequacies, as well as warn the administration of it. Nevertheless, the auditor must conduct the process according to certain conditions and situations for fear that they may go against the going concern statement, namely in the firm's incapacity to

fulfills its financial commitments, assets disposal and inability to reshuffle debt. Venuti(2004), added that the auditors should also look into the administration's policies relating to the firm going concern.

2.6 Structure of Corporate Governance in Jordan

It seems the the economy of Jordan is based on a free market with outward-oriented strategies and privitisation plan. This latter aspect has been widely followed where continuously privatising major stateowned firms was carried out together with great reoforms in both structure and legal body.

The profile includes date, of which the following points were selected and emphasised:

1. Improvement of Index of Economic Freedom score reveals a basic expansion in business freedom, a medium growing in the freedom of trade field and size of the government size, but a little decrease in freedom from corruption.
2. According to the World Economic Forum's Global Competitiveness Report for 2007and 2005, legislations of tax, rates of tax and ineffective governmental routine are the most common problems facing implementing business.

- The category of income: Low middle income
- The population is 5,906,042
- GNI per capita (U.S.A $): 3306.07 (World Bank, IFC, 2009).
- According to Doing Business Report and World Bank (2009), in the Middle East, Jordan is classified in the first six countries among a total of 17 in matters associated with implementing trade, firms and projects, and distinguished by its competitive labour laws, where it is classified the second in employing, hiring, firing workers and flexible labor time.

- Jordan is also distinguished in matters related to goods transporting fast across its customs and limits.
- Jordan is responsible for maintaining the rights of investors regardless of their nationality.
- Compared with the standards internationally, Jordan's legal system is considered the most honest and effective one in the area. Additionally, according to the Jordan Investment Board (2009), the World Bank's International Finance Corporation (IFC) carried out the Annual Doing Business Report, where it was revealed that the first country, comparing with its competitors, in strengthening contracts in a timely matter and the second in aspects associated with the legal rights to get credit is Jordan. These legal rights are a guarantee which motivates investors in Jordan to do more investment.

2.7 Overview of Corporate Governance

The relationship among the corporate governance characteristics (which include the board and proprietorship features) and the remission of internal control material weaknesses was measured by Mitra and Hossain (2011). Logistic regression was conducted on a sample size of 258 firms based in United States between 2004 to 2006. They discovered a positive connection that linked the board meticulousness, the CEO-autonomous board, and the executive, established and overriding shareowners with the inside control vulnerabilities' remission. It was discovered that the proprietorship features are more relevant in the corporates' vulnerabilities resuscitation than the board features.

Song and Windram (2004) assessed the efficiency of committee of audit in the financial reportage in United Kingdom. The study uncovered mediocre facts within the link among the members’ financial adeptness, meeting regulations, and external directorships, as well as the propensity of audit team. It was contended that growing the directors' stockholders does not essentially optimise the audit committee’s efficiency in the financial reportage. Furthermore, Bedard, Chtourou & Courteau (2004) examined the impact of the audit committee characteristics on aggressive earnings administration. The result of the study revealed a negative relation among the offensive earnings administration (including all forms of earnings administration, rising or falling revenue) and fiscal or control proficiency of members audit committee. The influence of board characteristics and audit committee meeting regularity on Italian firm’s effectiveness was the focus of study by Greco (2011). Considering the structure of proprietorship and the board characteristics, it was revealed that the insider’s ownership has an adverse effect on the board of directors and the meeting of audit committee regularity. Yet, the percentage of autonomous directors in the board does have a significant effect. Likewise the study revealed that in larger companies, pro-activeness of the audit committee members is likely to be higher than in smaller companies.

The audit committee, level of financial report quality and external audit fees were examined by Rainsbury, Bradbury and Cahan (2009). Their sample comprised of 87 of New Zealand firms, with 29 of them that had employed audit committee with high quality, where the audit committee formation was not regulated. They found that there is no significant relationship between audit committee quality and financial reporting quality. This is a surprising result as the benefits of high quality audit committee may not be expected by decision makers and regulators; they may lay

down unnecessary of cost of compliance. Meanwhile, Machuga and Teitel (2007) examined the impact of corporate governance implementation in the context of Mexico on earnings quality. They revealed that the earnings quality showed improvement following Mexico's issuance of the Code of Corporate Governance. Along the same line of study, Teitel and Machuga (2010) highlighted the association among audit quality and quality of earnings by revealing that firms that employed high quality auditor displayed high quality of earnings.

It was argued by Davidson, Jiraporn, Kim & Nemec, (2004) that an individual occupying dual status is likely to have additional power to fine-tune financial reports. Based on great prospects for better outcome and the strong power accorded by twin headship, a CEO/chair could possibly involve in earnings administration to parade superior achievement. The interdependency between the numbers of board members, the size of audit firm and the earnings administration was the focus of study by Bauwhede and Willekens (2003). A negative correlation was found between firms with larger boards and the income-diminishing earning administration.

The size of audit organisation was also established to be the factor responsible for the inverse relation with the earnings management. A meta-analysis conducted by Meca and Ballesta (2009) centered on the outcomes of 35 research that studied the effects on the earnings' administration of firms' executives boards of and proprietorship arrangement. The outcome revealed an inverse relationship amongst the board size and the unrestricted accumulations. Likewise, there exists no correlation amongst the existence of the CEO and chairman duality and augmenting possibility of earnings administration. Based on the result of the meta-analysis, there is no correlation between the insider proprietorship and the unrestricted accruals. Equally, there is also

no relationship among corporate proprietorship and unrestricted accruals. The outcomes revealed the effectiveness of the independent audit committee as a means towards alleviating earnings' administration. The research outcome on the existence of CEO duality and earnings' administration appears to oppose the theory of agency, due to the fact that outcomes majority past studies do not showed any substantial relationship.

In Malaysia context, Ismail, Iskandar, and Rahmat (2008) studied the correlation that exists amongst the external audit and the audit committee centered on financial reporting quality of 45 selected firms enlisted on the Malaysian Bursa. The study shows only audit committee consisting of directorship with several members has significant correlation with standard of presentation. It similarly revealed that there is no correlation among the audit quality and the corporate reporting quality. Similarly, Ismail, Dunstan and Zijl (2010) offered thorough proof on the correlation among the company authority with the incomes value between the period 2003 and 2007. The outcome showed that the board of director's size and audit committee the size were positively correlated with the quality of the incomes. Therefore, the incomes' levels demonstrated a direct positive correlation with the firm's board size and audit committee. The interrelationship among the external directors, firm's shareholders and the earnings' management processes in Malaysia was the subject of the study conducted by Yang, Chun and Ramadili (2009). The study established that there was no vital connection between the quantity of external directors, institutional bondholders and the earnings management. The study outcomes also reveal that in highly concentrated ownership firms, enlarging the number of external directors who are board members and raising the proportion of institutional ownership would not result into growth the earnings' management. Klai and Omri (2011) considered the

correlation among the business administration machinery and the quality of financial reporting in Tunisia. The study examined the features of the directors of board and the firm's proprietorship arrangement in Tunisian. Based on the outcome of the study, there is an inverse association among overseas and family proprietorship along side quality financial reporting. The results showed that financial corporate and public proprietorship are connected positively with the quality of financial revelation. The study however established existence of deficiency in board autonomy and a consolidation of proprietorship firms in Tunisa. Sarikhani and Ebrahimi (2011) studied the relationship between the ownership concentration, the management ownership, the institutional ownership, the corporate ownership, the board composition, the leadership structure, and board size with earnings in formativeness in Iran. Their study established that the proprietorship consolidation and corporate proprietorship correlated expressively and absolutely with the earnings pellucidness, meanwhile no significant relationship among the management proprietorship, corporate proprietorship, composition of board, leadership format, and size of the board with earnings pellucidness. Roodposhti and Chashmi (2011) undertook assessment of the correlation among proprietorship consolidation, board autonomy, CEO supremacy, corporate investors and earnings administration in Iran. They inferred that firms with greater proprietorship dominance and board's autonomy are interrelated inversely with earnings administration, whereas greater corporate proprietorship correlates significantly with the earnings administration. A significant correlation among the presence of Chairman-CEO duality and earnings administration was also reported by the study.

In the Asian region, Fan and Wong (2002) considered the correlation among corporate proprietorship format and the transparency of information concerning

accounting earnings records analysis of 977 firms' yearly reports. They established that centralised proprietorship is linked to poor earnings information rendering. It was further claimed that centralised proprietorship, cross-holding and connected pyramidal formats had encouraged organisation clashes among managerial proprietors and external stockholders. The understanding of the association among corporate authority practices and financial reporting quality and auditing in Singapore by auditors' and directors' was examined by Goodwin and Seow (2002). It is discovered that the existence of a tough audit committee minimises mistakes in financial reports and raised the efficiency of controlling detection of fraud. Additionally, the potency of the internal auditor is believed to be able to minimise mistakes and frauds in the financial reports. The work of Yuemei and Yanxi (2007) reported a disapproving connection among earnings administration and the quantity of autonomous directors. Also revealed is the insignificant connection among board size and proprietorship of the board and incomes administration. It has been proven that firms with large total assets are keener to implement earnings' administration. The part played by overseas proprietorship in alleviating earnings administration in China was studied by Firth, Fung and Rui (2007). The study found that firms with overseas owners are probable to have extra earnings' pellucidity and fewer earnings administration. They also refuted the fact that overseas owners often insist on firms to advance the standard of financial recording. Wenyao and Qin (2008) considered the connection among board configuration and incomes administration in Chinese listed manufacturing corporations. The study discovered that modest board is proficiency in monitoring income-growing incomes administration than a huge board. They also substantiated that the integration of autonomous directors and split-up of chairman/CEO does not essentially advance the incomes' administration.

Furthermore, the study deduced that the participation of an audit committee does not minimise income not improve earnings administration.

The connection among the attributes of managerial board and earnings value was the focus of the study by Xia and Zhao (2009). They assessed a number of 160 yearly reports taken from 160 public corporations in 2006. The study discovered that there lack of noteworthy link among features of board and incomes administration. They advanced that the size of management board, percentage shareholding who are supervisors, and the board meeting regularity has no instantaneous association with incomes' administration. Additionally, Jiaguo, Qian, Mi and Yun (2010) examined the autonomy of managerial board of Chinese quoted firm and deduced that there is a significantly positive connection between the management position and autonomy of managerial board. Similarly, the executive board has an adverse connection with the autonomy of supervisory board and managerial status; whereas, managerial status shows significant correlation to the autonomy of the managerial board. Jaggi, Leung, and Gul (2009) evaluated the correlation among corporate board autonomy and incomes administration, as well as the effect of the family supervision on the link between autonomous non-executive directors and the incomes' value. It was discovered that greater amount of autonomous non-executive directors is more likely to be positively connected with earnings quality. The research deduced that raising the number of outside directors in order to reinforce the board monitoring, have less chance to prove efficiency in family based companies.

In a study by Shah, Zafar, and Durrani (2009), it is discovered that the corporate proprietorship serves as a vital part in promoting the corporate control in Pakistan. They maintained that the existence of corporate shareholders has reduced the

administration’s capability to exercise incomes’ administration. Furthermore, there has been proven to be a negative relationship among the roles of the autonomy of non-executive directors and earnings’ administration. The research attributed its findings to depend on Pakistani setting since no particular procedures exist to measure the autonomy of non-executive directors. The study by Kung, Cheng and James (2010) examined the influence of firms’ proprietorship format on the earnings’ traditionalism and culture in China. They provide proof on the way in which firms' proprietorship structure determines the features of earnings in growing markets. They also discovered that earnings traditionalism reduces along with existence of greater altitudes of non-tradable share. In the same vain, firms with concerted proprietorship model are more probable to rely on their personal possessions to overcome organisation hitches within. Lin and Hwang (2010) examined the link among quality of audit, corporate control, and incomes administration, and rendered the outcome that indicated the autonomy and capability of the board of directors to have negative association with earnings’ administration.

In addition, the incomes’ administration has an adverse connection with the autonomy, capability, and the directive of meetings among committee of audit. However, there exists a positive relationship among audit committee's share ownership with the earnings’ administration. The study reported a negative relationship among earnings’ management with audit value, tenure of auditor, and auditor size and specialty. Additionally, the research stated that, although the results were generally similar with that of other countries, the impact of the factors contrast from one nation to another nation. Gulzar and Wang (2011) proved a significant association existed among duality of CEO, female directors, meetings of board, and concentrated proprietorship with incomes administration. The research establishes no

vital connection among the size of board, the shareholdings' directors, the independent directors' proportion, the existence of audit committee, as well as the earnings' administration.

In the U.S.A, Katz (2008) assessed the connection among the incomes value and the proprietorship formats, in which the study applied a representative of private firms previous and afterward the initial public subscription. Katz inferred that firms with private equity backing tend to accrue higher earnings' value, and are involved less in earnings' administration compared to those less or no private equity backing. The supremacy of firms with private equity sponsorship to professional ownership is attributed to stringent tracking, and reputational examinations as shown by private shares promoters. Ghosh, Marra, and Moon (2010) discovered that the segregation of duties among CEO and the chairpersons including the existence of distinct subcommittees are less likely to have any connection with the earnings' administration. It was further elucidated that bigger boards firms and audit committees got less tendency to maintain earnings which further proves that bigger board size as well audit committees are likely to competent in overseeing the procedure of financial accounting. Dhaliwal, Naiker, and Navissi (2010) examined the connection among audit committee and accretion value. The study discovered that the audit committee (which consisted of accounting professionals) are autonomous and has less control, as well as having lower occupancy in their firms all of which associate positively with the accruals' value. They suggested for firms to pay more attention on accounting proficiency during the establishment of the audit committee.

Recently, specifically after the collapse of the BCCI Bank and Barings Empire, the debacle of Daiwa Bank and the affairs of Maxwell, much attention has been headed towards the Corporate governance internationally, including Malaysia. Lacking a good corporate governance was a reason among many that produced such a failure (Ali, 1996). Constituting the Malaysian code on corporate governance and the Minority Shareholders Watchdog Group was recommended by the finance committee in 1999. Kuala Lumpur Stock Exchange (KLSE), currently known as Bursa Malaysia, is compliant to the Code on Corporate Governance activities as part of the Listing Requirement with effect from January 2001. This Code demonstrates the board body of companies. However, the requirements of such a Code necessitate separating the roles of CEO/chairman and appointing directors board voluntarily (Lai, 2004) which should minimumally include one-third of the independent directors.

The Malaysian listed company ownership structure is distinguished from the Anglo American system with the high level of concentration (Claessens Djankov & Lang, 2000) due to non-competitive product markets and weak legal protections (Rahman & Ali, 2006). However, the monitoring role played by both board of directors and the market to control corporate may decrease. Obviously, in Malaysia, confiscation the minority shareholders' interests is likely to be higher. Consequently, this requires good corporate governance palns in order to keep the minority shareholders' interest and strengthen the investors' confidence (Rahman & Ali, 2006).

A colllection of factors, including increased huge losses, lack of operations, resfromulating and collapse of business related to companies of weak corporate governance leads to the occurance of a going concern as the most common problem

(Allan Chang, 2004). Going concern issue is very instrumental and significant in setting financial statements, which will depict the financial obstacles confronting or influencing its appliaction. Additionally, the audit report, including the auditors' comments and opinions on the appropriateness of the going concern assumption (MIA, 2001), has to clarify these obstacles and abnormal uncertainty which may affect the company going concern situation that is difficult to be determined at the balance sheet date (AICPA, 1963). However, a company's ability to conduct operations in the future is based on these financial statements (AICPA, 1988; MIA, 2001).

Performing and planning the procedures of audit and assessing the results require auditors to continuously consider whether the going concern assumption is suitable and appropriate or not during all the audit procedures (MIA, 2001).

When the financial statements include crucial uncertainties or adopting the going concern assumption becomes not suitable or inappropriate, the firm or company's ability to conduct future operations effificiently needs to be proved through sufficient evidence. Otherwise, the auditors have to alter the audit report or include a disclaimer opinion (AICPA, 1974; MIA, 2001).

Applying a going concern assumption, that sounds reasonable and acceptable based on the auditors' evaluation, requires specific standards which are similar internationally, including Malaysia. Consequently, the company's going concern position is revealed through the audit report (Raghunandan & Rama,1995), which, in its turn, would clarify the desire or the need to liquidate, stop trading or look for protection means from creditors based on legislations and regulations (MIA, 2001). Going concern opinion has several varied types: modified audit opinion, qualified

audit opinion, and adverse opinion. The first one is issued for companies confronted with GC and when the financial statements include enough information on the GC. Concerning this aspect, the report will include a modification paragraph added by the auditors with the purpose of making the users aware of disclosing the matter in the account notes. The second report is issued when the final statements reveal not enough information about the unresolved matter of the company GC. A material uncertainty is included in the report which refers to the suspicion of the firm’s capability to keep on as a going concern. Lastly, an adverse opinion is issued if auditors are in the opinion that going concern assumption is not an appropriate basis for the preparation of financial statements (MIA, 2001). The auditor’s conclusion is derived based on the sufficient disclosure of the company going concern. Consequently, issuing any other types of going concern opinion imply that financial obstacles, including increasing more debt, poor liquidity position, and declining profit or increasing loss over a period of several years are confronting the company (Chan & Walter, 1996; Lim, 1997).

2.8 Corporate Governance in Jordan

Corporate governance refers to the processes and procedures upon which the organisation is controlled and directed (OECD, 2004). The structure of corporate governance determines the rights’ distribution and responsibilities of the varying participants in the firm like the board of directors, shareholders, management and other stakeholders and it establishes the procedures and rules for decision making.

The world has witnessed a big financial turmoil during the last few years, which led to many big firms to go bankrupt. Therewith, the investors became distrustful in the reliability of the global financial markets and the companies' financial information as

well. As a result, the interest in corporate governance has increased in both developed and developing countries in an attempt to regain the lost confidence.

A keen interest was also displayed by Jordan in corporate governance with regards to improving financial statements quality. Accordingly, the legislators enacted laws to guarantee that public companies adhere to rules of corporate governance. The Jordan Security Commission (JSC) issues the Corporate Governance Code on September 2009 for shareholding firms listed on the Amman Stock Exchange. The Code enumerates the responsibilities and formation of committees. It lays down the board of directors responsibilities as: 1) to set policies, plans, strategies and procedures to achieve the company objectives, 2) to employ measures that ensure adherence to the laws enforced, 3) to set a risk management policy to handle the risks facing the company, 4) to set procedures that prevent company insiders from utilising inside information to obtain unjust gains, 5) to employ measures that guarantee internal supervision of the company's progress this includes ensuring adherence with the laws, 6) to review and evaluate the performance of the executive management of the company, 7) to create conditions for granting incentives, remuneration and privileges to members of the executive management and board of directors and finally, 8) to establish policies that organize stakeholders relationship in a way that guarantees the fulfilment of the firm commitment to them, ensures their rights, provides sufficient information and maintains good relationship (JSC, 2009, p.8).

The committees formed by the board of directors are also described by the Corporate Governance Code, and this includes the audit committee. The JSC (2009) establishes that the audit committee members must be knowledgeable in finance accounting and at least one of them should have worked in accounting finance field in his previous

profession. The Code also guarantees that the audit committee has periodic meetings at least one meeting a year with the external auditor. The audit committee's duties are enumerated as follows; 1) to discuss matters concerning the external auditor's nomination and working and to review the correspondence between the company and the external auditor, 2) to monitor the adherence of the company's with the laws and regulation in force and the regulatory institutions requirements, 3) to monitor the change in the accounting policies of the company and the change in the accounts of the company stemming from auditing processes, 4) to evaluate the internal control and auditing procedures and the evaluation of the auditor of the internal control and finally, 5) to ensure that conflict of interest does not arise between the company's projects, transactions, contracts and related parties.

The Code also points out the power of audit committee, which are: (1) requesting the presence of the external auditor if the committee sees a need to meet him regarding his work; (2) nominating the external auditor to the board of directors for election by the general assembly; and (3) nominating a candidate to be appointed as the company's internal auditor (JSC, 2009, p. 15). The World Bank (2004) has assessed the status of corporate governance in Jordan. The body issues a Report on the Observance of Standards and Codes (Corporate Governance Country Assessment [ROSC]) that sheds light on some weaknesses in the Jordanian corporate governance framework. Nonetheless, the report in general indicates that the corporate governance framework in Jordan is favourable. Even though the development of modern board practices is at an earlier stage, Jordan is advanced in its early adoption of the audit committee. The assessment finds slight evidence of corporate governance scandal. The report highlights some points that need to be reviewed where shareholder rights can be improved. The World Bank (2004) suggests many

steps to enhance the current corporate governance framework, such as focusing on the roles, duties, and functions of the board. It also recommends a revision be made to companies' law to be more compliant with the OECD principles. It further recommends unification of the regulations of the three main bodies (ASE, JSC, and SDC) that supervise corporate governance in Jordan.

Noor and Matar (2007) explored the compliance of Jordanian public companies with the principals of corporate governance. They developed a questionnaire that consisted of six dimensions to test the strength of corporate governance in banking and industrial sectors. They found that the Jordanian public companies compliance with the corporate governance principals ranged from weak to strong. But generally, the Jordanian companies were found to comply with corporate governance at a moderate level.

Al-Shareif (2008) examined the relationship between the corporate governance and earnings quality in Jordan. He revealed that the independent audit committee correlates positively with earnings quality, while there is no relationship between the board size and board independence with earnings quality. Correspondingly, Al-Khabash and Al-Thuneibat (2008) explored earnings management practices in Jordan from the perspective of external and internal auditors. They found that the external and internal auditors believed that the management involved significantly in legitimate earnings management by decreasing or increasing the income, but the internal auditors believed that the management had increased the income only. They also found no significant differences between small and big firms concerning earnings management practices. They demonstrated that poor corporate governance such as the absence of an audit committee, combination of the CEO and founder

roles, and board of directors dominated by insiders correlated positively and significantly with illegitimate earnings management.

In addition, Ajeelah and Hamdan (2011) examined the relationship among different corporate governance mechanisms and earnings management among Jordanian listed firms. They conclude that the industrial companies listed in Amman Stock Exchange practice earnings management in varying degrees. They indicated that the application of corporate governance and forming of committees had reduced earnings management practices. They found that between 43% and 76% Jordanian companies comply with corporate governance code.

Al-Fayoumi, Abuzayed, and Alexander (2010) studied the association among corporate ownership structure and earnings management among Jordanian listed firms. They found a positive association among the insider owners and earnings management, which decrease the quality and in formativeness of earnings. Regarding the institutional and block-holders, they found no relationship between these two variables and earnings management. They attributed this result to the lack of expertise, and problem of free rider among insider owners or strategic alliance with the management. They also found no significant relationship between the company's growth and leverage with the quality of accounting information even though they demonstrated that profitability and size correlated positively with earnings management.

In Jordan, corporate governance was also assessed by Dea'a Al-Deen, Fadzil and Ismail (2014) and Shanikat and Abbadi (2011). They revealed that the board conducts duties that are established by the Company's Law, which includes setting

policies, planning for the company management, and CEO appointment. According to them, the board is responsible to ensure adherence with the law. Practically, no difference was found between the management and board owing to the fact that in many companies, the chairman and CEO positions are held by the same person. They also found that big audit firms and few smaller national audit firms dominate the audit profession in Jordan and that most of these firms are characterised as having low quality.

Al-Haddad, Alzurqan, and Al-Sufy (2011) explored the relationship between the corporate governance and corporate performance in Jordan. They found a positive relationship between the corporate governance and corporate performance. They further revealed that good practices of the corporate governance are positively related to firm value. Similarly, Aydin, Sayim, and Yalama (2007) investigated the relationship between foreign ownership, and company's performance. They revealed that increasing foreign ownership in company increases performance. They demonstrated that foreign owned companies perform better than domestically owned. Ben-Nasr, Boubakri, and Cosset (2009) found that the presence of institutional ownership and foreign ownership correlate with less persistence of negative earnings changes. Al-Tahat and Ismail (2010) found no significant relationship between the extent of disclosure and board composition, board leadership structure, foreign ownership, government ownership, number of shareholders, size, profitability, age, leverage, audit firm size, and market listing status. They found out that there were also no relationship between timeliness and board composition, board size, board leadership structure, foreign ownership, government' ownership, number of shareholders, size, growth, audit firm size, and market listing status.

2.9 Underlying Theories

Research on corporate governance is mainly stemmed from the agency theory perspective, whereby the corporate uses governance mechanisms to monitor and oversee such conflict in corporate. The corporate ownership structure, board characteristics, audit committee and auditor quality are the constructs of the internal governance mechanisms and are formed to meet the aforementioned purpose. In addition, pragmatic studies proved that an auditor's going concern evaluation could also determine the corporate's performance as it limit the opportunistic of the managers inclinations and increases the corporate value (Haron *et al.,* 2009). Hence, the notion of supplementing the monitoring role of the other governance mechanisms primarily serves as the foundation to the relevant body of research.

Agency theory has employed the managerial ownership or strong structure of governance mechanism to limit agency conflict. Previous literature that related to the corporate governance which have focused on agency theory does not find conclusive evidence to support the theory. Thus, this study employs different theories to support the evidences which are not consistent with the agency theory. These complementary theories namely Accountability Theory, along with Agency Theory. The next sections describe these theories in more detail.

2.9.1 Agency Theory

Agency theory has been defined through previous studies as a relationship by consent among two parties; the first is the principle who hires the second party as agent who agrees to act on behalf of the other party. This relation could be between managers and shareholders, auditors and shareholders and so on (Hassan, 2005). The

basic assumption of agency theory is that individuals seek maximize their own wealth, resources and innovations in doing so. In addition, this conflict of interest arises from the possibility that the managers are maximising their own utility, whereas shareholders desire to maximize their own profits (Reis & Stocken, 2007). Conflicts may also occur between the auditors and the firm (Goldman & Barlev, 1974). Abdullah and Valentine (2009) state that "agency theory can be employed to explore the relationship between the ownership and management structure. However, where ther is a separation, the agency model can be applied to align the goals of the management with that of the owners" (pp. 89-90).

Corporate governance guarantees the financial statements quality (Cohen, Krishnamoorthy & Wright, 2004). Along the same line, Bonazzi and Islam (2007) contended that the board monitoring of CEO will enhance the CEO's performance and steer clear of promoting conflict of interests. In another study, Bushmana and Smith (2001) revealed a relationship between corporate governance mechanisms and the quality of accounting information while Ben-Nasr*et et al*. (2009) showed that institutional ownership is related with active oversight of management activities. Finally, Firth *et al*. (2007) showed that foreign shareholders urge companies to enhance financial reporting quality.

The main assumption of agency theory is that individuals maximize their own utilities. In addition, this conflict arises from the possibility that the directors are maximizing their wealth, whereas shareholders tend to maximize their own profits (Reis & Stocken, 2007). Conflicts could also occur among the company and auditors (Goldman & Barlev, 1974). Abdullah and Valentine (2009) showed that agency theory can be used to explore the relation among the management structure

and ownership. However, separation can be applied to the agency model in aligning the objectives of the management with that of the owners.

Jiraporna, Millerb, Yoonc, & Kimd (2008) showed the importance of agency cost with the earnings management in company. They found a positive relation among the gravity of agency conflict and the practice of earnings management in the company. For example, Gibbons (1998) showed that high rewards will motivate the agent to maximize their wealth that is to get higher rewards. This may motivate the directors to manipulate the financial report to decrease the expenses thereby increase the revenues. Ramanna and Watts (2007) reported that fair values are based on directors' or appraisers' unverifiable subjective estimates. Agency theory assumes hat directors will take advantage of this non-verifiable to manage financial reports to extract benefits (p. 39).

The most common example of an agency relationship is between a principal (shareholders) and agent (firm management). Shareholders are interested in maximizing their wealth by ensuring the increased in the firm value. Meanwhile, firm management will seek to maximize thei benefits and rewards from managing the company (e.g. perquisites, material-financial, reputation of the manager). Agency costs are incurred by the shareholders (principal) due to the need to monitor the agent's behavior who have been delegated responsibility for managing the firm assets, and, thereby, the principal may act out of self-interest rather than for the principal (Deegan, 2009). A number of monitoring costs could directly involved accounting such as the need for engagement of an external auditor (Gaffikin, 2008). Beside the cost of controlling the conflicts related to the principal/agent relationship, there are other costs incurred under this concept. In principle, several costs stemming

from conflicts within the principal/agency relation arise from opportunistic behavior of firm management. Within the agency theory environment, the structure of corporate governance in companies is viewed as very important mechanisms to solve agency problems and prevent directors' opportunistic behavior. Burton (2000) showed that agency costs are best monitored by reducing the discretion of management by the establishment of structures to control and monitor management behavior. Such structures include an independent chairperson, an independent board of directors, and audit committee independence (Ellstrand, Daily, Johnson & Dalton 1999).

According to the agency theory, the firm consists of a nexus of contracts between the economic resources owners and the managers who are appointed with using and managing them (Jensen & Meckling, 1976). This theory has its basis on the notion that agents possess more information compared to the principals and this information gap negatively impacts the ability of the latter to monitor the former effectively (Adams, 1994). It also postulates that the principals and agents rationally act and utilize contracting process to increase their wealth. Realistically, the principal agent relationship will incur contracting costs in guaranteeing an optimal contracting process, where the agents incur bonding costs and the principals incur monitoring expenditures (Adams, 1994). The bonding cost includes the cost of external audit. Similarly, Alsheerazy (1991) stated that this theory hinges on legal relations between management, employees, and external auditor, or management, capital owners and external auditors.

On the other hand, there is a contract between the management, employees, shareholders and the external auditors regarding their needs and benefits. As a result,

the agency costs (monitoring expenditures, bonding expenditures and residual loss) were shown in order for them to observe the agent's action since these costs have an effect on the interests of the management and shareholders. The external auditor report is important to avoid problems between the management and owners of capital. The role of the external auditor in evaluating the ability of going concern in the public shareholding companies appears through agency theory in giving the opinion of the auditor about the company's going concern ability to users of the financial statements (Jensen & Mecking, 1976; Robert, Richard & Leftwich 1982; Alsheerazy, 1991).

Furthermore, Antle (1982, 1984) and Baiman, Evans and Nagarajan (1991) considered the auditor and the manager as agents who were employed by the owner. The owner hires the manager to operate the business and hires the auditor to monitor the manager. In relation to that, Goldman and Barlev (1974) said that there are three conflicts of interests in the auditing role such as the Auditor Firm Conflict of Interests, the Shareholders Management Conflict of Interests and the Self' interest-Professional Standards Conflict. They represent pressures on the auditor to produce a report that deviates from the professional standards and represents potential threats to his independence. In this respect, the shareholders rely on the auditor report to evaluate the management performance. Hence, the management tries to push the auditor to produce a more favorable report in order to impress the shareholders. Because of that, the accountant's fee and freedom of action may depend on the content of the report. Therefore, the probable loss of the audit fee may be a much greater cause for conflict between professional integrity and self-interest. So, the management (client) can choose the auditor and displace him for his interest through

modifying the auditor report. Therefore, this is considered as a threat to him for displacement.

Generally speaking, these results support results from researches in other institutional settings (Burgstahler & Eames, 2006). On the other hand, the auditor quality is the important factors in reducing the agency conflict, as well as monitoring the firm performance, and reducing the exploitation of directors or major shareholders positions in transferring the firms‟ wealth to their own accounts, and limits the managers' opportunistic behavior (Chang, Dasgupta & Hilary, 2008). In the next section, the role of corporate governance mechanisms in the agency theory is presented in more detail.

2.9.2 Accountability Theory

This theory is related to the performance of auditing, audit of public shareholding companies, audit quality and functions associated with economic and social development. Therefore, the external auditors should be accountable to the company's going concern ability such as in its audit practices. They must have knowledge, experience, good skills, conscious and effective performance in auditing to evaluate the ability of the company's going concern in their activities, and they give an early warning to the company on any indications threatening its going concern. (Hill, Mittal & Kulasingham, 1989).

In fact, this study used accountability theory in evaluating the companies going concern ability by external auditors, If there are indications, and effect it the company‟s going concern ability, the external auditor must regard these indications

and regard audit practices to avoid any problems that may affect the company's going concern and give early warning to company to enhance the ability on going concern (Sylvester, Macro & Eric, 2000).

The accountability mechanisms of International Financial Institutions (IFI) highlights two categories of accountability that can be applied to international organisations and one of them is vertical accountability. This type of accountability refers to the oversight power of the stakeholders in international organisations. For instance, member countries may approve or disapprove the International Financial Institutions (IFI) by transforming the International Financial Institutions (IFI) Board of Governors or the Executive board's composition. Vertical accountability has frequently been criticised for its limited scope. While many developing countries are represented by a single aggregate Executive Board member, developed ones have their own board member (Carrington, DeBuse & Lee, 2008).

The Jordanian code on corporate governance primarily complies to the U.K. code that emphasises on strict principles of governance for the accountability and prosperity in the business. In 2009, the code was reviewed and tailored in a way of reinforcing the functionality and duties of the audit committee along with board of directors. Moreover, it calls upon the formation of the board and the critical importance for the non-executive directors to make sure that there is an independent monitoring role. Regardless, the effort to promote the best practices of governance among Jordanian firms, many experts contended over the issue to determine if the same governance standard in developed markets can operate in equal efficiency in a country that has a various business culture, legal system and corporate build. Particulary, Jordanian business ownerships are navigated by bigger shareholders that

have power over the corporate management. Based on the mediocre enforcement of legal protection on shareholders and ineffective market practices in Jordan, the controlling shareholders tend to manipulate the workings of the business and make decisions in their personal interest, rather than steering profit for the company as a whole (Mohamed Yunos, 2011). The code addresses four main fields pertaining to the board of directors, director's payment, shareholders and accountability; however, it pays special attention to the improving the efficiency and liability of the board of directors.

In conclusion, the agency and accountability theories will help the researcher to explain the relationships among the principals of the companies, shareholders, clients, and the external auditor, depending on the role of external auditor in evaluating the corporate going concern.

2.10 External Auditor Evaluating on Company Going Concern

The International Accounting Standard (IAS) No. 570 has issued going concern indications such as financial indications, operations indications, and other indications to provide guidance on the auditor's responsibilities in the audit of financial statements. Previous studies (Hinawi, 1985; Goldstein, 1989; Aqel, 1990; Donoghue, 1990; Edwards, 1993; Shwiyat, 2004; Venuti, 2004; McCleam, 2005) regarded these indications in evaluating the company's going concern.

2.10.1 Indications Regarding the Evaluation of the Companies Going Concern Ability

There are many indications that threaten a company's going concern ability and affect its life cycle. These companies may face financial distress such as loan

problem, frequent in losses operation, increase of current liabilities in comparison to current assets, inability of company to repay creditors in due date and to obtain necessary finance for developing new product. For other necessary investments, there are other distresses such as conversion from delayed buying to cash buying in relationship with suppliers, late or non-distribution of profits and showing adverse key financial ratios. The company may sometimes face operating indications such as changes of management professional or quitting of main managers without substitute. This can lead to main market losses, privileges, authorisation, main supplier and difficulties with workers. Decrease in important supplies and existence of other indications may threaten a company's going concern ability such as non-compliance of requirements related to capital. Though the above indications are hypothetical, there are great possibilities that most Jordanian companies are facing similar indications affecting their going concern ability. Therefore, for the company to survive and maintain its going concern ability, the auditor needs to evaluate the company's going concern ability. He must find out any indications about the company's going concern ability.

Furthermore, these proofs are released in ISA No. 570 in order to expound upon the auditor's responsibilities related to the financial statements (ACPA, 1997). Thus, auditors are always aware of the necessity in reviewing the observation with debt and loan agreements. It is important to be informed of the revised terms of these agreements. Hence, continuous updates of permanent file copies and awareness in confirming the details of the feedback are necessary. It is also important to highlight that loan compliance documents should be endorsed by the CPA and audit personnel should observe the slow remuneration of long-term debt, accounts payable and accrued liabilities (Goldstein, 1989).

Shwiyat (2004) explores the views of the external auditors regarding their responsibility towards the clients' going concern in Jordan and to investigate if the Jordanian external auditors apply the ISA No. 570, which is related to going concern. Further, the study attempted to examine whether there were differences between the views of both auditors and financial directors pertaining appraisal delivered by an auditor on clients going concern. The samlpe of the study consists of Jordanian auditors (n = 142) and financial directors of Jordanian corporation (n = 55).

The findings reveal that Jordanian auditors are well aware of their responsibility on appraising future going concern of customers. on Jordanian auditors are committed in identifying "Uncertainty predictors" that have an influenced on their customers' going concern, they exert professional effort for the sake of having them exposed, Financial predictors predominated non-financial ones (operational and others) with (76%) adherence versus (75.6%), (73.6%) for other predictors and operational respectively, In case of uncertainty, a Jordanian auditor takes extra measures as to customer's going concern.

Regarding reporting, Jordanian auditors strictly adhere to the ISA No. 570, with self-perceived response rate of 59.2%. Jordanian auditor avoids reporting any listing of going concern problems due to: information confidentiality, believing in sufficiency of financial statement disclosure, difficulty in dealing with going concern matters, and fear of causing damage to interest of a customer due to conservativeness, while Jordanian auditors strictly adhere to the ISA No. 570 of going concern is high with response rate of 70.4%, and there is consensus between responses of auditors and financial directors about the extent to which Jordanian auditors' adhere with the ISA No. 570.

In light of the earlier findings, the following are recommended: Auditors in Jordan are well advised to highly familiarised with international publications on accountancy and auditing, to hold subscriptions on professional journals, and to attend relevant seminars and symposiums whether inside or outside since that would surely has a positive effect on the performance of auditors and on the improvement of auditing process entirely, to make sure also that the external auditors are well educated and trained.

This can increase the level of consciousness among external auditors to develop their field in order to promoting efficiency of auditing and thus improve their understanding in practicing the ISA. Financial directors should exert further efforts to nature and limits of auditing process; they also should understand the real role of an auditor in auditing the financial statements, along with other duties and professional responsibilities. This can be made available through relevant publications, attending seminars, and lectures regarding auditing process.

2.10.1.1 Financial Ratios

The usefulness of ratios can only be tested with regards to some particular purposes. The purpose chosen here is the prediction of failure, since ratios are currently in widespread use as predictors of failure. This is not the only possible use of ratios but is a starting point from which to build an empirical verification of ratio analysis.

Failure is a term that refers to the firm's inability to pay its financial obligations as they mature (Beaver, 1966). A firm is said to operationally fail if any of the

following events arise; bankruptcy, bond default, overdrawing of bank account, or non-payment of a preferred stock dividend. In addition, a financial ratio refers to the quotient of two numbers, where both comprise of financial statement items. Predictive ability is the third term.

The stress on financial ratios does not indicate that they are the sole predictors of failure. The main concern is not with predicting failure but on the importance of events failure happens to be one of them. Moreover, the main concern does not lie on the ratios as a form of reflecting financial statement data but on the underlying predictive ability of the financial statements. The motivation lies in the provision of an empirical verification of its value (predictive ability) of accounting data (Beaver, 1966).

The financial strength of corporate influences the going concern opinions of auditors. Previous studies have employed the financial ratioto measure th financial strength of firms (SA 341; SAS 59; ISA 570; Altman Model (1968); Altman & McGough Model (1974); McKee Model (1976); Ohlson Model (1980); Levitan & Knoblett Model (1985); Mutchler Model (1985); Dopuch, Holthausen, & Leftwich Model (1987); Menon & Schwartz Model (1987); Boritz Model (1991); Citron & Tafler Model (1992); Beaver Model (1996) and Haron Model (2009).

1. Altman and McGough Model (1974)

This model can be applied to a company bankruptcy prediction, developed by Altman in 1968, and includes five variables as follows:

a. Working capital to total assets.

b. Retained earnings to total assets.

c. Earnings before interest and tax to total assets.

d. Market value of equity to book value of total debt.

e. Sales to total assets.

In doing so, Altman (1968) validated the accuracy rates for bankrupt and non-bankrupt companies were 96% and 78.79% respectively. Altman and McGough (1974) believed that Altman's Model (1968) could also be used to evaluate the companies going concern. It was found that the model could predict a bankruptcy rate of 82.35% of one year prior to bankruptcy of these companies. In contrast, the auditors qualified their audit reports only 44.12% (bankruptcy rate) and 21.21% (accuracy rate) at that time respectively. Altman and McGough (1974) concluded that the model was higher in signaling going concern problems and that it could be an effective help to the auditor in making a company's going concern evaluations.

2. McKee Model (1976)

The model consisted of the following variables: (1) quick assets to current liabilities, (2) working capital to owner's equity, (3) long-term liabilities to working capital, (4) total liabilities to total assets, (5) net sales to total assets, (6) net income before tax plus depreciation, depletion, and amortisation to total liabilities, and (7) company current assets to current liabilities and industry current assets to current liabilities. The accuracy rate for the model was 77% for the evaluation of the companies going concern. Although McKee (1976) did not compare these results to the auditor's opinions explicitly, he concluded that this discriminate model would be of obvious benefit to the auditor in evaluating the going-concern status of audit clients.

3. Levitan and Knoblett Model (1985)

The model consisted of the following variables: (1) trend variables for operating income to shareholders equity, (2) net income to shareholders' equity, (3) dummy variable for current assets to current liabilities, (4) net worth to total debt, (5) dummy variable for cash flow, (6) quick assets to total assets, (7) trend variable for current assets to current liabilities, (8) dummy variable for net income, (9) current assets to total assets, and (10) current assets to current liabilities. The accuracy rate of the discriminate model one year prior to bankruptcy was 88.50%. In addition, they evaluated the performance of auditors in qualifying bankrupt companies by examining the audit reports. An audit's opinion is considered correct when a going concern qualification is given to bankruptcy companies or when a clean opinion is given to a non-bankrupt company. The auditor's accuracy rates one year prior to bankruptcy were 65.63% for bankrupt companies, 100% for non-bankrupt companies, and 83.58% overall. They concluded that their discriminate model was a better indicator of a company's future prospects than the auditors' going concern opinion. Thus, the discriminate model should be useful to the auditor in evaluating a company's continued existence.

4. Mutchler Model (1985)

A sample of 119 manufacturing companies that received going-concern qualifications in their audit reports and 119 manufacturing companies that exhibited potential going concern difficulties but did not receive going concern qualifications were used. The companies in which going concern difficulties appeared were defined as companies that met at least one of the following seven standards: (1) liquidation

(2) negative net worth (3) negative cash flow (4) negative income from operations (5) negative working capital (6) current year loss, including cases where there were two and three straight loss years (7) current year retained earnings deficit, including cases where there were two and three straight deficit years. These standards were determined through interviews with auditors as reported in Mutchler (1984) and he used seven variables in his model (1985). These variables consist of:

1. Cash flow to total liabilities.
2. Current assets to current liabilities.
3. Net worth to total liabilities.
4. Total long-term liabilities to total assets.
5. Total liabilities to total asset.
6. Net income before tax to net sales.
7. Dummy variable for the previous years' audit opinion.

The results of the test in predicting going concern ability showed that the greatest model could predict going-concern qualification with an accuracy rate of 71% and non-qualification with accuracy rate of 94.1%. Apparently, the inclusion of SAS No. 34 variables such as mitigating factors, contrary information, and trend do not appear to be useful in predicting going-concern qualification because these variables are not included as the "best" model. Based on the findings, this model concluded that 89.9% of the companies in the sample have a redundant qualification in their going concern ability because it could be predicted correctly with discriminate model.

5. Menon and Schwartz Model (1987)

This model is more constructive in the prediction of the qualification of going concern ability. 89 companies were bankrupt during the period 1974 to 198, 37

received going-concern qualifications. This model used seven variables based on the auditor's going-concern qualification decision. These variables consist of:

1. Current assets to current liabilities.
2. Change in current assets to current liabilities over the year.
3. Retained earnings to total assets.
4. Debts to total assets.
5. Income to total assets.
6. Dummy variable for recurring operating losses.
7. Cash flow from operations to total liabilities.

Consequently, the results of this model in predicting going-concern qualification were tested with two samples: (1) 39 bankruptcy companies that filed for bankruptcy during the period 1981 to 1983. The accuracy rates for predicting going-concern qualification and non-qualification were 71.43% and 84% respectively. (2) The second sample consisted of 46 non-bankrupt companies that were identified as being financially weak (i.e., companies that reported net loss and retained earnings deficit in 1981). The corresponding accuracy rates were 100%, 71.43%, and 78.26%, respectively. So, they concluded that their model could predict going concern qualification accurately.

6. Dopuch, Holthausen, and Leftwich Model (1987)

They used nine variables in their model:

1. Change in total liabilities to total assets over the year.
2. Change in receivables to total assets over the year.
3. Change in inventory to total assets over the year.

4. Total assets.
5. Dummy variables for the availability of income to shareholders.
6. Dummy variable for the period of listing in the New York Stock Exchange or American Stock Exchange.
7. Change in data over the year.
8. Change in the residual standard deviation from the market model regression over the year.
9. Differences between common stock returns and an equally weighted industry index.

The effectiveness of the model in predicting going-concern qualification was tested on a sample consisting of 12 companies with going concern qualifications and 95 companies with clean audit opinions during the period 1977 to 1980. The accuracy rates were 33.3% and 99.90% respectively. They concluded that their model could predict audit qualifications of contingencies (including the going-concern qualification) accurately.

7. Beaver Model (1966)

Beaver (1966) has used a model of univariate, and discriminate analysis, he succeeded in predicting financial distress using financial ratios. Thirty financial ratios were used to evaluate 79 pairs of failed and non-failed companies. Beaver argued that ratio of current assets to total assets and ratio of net benefits to total assets can be used to differentiate between companies that will be bankrupt and those that will not. His model was able to predict 90% and 88% of cases, respectively.

8. Altman Model (1968)

Altman made use of the multivariate linear, discriminate analysis (MDA) and discovered a cut-off value that allowed the decision to be made based on the criteria that show certain companies which were under financial stress, or otherwise. As such, there was a possibility to make a prediction with 95% accuracy. The study utilised five of Altman's ratios to estimate the Z score, which is shown below.

Z score = 1.2 WC/TA + 1.4 RE/TA + 3.3 EBIT/TA + 0.6 MV /BV +1.0 Sales/TA

Where:

Z score	= financial condition of the company (strong, moderate and weak)
WC/TA	= working capital/total asset
RE/TA	= retained earnings/total asset
EBIT/TA	= earnings before interest and tax /total asset
MV/TA	= market value of share/book value of debt
Sale s/TA	= sales/total asset

On the basis of the Z score, Altman classified the select companies as ‘strong’, ‘moderate’ and ‘weak’.

Z score values for strong, moderate and weak are as follows:

- Strong when Z score is > 2.99
- Moderate when Z score is 1.811–2.98
- Weak when Z score is < 1.811

Beaver (1967) and Altman (1968) formulated the univariate and multivariate models to estimate impeding business mishaps through the application of a set of financial ratios. Beaver (1967) made use of a dichotomous classification test to decide on the

error rates as a potential creditor would experience should the companies were grouped based on the individual's financial ratios as failed or non-failed. In the experiment, Bearver applied a matched sample method comprised of 158 firms (which are made up of 79 failed and 79 non-failed companies) and assessed fourteen financial ratios.

Altman (1968) also incorporated a multiple discriminant analysis methodology (MDA) to resolve the discrepancy issues connected to Beaver's univariate study and to examine a more thorough financial profile of the companies. His assessment focused on a matched sample that is made up of 66 manufacturing companies (which are of 33 failed and 33 non-failed) that have signed a bankruptcy petition between the years 1946 and 1965. Altman observed 22 potential financial ratios, gradually choosing 5 as a combination of the best holistic estimation of corporate bankruptcy. The variables were then grouped into five standard ratios groups, comprised of the aspects of the liquidity, profitability, leverage, solvency and activity ratios.

Nevertheless, the majority of these researches highlighted that the two fundamental assumptions of MDA are often contradicted when adhered to the default prediction problems. Furthermore as based on the MDA models the default (or standardized) coefficients cannot be deciphered like the slopes of a regression equation; thus, they do not represent relative significance of the different variables. Taking into consideration of these issues, Ohlson (1980), initiated the integration of the conditional logit model into the default prediction's study. The pragmatic advantages of the logit technique include the fact that they have no need of the restrictive predictions of MDA and allow the use of disproportional samples. Ohlson also made use of data set with 105 bankrupt firms and 2,058 non-bankrupt firms, as collected

from the COMPUSTAT database over the years of 1970 to 1976. The analysis was founded on nine predictors (which are seven financial ratios and two binary variables), primarily due to the fact that they recurred most frequently in the literature. The model's performance by way of its classification accuracy was less than the one stated in prior researches, as based on the MDA (Altman, 1968; Altman, Haldeman & Narayanan, 1977). However, the reason to the selection of logistic analysis was given.

As such, Altman (1968) made use of the cross-validation method to verify the function. This defines the utilisation of an estimation sample and a hold-out sample. The estimation sample serves the purpose of predicting the function, while the hold out sample serves to validate the estimated function.

The cut-off point as chosen by Altman (1968) is at 2.675. This cut-off point is founded on the amount of minimal Type I (actual bankrupt but predicted non-bankrupt) and Type II (actual non bankrupt but predicted bankrupt) faults. If the Z value exceeds 2.675, then the firms are considered as non-bankrupt. A firm is deemed bankrupt if the Z value is less than 2.675.

The Altman Z-Score (1968) model and the Altman Z-Score model (1993) were formulated and used in the U.S.A and other developed countries in a certain period of time. Hence, it is probable for the results to not fit the generalisable purposes in less developed regions in this time and age. The researcher has examined the generalisability of the two statistical failure prediction models in the Jordanian context. The study utilised a sample of 71 failed and 71 non-failed firms that were selected within the same industry, year of data, and a comparable size of total assets.

The two models predict failures were tested as how it has been done in the US and Europe to determine if said models are also applicable for Jordanian companies. It is discovered that the original Altman Z-Score (1968) model functions just as efficiently. Hence, the model isgeneralisable in the Jordanian context for examining failed industrial companies. Nevertheless, in the service industry, it is that the Altman models failed to give strong indicators in drawing a comparison between failed and non-failed companies.

The researcher has also discovered that the original Altman Z-Score (1968) model is generalisable in the Jordanian context for assessing failed industrial companies. As such, the error rates were minimal, and the Type I and Type II correct classification rates of the model (in all of the three years prior to the non-failure) were high. In the context of service companies, however, it is established that the AMODELS were unfit to differentiate the failed Jordanian companies from its non-failed counterparts.

As for both of the models, the Type I and Type II correct classification rates are at a bar minimum in estimating failed and non-failed service companies; thus, the error rates are high. These results indicate that the two models are not generalisable to listed service companies in Jordan. The study also found that the Altman Z-Score (1993) model is less practical in estimating the financial failure of service companies than that of the Altman Z-Score (1968) model.

However, Alareeni1 and Branson (2012) have certain shortcomings that are akin to other researches. One of which would be in the predictive power of the Altman Z-Score (1968) model predictors that may deteriorate when using the model in other emerging markets. Therefore, there should be precautionary measures in generalising

the results to other countries including countries with similar environmental factors with that of Jordan. For instance, there are other Middle Eastern countries that have the same set of low-middle income, do not produce crude oil, have code-law systems, with a comparable GDP per capita and a similar business landscape (namely Palestine, Syria and Egypt). One of such limitations was that the re-estimation or update procedure of the AMODELS' coefficients was not applicable in the context of Jordan, as it was discovered that most of them violate the normal distribution assumption which is a vital MDA assumption during the assessment of the predictors of the models.

9. Ohlson (1980)

He used logistic regression (logic analysis) to predict financially distressed companies. Logic analysis is one of the best alternatives to overcome the limitations of the MDA technique. His study involved 105 financially distressed companies and 2,058 non-distressed companies. He revealed that seven financial ratios are capable of predicting financially distressed companies with an equal accuracy level of Altman's selection.

10. Mutchler, Hoopwood and McKeon (1997)

They analysed 16 auditors' responses on Hoopwood & McKeon the factors that would indicate whether the company has financial problems. From the 16 auditors' responses, they found that the important indicators were as follows:

1. There is an indication that the company will become a takeover target.
2. There is an indication that the company will be bankrupt.
3. There is an indication that the company will restructure.

4. Net value of organisation is negative.

5. The company is unable to pay loan.

6. Cash flow is negative.

7. Has received going concern opinion in the previous year.

8. Suffer a financial loss from operation.

9. Current assets are insufficient.

10. Suffer financial losses.

11. Have problems obtaining loans and funds.

11. Boritz (1991)

In his study conducted in Canada, he found that auditing firms consider the following factors to be important when evaluating a company's ability to continue its future operations:

1. Suffer financial losses for two years
2. Ratio of debts/asset
3. Default on debt payments
4. Ratio of return on assets is negative
5. Increasing debt ratio/equity ratio
6. Increasing equity ratio/asset for asset sale ratio
7. Decrease in stock market value
8. Deception
9. Negative assets or negative current asset/current ratio

12. Citron and Tafler (1992)

Citron and Tafler (1992) revealed that a company's adverse financial position is the most crucial reason for an auditor to issue going concern opinions. Prior studies revealed that statistical models based on financial ratios have higher explanatory power compared to auditor's judgment (Altman, 1968; Altman & McGough, 1974; Koh & Killough, 1990), on the going concern opinion issue. On the other hand, another study showed that a statistical model of financial ratios has the same predictive ability with the auditor's judgment (Hopwood, McKeown & Mutchler, 1994).

In conclusion, and after reviewing all the previous models that are related to the financial ratio. This study adopts one model of financial ratios to evaluate the going concern of firms, namely; Altman Model (1968), since the percent are use of accuracy in this model is more than 90%. In addition, Alareeni1 and Branson (2012) found that the original Altman Model (1968) still works effectively. On the other hand, the model is generalisable in the Jordanian context for assessing failed industrial companies. Financial ratios are widely used as indicator of company's going concern. Previous studies have indicated that statistical models based on financial ratios have strong explanatory to support the auditor's judgment on the issue of a going-concern opinion (Altman, 1968; Altman & McGough, 1974; Koh & Killough, 1990; Haron *et al.,* 2009). However, Hopwood *et al.* (1994) and Haron*et al.* (2009) strongly found that a statistical model of financial ratios has the same predictive ability as the auditor's judgment.

2.11 Corporate Governance and Going Concern

Corporate governance is considered as the rules and standards defining the company management stakeholders relationship. These stakeholders include employees, suppliers, lenders, creditors, creditors, shareholders and bondholders (Kim, 2006; Shanikat & Abbadi, 2011). The most prominent issue arising from the significant level of losses, operation reduction, restructuring and business dissolution with poor corporate governance is a going concern (Allan Chang, 2004). Going concern is a crucial underlying assumption for the financial statements preparation. On the basis of this assumption, financial statements are drawn up to represent the company's ability to continue operating in the future (AICPA, 1988; MIA, 2001). Hence, any financial difficulty that may have the potential to influence the application of going concern assumption should be reported in the financial statements and it should be stressed on in the audit report. Auditors are mandated to leave comments regarding any abnormal uncertainty and its impacts on the company's going-concern situation which cannot be identified in the balance sheet (AICPA, 1963). In other words, auditors have to opine on the suitability of the going concern assumption as a basis for the financial statements (MIA, 2001).

The appropriateness of going concern assumption is considered by auditors throughout the audit process, e.g., when planning and performing audit procedures and in evaluating the results thereof (MIA, 2001). While significant uncertainties exist in the financial statements and the application of going concern assumption is not appropriate, auditors need to obtain sufficient audit evidence to evaluate the entity's ability to continue in operation in the foreseeable future and are required to modify audit report or to issue a disclaimer opinion (AICPA, 1974; MIA, 2001; Iskandar *et al.,* 2011). The requirement by the auditing standards in Jordan with

regard to the application of going concern assumption is the same as those requirements in other countries (Rahahleh, 2010).

Corporate governance has received significant attention in recent years all over the world along with Jordan especially after the collapse of the Al-Kawther for Investment Co. (2005), Philadelphia Bank (2010) and National Electric Power Co. (2012) and one of the major reasons of such failures is the lack of good corporate governance (Companies Control Department, 2012).

Prior studies revealed that literature dedicated to examining the corporate governance characteristics performance relationship highlighted the lack of evidence on the relationship between good corporate governance and the company's ability to sustain its going concern (Parker *et al.,* 2005; Iskander *et al*., 2011). Hence, this study aims to examine the relationship between going concern of companies and their corporate governance characteristics including structure of ownership, board characteristics, audit committee and auditor quality. It aims to provide insight concerning this relationship as follow:

2.11.1 Ownership Structure

Previous studies have defined the ownership structure as the distribution of shares to amongst owners (McCann & Vroom, 2009). This study have new variables are related to company ownership structure, namely, managerial ownership, institutional ownership, managerial ownership, foreign ownership and family ownership. Institutional, managerial ownership and foreign ownership is an additional dimension because of its importance to an emerging market. Family ownership is added to the

analysis to reflect an important aspect of ownership structure, which reflects the cultural environment of Jordan.

The study of the association between the ownership structure and the going concern passes firstly by the distinction between several types of shareholders, such as managerial ownership, institutional ownership, foreign ownership and family ownership.

2.11.1.1 Managerial Ownership

Managerial ownership has been defined by previous literatures as percentages of equity held by the firm's top executive that is the chief executive officer (CEO) (Anderson, Mansi & Reeb, 2006). Results also indicated that management equity ownership have negative significant relationships with going concern. These findings support the agency theory which argues that the best practice of corporate governance helps companies avoid financial and operational problems. A similar requirement is stated in the Code of Corporate Governance of 2009. Hence, equity ownership among management is found to be features that could also enhance the effectiveness of board of directors in improving the company performance and preventing business problems. Directors who own equity in the company are motivated to improve the company goal to maximise shareholders' wealth which in turn benefits them by being the shareholders of the company (Core & Larcker, 2002; Kim, Kitsabunnarat & Nofsinger, 2004; Iskandar *et al.,* 2011).

Past studies on the effects of management equity ownership on the company performance have shown inconsistent results. For example, Kim *et al*. (2004) found

non-linear relationship for companies involving initial public offerings in Thailand. They observe positive significant relationships between managerial ownership and earnings before interest and tax when the ownership is low or high. They also found negative relationship between managerial ownership and company performance. Parker *et al.* (2005) found that managerial ownership is inversely associated with repeated going concern modifications. Their study concludes by proposing implications for the current financial reporting environment (including the Sarbanes-Oxley Act of 2002) and future research avenues. Contrary to this, Parng and Fu (2011) suggested that equity ownerships by the management and external mechanisms respectively improve the company financial performance.

Previous studies have shown that management equity ownership has a significant positive relationship with the firm value and agency cost (Iskandar *et al*., 2011). In contrast, other study report non-linear relationships whereby at a certain level of management ownership reduces agency costs but at another level, it increases the agency costs (Kim, *et al.,* 2004). Based on the agency theory, it is expected that management equity ownership has a significant negative relationship with the going concern problem. When a manager becomes part of the company owners, they will have the same amount of incentive as that of the owner. The manager will not take risks that will not benefit them. It is therefore expected that the higher the level of management ownership in the company, the lower is the level of conflict of interest. This would in turn increase the performance of the company and avoid companies from facing GC (Gul, Atalay & Hanninen, 2003). While several empirical studies find a negative association between managerial ownership and earnings management Klein, (2002b); Gul *et al*., (2003); Parker *et al.* (2005) and Habbash, (2010) found that managerial ownership is inversely associated with repeated going concern

modifications. Iskandar *et al*. (2011) found that the management equity ownership has negative significant relationships with going concern.

In Jordanian context, Al-Fayoumi *et al*. (2010) examined relationship between managerial ownership and earnings management in Jordanian industrial companies. They found positive and significant association between managerial ownership and earnings management. Their finding is consistent with the "entrenchment hypothesis" which reported that managerial ownership is more likely to be ineffective in aligning managerial to take value-maximising decisions. Jordan has recently displayed recently a significant attention in consolidating the corporate governance pillars. In addition, this study uses Jordanian data because they generally reflect an ownership status similar to several emerging countrieswhere a high share owned by insider ownership, while the block-shareholders and investor rights are weak.

2.11.1.2 Institutional Ownership

Previous studies have defined institutional ownership as the fraction of total shares outstanding held by institutions at the end of the previous calendar year (Brockman, Chung & Yan, 2009). Institutional investors play their role as an external control mechanism on the management. However, results of the previous studies have been inconclusive (Iskandar*et al.,* 2011). Chaganti and Damanpour (1991) found that returns on equity of company, as a measure of performance, are positively and significantly related to the equity ownership of institutional investors. The existence of institutional investors helps to reduce debt to equity ratio. The study of Agrawal and Knoeber (1996) however, finds opposite results. There is no evidence that equity ownership of institutional investors may help to improve performance of companies

in the US (Loderer & Martin, 1997) and Australia (Craswell, Taylor & Saywell, 1997). A number of subsequent studies have, however, provided evidences of significant positive relationship between equity ownership of institutional investors and the performance of companies listed on the New York Stock Exchange American Express (Han & Suk, 1998), and Bursa Malaysia (Allan & Chang, 2004; Iskandar *et al*., 2011).

Earlier findings were consistent with those of Bhattacharya and Graham (2007) in that they found that institutional ownership stakes negatively impacts performance. They also noted that firm performance did not influence pressure resistant institutional ownership stakes a finding partially supported by extant literature. For example, ownership decisions was reported to be invariant to firm performance (Demsetz & Villalonga, 2001; Thomsen, Betke, Schultz-von Glahnand & Piper, 2006).

Cornett, Marcus, Saunders, and Tehranian (2007) examined the relationship between institutional investors and operational dimension of company's performances and their results showed that there is significant relationship between the operating cash flow return on the assets (earnings before interest and taxes plus depreciation divided by total assets) and the percentage of major shareholders in the company's ownership structure and this relationship can only be observed in shareholders with business relationship with the company. Almazán-Rueda, Van Helmond, Verreth and Schrama (2005) have examined the relationship between the active institutional investors and the control costs. Although this study proposed that institutional investors have major roles on management control, but the effects of institutional investors are not identical. Institutional investors without business relationship, have

a major role on ownership structure in order to properly control the activities and management decisions. Chen, Del Genio and Chen (2007) examined the relationship between management and institutional investors. Using the same classification, they found that institutional investors will lead to better decisions in the company. But this effect is not identical for all institutional investors and is mostly valid for institutional investors without business relationship performance.

Clay (2001) and Iskandar *et al*. (2011) found that institutional ownerhip are able to act more effectively as monitors to the management compared to individual investors. Institutional investors have more incentives to monitor the management because the value of their investments is larger. Ahmad (2008) also showed that the institutional investors have more expertise to implement the monitoring responsibility at the lower costs.

Results also indicate that the institutional investor equity ownership respectively have negative significant relationships with going concern. These findings support the agency theory which argues that the best practice of corporate governance helps companies avoid financial and operational problems. A similar requirement is stated in the Code of Corporate Governance. Hence, institutional ownership is found to be features that could also enhance the effectiveness of board of directors in improving the company performance and preventing business problems. Findings on equity ownership of institutional investors respectively provide further evidence to the corporate governance literature (Saleh, Iskandar & Rahmat 2007). Directors who own equity in the company are motivated to improve the company goal to maximise shareholders' wealth which in turn benefits them being the shareholders of the company (Core & Larcker, 2002; Kim *et al*., 2004). In the meantime, institutional

investors become key players in the corporate governance structure as external monitors other than the auditors (Iskandar *et al*., 2011).

In the relationship between the institutional ownership and the going-concern, there is lack of studies that has been carried out in this context (Iskandar *et al*., 2011). Parker *et al.* (2005) examined such relationship and their results suggest that the management and institutional ownerships help to improve the company financial performance.

In Jordan, Al-Fayoumia and Abuzayed (2009) explained that most of the institutional ownership is made up of financial institutions and Social Security Corporation (SSC). There is an absence of investment companies or developed mutual funds. As a result, institutional ownership in Jordan is expected to have a bad ability to exert influence power or control over management actions. They (Al-Fayoumia & Abuzayed, 2009) also proved that there is no evidence of the active monitoring function of institutional ownership, depicting the fact that ownership is not dependent on capital structure decisions to monitor and the control managerial behavior of Jordanian companies.

2.11.1.3 Foreign Ownership

Foreign ownership has been defined by prior studies as the percentage of equity owned by foreigners (Heyman, Sjoholm & Tingvall, 2007). In Jordan context, the investors who don't have a Jordanian nationality are considered as foreigners (Zureigat, 2011). With regards to the negotiations that take place between the auditors and clients and its effect on the process of auditing, clients have the potential

to encourage auditors to compromise their independence. This may lead to the audit quality deterioration. With regards to the auditor client relationship, there are several studies that examined factors affecting it (e.g. Beasley & Petroni, 2001; Piot, 2001; Hay & Knechel, 2004; Lennox, 2005; Pedro, Ballesta & Garc aMeca, 2005; Salleh, Stewart & Manson, 2006; Martinez & Fuentes, 2007; & Dong & Zhang, 2008). The Jordanian Companies Law allocates the selection and hiring process of the external auditor to the shareholders on the board. This section process depends on the structure of ownership a structure that can be categorised into concentrated ownership, institutional ownership and foreign ownership. The first type of ownership is where shareholders own more than 5% of the total shares and the second type is where investments are made by certain institutions. Finally, the third one is where ownership investments are made by non-Jordanian investors. This classification has also been employed by the Jordan Security commission (JSC). The JSC is a public entity that is autonomous in its financial and administrative process and it assists in the development, regulation, and monitoring of the capital market of Jordan. In this study, the effect of foreign ownership structure on the evaluation of the company's going concern by the auditors is examined in the context of Jordan.

Foreign ownership is positively and significantly associated with the firm's value, proxied by Tobin's Q (Wei, Mallinckrodt, Larson & Zakalik, 2005). In the context of Russia, Bagaeva, Kallunki and Silvola (2008) failed to determine support for the hypothesis that non-listed Russian firms owned by foreign investors have better earning quality compared to their Russian owned counterparts. Nevertheless, they reported that on listed Russian firms owned by foreigners report earnings with a more timely recognition of economic gains compared to other firms. Moreover,

according to Jiang and Kim (2004), foreign ownership is related to superior corporate transparency and minimal asymmetries in information.

The government of Jordan has issued and amended several relevant laws and regulations including the Banks Law and Privatisation instructions to attract foreign investors. In addition, JSC has employed a certain strategy to encourage foreign investments in the capital markets and one of these is to bring about efficiency, transparency and fairness in the market. Based on the above discussion and the role of audit quality on the value and financial reporting quality of firms, it is suggested that a positive association exists between foreign ownership and audit quality, as reported by Zureigat (2011).

The Jordanian government has issued and revised a number of important regulations and laws, such as the Privatisation Instructions and the Banks Law in (2000) in order to encourage and attract the investment by non-Jordanians. The JSC addressed a private strategy to encourage and attracts the foreign investments in the capital markets (JSC, 2009). One of the strategy objectives is to prompt efficiency, transparency and fairness in the market, as well to insure a high level of audit quality through insuring the auditor capacity to evaluate the going concern of firm (Ajeelah and Hamdan, 2011; Zureigat, 2011; Hamdan, 2012). Zureigat (2011) has recommended that the JSC keep its on going strategy in encouraging and attracting foreign investments in Jordanian listed firms, and to adopt new instructions that attract the institutional investments to maintain the level of audit quality that will be reflected in high quality financial reports. In addition, to the best of the study knowledge, very few studies have been carried out in the relationship between foreign ownership and going-concern. This study seeks to be the first study that address such relationship.

2.11.1.4 Family Ownership

A family-owned company can be seen as a business entity that is owned or managed by more than one member of the same family (Astrachan, Klein & Smyrnios, 2002). A family owned business is claimed by Astrachan *et al.* (2002) to have low cost of corporate governance (i.e. cost of special accounting system, security system, policy manual, legal documents and other mechanism to reduce theft and monitor employees' work habit). This is due to the reason that employees and managers in family owned business are related and trust each other. The business and economic landscape throughout the world are dominated by closely held and family controlled companies (Clinger & Morin, 2006). Global companies like Samsung, LG Group, Carrefour, Fiat Group, Cargill, Mars, Ford, Walmart and Peugeot Group are some examples of closely held and family controlled firms with 250 billion U.S.A Dollaar revenues (Clinger & Morin, 2006). Family controlled companies formed two third of all the private enterprise in Australia, 70% companies in Brazil, 90% in Chile and the U.S.A 80% in Finland and 75% in the United Kingdom (Clinger & Morin, 2006), and Malaysia, 67.2% of companies are family-owned companies (Ghazali, 2010). In Jordan, the prevailing form of ownership structure is considered as family business groups (Warrad, Abed, Khriasat & Al-Sheikh, 2012).

The agency theory contends that the presence of family members on the board of the company will increase the prospect of obtaining a qualified audit report. The reason is founded upon the agency theory, in which the family dominance in family based companies is expected be less associated with board independence, higher agency cost and lower level of the corporate transparency. Also, in family controlled companies, the board is less inclined to pressure the auditors to issue a clean report

as there is a lower chance of receiving adverse opinions. Furthermore, as family influence increases, the chances of shareholders taking disciplinary action would also minimise (Ballesta & Garcia-Meca, 2005).

Previous studies on predictors of going concern, opinion are plenty (e.g., Knechel & Vanstraelen, 2007; Shafie, Hussin, Yusof & Hussain 2009; Boone, Khurana, & Raman, 2010), however, there is only one known study that has assessed the association between family control and the issuance of such opinion which has been risen by Ballesta and Garcia-Meca (2005). The study was conducted on the Spanish companies listed in the Madrid Stock Exchange during 1999 to 2002. Specifically, the study investigated the effect of ownership concentration, board ownership, board size and family members' influence on the audit report. Result of the multivariate logistic regression indicated that, among others, the more family members in the board, the more likely companies to receive qualified audit opinions. This study is an extension of Ballesta's work as it ascertains the effect of family control on the GC opinion decision in the context of Jordan. The two measures rents for the family control are (1) the proportion of founding family directors and (2) family shareholdings.

Parng and Fu (2011) has detected firms with going-concern risk are precisely critical to all financial professionals. The analytical features included three aspects: the industry domain, the corporate governance characteristics, and the financial performance. They examined the influence of family ownership on the corporate governance risks. Their practical finding provides comprehensive understandings of the behaviours of the firms with corporate governance risks.

The dominating form of ownership structure in Jordan is family business ownership, where the families are listed and unlisted firms that are operating in many sectors and appear to be legally independent. The firms are related in one way or another as they are owned by a single family. As such, the agency theory would not be applicable in these groups as most companies are managed by family members in a way that the situation is inconsistent with the entity theory and the Code of Corporate Governance issued by the Amman Stock Exchange (Warrad *et al.,* 2012). The empirical assessments of the impact of governance mechanisms on the possibility of going-concern opinion issuance by auditors vary in the developed market but only a few in its developing and less-litigious counterparts, e.g. in Jordan (Osman & Turmin, 2012).

The following table offers a summary of major previous studies that examines the relationship between ownership structure and going concern evaluation.

Table 2.2

Summary of Major Previous Studies that Examining Ownership Structure and Going Concern Evaluation

No.	Author year	Sample	Ownership Structure: Managerial Ownership	Institutional Ownership	Foreign Ownership	Family Ownership	Main results	Hypothesis
1	Parker, Peters, & Turetsky, (2005).	A sample of 161 financially distressed firms for the time period 1988-1996.	Managerial Ownership and auditor going concern assessments	-	-	**-**	Found that managerial ownership is inversely associated with repeated going concern modifications	H1The likelihood of receiving a going concern modification varies inversely with insider ownership.
2	Ballesta and García-Meca, (2005)	The study was conducted upon the population of all Spanish non-financial companies listed in the Madrid Stock Exchange during 1999 to 2002.	-	-	-	Family Ownership	Found a positive impact of family ownership on going concern opinion issuance.	**H1:** Firms with family members on the board are more likely to receive an audit qualification, due to the lower costs of an adverse opinion in these firms.
3	Kim Ittonen 2010	sample of 193 first-time going concern audit reports issued for Russell 3000 firms between 2002 and 2008.	Managerial Ownership	-	-	-	Found that managerial ownership is negative relationships with Going Concern Audit Reports	**H1:** Decreasing (increasing) managerial ownership will increase (decrease) information asymmetry and increase (decrease) abnormal returns.

Table 2.2 (Continued)

4	Iskandar, Rahmat, Noor, Saleh and Ali, (2011)	The sample consists of 112 companies listed on the first and second boards of Bursa Malaysia in 2004.	Managerial Ownership	Institutional Ownership	-	-	Found that the management equity ownership has negative significant relationships with GCP.	**H1:** Management equity ownership is negatively related with the GCP. **H2:** Equity ownership of institutional investors is negatively related to the GCP.

2.11.2 Board Characteristics

Prior studies provided mounting evidences that the characteristics and functioning of the board of directors is related not only to firm performances, but also to the allocation of power within the company, and how this allocation affects the distribution of rents. In addition, board of directors represents the highest form of internal control to monitor top management including the CEO (Fama & Jensen, 1983; Keasey, Short & Watson, 1994; Lara, Osma & Penalva, 2007). This study seeks to examine the relationship between board characteristics (i.e. board independence, CEO duality, board size and board meeting) and going concern evaluation.

2.11.2.1 Board Independence

Independent board members are described as members of the board, who are not related to the company or upper executive management, company affiliations or external auditors through financial interests aside from owned shares, that may potentially bring the member benefit (financial or incorporeal), or that may impact his decisions or may leads him to leverage his position in the company (ASE, 2009). Independence of board of directors has been widely researched in the context of company performances in many countries including the US, the U.K., Canada, Australia and Belgium (Iskandar *et al.*, 2011). Independence of board of directors is often referred to in terms of independence of board of directors and its leadership structure. However, results of the studies have been inconsistent. Independence of board of directors is often associated with the composition of non-executive directors which is also referred to as external directors. Previous studies in this area have shown mixed results. Some studies showed positive relationships between the existence of external directors and the company performance (e.g. Alexander, Veerle & Hubert, 2001; Elloumi & Gueyie, 2001) while others showed no such significant relationships (Fosberg, 1998; Iskandar *et al.*,

2011).The study provided evidences that independent external directors have better ability to monitor and control the management relating to specific contexts such as company takeover, financial performance and financial reporting (Iskandar *et al*., 2011).

Other studies, however, did not provide support on the importance of independence variable of board of directors. Fosberg (1998) found no significant differences in the financial ratios as indicators of company performance between companies dominated by independent directors (e.g., non-executive directors) and those not dominated by independent directors. The absence of a significant relationship may be due to the short term nature of measure of company performances (Abdullah, 2004). Significant relationships are expected to exist if the measurement of performance is of long term nature (Iskandar *et al*., 2011).

The appointment of independent board members is the main criteria to ensure the effectiveness of the board of directors. The boards of directors with independent external directors as members would be able to avoid any conflicts of interest and to monitor the management effectively (Abdullah, 2001). This statement is consistent with the requirement of the Code of Corporate Governance in Jordan (ASE, 2009) which specifies the board composition must consist of at least one third members are non-executive directors. This is because external directors are stricter in carrying out their duties because they have no relationships with the company operation (Iskandar *et al*., 2011).

Parng and Fu (2011) detected firms with going-concern risk is precisely critical to all financial professionals. The analytical features included three aspects: the industry domain, the corporate governance characteristics, and the financial performances. They examined the influence of percentage of independent directors on the corporate governance risks. Their practical finding provides comprehensive understandings of the behavior of the firms with

corporate governance risks. The testing results showed 87.5% successful rate which demonstrated itself as an effective and analytical tool and will suffice the practical needs for detecting firms with going-concern risk. On the other hand, Parker *et al.* (2005) found that board independence is inversely associated with repeated going concern modifications.

In Jordanian firms, the boards are mandated to include independent members to ensure objective decisions. The board's maintenance of the monitoring ensures the balanced influence among all parties (principal shareholders and executive management) and it guarantees that decisions are made that are consistent to the bank's interests (JCB, 2010).

According to Sharar (2007), the restriction requiring directors in Jordanian companies to own a specific number of shares to be board members should be taken out as this would promote independent technical and professional expertise on boards. This should be applied instead of keeping the domination of controlling families among boards in Jordan.

2.11.2.2 CEO Duality

CEO duality is usually deemed to occur when the board chair of a company is also its chief executive officer. Those arguing in favor of CEO duality adopted the argument that duality leads to increased effectiveness, which will result in improving company its performance (Peng, Zhang & Li, 2007). Alexander *et al.* (2001) founded that companies have better corporate governance system when the position of the chairman of board of directors and the CEO are not held by the same individual. Haniffa and Hudaib (2006) documented that companies with a separation of duty between CEO and chairman tend to perform better than those with role duality. Rahmat, Mohd-Salehand Iskandar (2004) find that companies that faced with financial problems tend to practice CEO duality compared to companies without financial difficulties. Saleh, Iskandar& Rahmat (2005) finds that the existence of

CEO/Chairman duality is positively related to earnings management. In Belgium, Alexander *et al*. (2001) find that CEOs with dual roles are able to obtain returns on assets. CEOs with dual roles tend to take actions that would increase returns on investment with the objective of developing their reputation. Contrary to this, Abidin, Kamal and Jusoff (2009) and Ponnu (2008) did not find any evidences associating CEO/Chairman separation to better performance. Similarly, Rahman and Ali (2006) failed to document a significant relationship between the role duality and the earnings management (Iskandar *et al*., 2011).

The monitoring and controlling roles of board of directors can be carried out more effectively when positions of CEOs and chairman of board of directors are held by two separate individuals (Iskandar *et al*., 2011). An effective board of directors should be able to act independently without being influenced by the management particularly the CEOs (Abdullah, 2001). The separation of responsibilities between both positions is necessary because the monitoring role of the chairman and implementation role of management operation by the CEO may become ineffective if the positions are assigned to the same individual (Abdullah, 2004). Parker *et al.* (2005) found that auditors are twice as likely to issue a going concern modification when the CEO is replaced.

This study finding suggested several improvements to the Code of Corporate Governance in terms of substances or enforcements. Firstly, regulators must not allow the practice of duality roles between the board chairman and CEO. These two roles must be carried by separate individuals. Secondly, regulators should provide certain incentives to encourage company managers or institutional investors to hold certain portion of the company equity. Thirdly, the use of the composition of non-executive directors as a basis to ensure independence of the board is not appropriate. There is no mechanism to ensure that the non-executive directors may not be appointed among family members, friends or other relatives currently or

previously to be the executive directors of the company. Therefore, other members of the board may not be able to make inquiries or argue on any actions or decisions made by the executive directors. The duality practice might prevent them from carrying out their roles effectively (Iskandar *et al*., 2011).

In Jordan, Abed, Al-Attar and Suwaidan (2012) have examined the effects of CEO duality on the firm performance. They found that there is no significant relationship between CEO duality and firm performance. Al Manaseer, Al-Hindawi, Al-Dahiyat and Sartawi (2012) have investigated the relationship between CEO duality and the firm performances. They found that the separation of the role of CEO and chairman have negative relationship with the performance. In addition, Abed, Al-Badainah & Serdaneh (2012) showed that there is a weakness in the monitoring function of the board of directors in Jordanian firms. They attributed the result to the existence the duality between CEO/chairman roles.

2.11.2.3 Board Size

The Code of Corporate Governance employed on shareholding firms listed on the ASE mandates that the board members should be within 5 to13 members (JSC, 2009). Previous studies evidenced the board size's role in improving management monitoring. Specifically, Monks and Minow (2011) contended that bigger boards are more capable of committing their time and effort while smaller boards are not, in terms of management oversight while Klein (2002) compounded the argument by claiming that board monitoring is positively linked with larger boards because of their ability to allocate the workload to several individuals. Xie, Davidson & DaDalt (2003) reported that earning management is not as likely to occur in firms having larger boards while Yu (2008) revealed that small boards were more susceptible to failure in detecting earning management. These findings indicate that smaller boards are more

vulnerable to management or block-holders manipulation, as their larger counterparts are more able to monitor management. Moreover, a significant positive relationship between board size and earning management indicators were found by few studies (Kao & Chen, 2004; Rahman & Ali, 2006) whereas others like Xie *et al*. (2003) showed a negative relationship between earning management and size of the board.

The relationship between board size and firm performance was examined by Bennedsen, Nielsen, and Wolfenzon (2004) in the context of 500 Danish firms and they revealed a negative relationship. They also showed that board size under 6 members did not affect performance as the affect was only confirmed for large sized boards (over seven members). In a related study, Diwedi and Jain (2002) conducted a study involving 340 large, listed Indian firms for the period 1997 to 2001. They found a weak positive association between board size and firm performance. In another related study, Adams and Mehran (2005) found a non-negative relationship between board size and performance of the firm.

They examined the influence of size of the board of directors on the corporate governance risks. Their practical finding provides comprehensive understandings of the behaviors of the firms with corporate governance risks. The testing results showed 87.5% successful rate which demonstrated itself as an effective and analytical tool and will suffice the practical needs for detecting firms with going-concern risk.

In Jordan, Jaafar and El-Shawa (2009) has examined the effects of board size on the firm performance. He found that there is a positive and significant relationship between board size and firm performance. Abed, Al-Attar and Suwaidan (2012) examined the relationship between board size and earnings management. They found out that the size of board of directors has significant relations with earnings management. On the other hand, Abed, *et al.*

(2012) have showed that there are weaknesses in the monitoring function of the board of directors in Jordanian firms. They attributed the result to the existence the duality between CEO/chairman roles.

2.11.2.4 Board Meeting

The board of directors that conduct regular meetings are more inclined to perform according to their shareholders' interests as more time can be used to observe and resolve matters pertanining to earnings management, conflicts of interest and monitoring management. Comparatively, boards that meet less are prone to have less time to acknowledge and address such issues and may only spend the limited time on management (Abed *et al*., 2012). Despite the comprehensive body of research done on the independence and size of boards of directors, there are only several studies that are concerned with the effect of board meeting frequency on earnings management. Xie *et al*. (2003) has argued that the less time spent on board meetings, the less time a board has to observe other issues besides deliberating over management plans and listening to presentations; hence, they may not have the time to focus on matters related to earnings management. Xie *et al*. (2003), has made use of a sample of 282 firm-year observations, and discovered that earnings management is crucially and negatively related to the frequency of board meetings. Chen, Li & Shapiro (2011) has found that board meeting could not moderate the adverse effect of the concentrated owners on the firm performance.

Ebrahim (2007) utilised a sample of manufacturing firms for the years 1999 and 2000 and presumed a negative connection between earnings management and both board and audit committee independence to be interceded by their activities. The outcomes supported the presumption that discretionary accruals are much lower when independent audit committees are proactive; however, they do not prove that board activity mediates the link between

earnings management and board independence. Nevertheless, meetings may not always be a determining factor of an effective board of directors. Adams, Hermalin and Weisbach (2009) carried out a comprehensive survey to look into the external directors' roles as advisors and supervisors of management. They discovered that directors who generally oversee management often participate less in boardroom discussion compared to those who do; furthermore, the CEO would usually seek for their suggestions and advice.

The board of directors in Jordanian firms held in a meeting through a written invitation from the chairman of the board or by a written request given to the chairman of the board by at least a quarter of the board members. In addition, voting on the board's decision should be done in person and voting through proxy, correspondence and any indirect manner is not allowed. Board decisions shall then be adopted by absolute majority at the meeting. The directors shall have a meeting at least once in two months, under the condition that the number of meetings in one fiscal year is more than six meetings. In these meetings, the board of directors shall appoint the board secretary who is responsible for recording the minutes and decisions of the meetings, the members attending the meeting, and the feedback in a specific sequential numbered report (JSC, 2009).

The following table offers a summary of major previous studies that examining the relationship between board characterstics and going concern evaluation.

Table 2.3

Summary of major previous studies that examining board characteristics and going concern evaluation.

No.	Author year	Sample	Board Characteristics				Main results	hypotheses
			Board Independence	CEO Duality	Board Size	Board Meeting		
1	Parker, Peters, & Turetsky, (2005).	A sample of 161 financially distressed firms for the time period 1988-1996.	Board Independence	CEO Duality	-	-	Found that board independence is inversely associated with repeated going concern odifications. Found that auditors are twice as likely to issue a going concern modification when the CEO is replaced.	**H1:** The likelihood of receiving a going concern modification varies inversely with board independence **H2:**The likelihood of receiving a going concern modification varies inversely with CEO turnover
2	Iskandar, Rahmat, Noor, Saleh and Ali, (2011)	The sample consists of 112 companies listed on the first and second boards of Bursa Malaysia in 2004.	Board Independence	CEO Duality	-	-	found that independent external directors have better ability to monitor and control the management relating to specific contexts such as company takeover, financial performance and financial reporting Found that the practice of CEO duality may impair the independence of board of directors.	**H1** Independence of board of directors is negatively related with the GCP. **H2** CEOs duality role is positively related to the GCP.

2.11.3 Audit Committee

Meanwhile, Hussein (2003) studied the audit committees' impact on main declaration and other non-financial features of firms enlisted on the Nairobi Stock Exchange (NSE). The research however failed to consider the relationship between audit committees and its association with authority, or whether they able to do their responsibilities effectively. According to Goddard and Masters (2000), although the audit committees have assumed eminenence position recently, there is still a notable gap of empirical research regarding their worth. Also, Nimer, Warrad and Khuraisat (2012) showed that the debate of whether or not audit committees are performing their duties is still largely undiscovered. Hence, more studies are needed to study the modus operandi audit committees operation in the context of developing nations.

Zahirul-Islam (2010) argues that an audit committee is one way to reduce the management incentive problem such as manipulating financial statements to get higher bonuses. This is because effective audit committees enhance the quality and credibility of annual audited financial statements. Goodwin and Seow (2002) found that the presence of a strong audit committee decreases errors in financial statements and increases the possibility of management fraud detection. Song and Windram (2004) found weak evidence on the relationship between the member financial literacy, meeting frequency, and outside directorships, and the effectiveness of audit committee. Al-Shareif (2008) found a positive relationship between independent audit committee and earnings quality in Jordan. Ismail *et al.* (2008) revealed that only audit committee with multiple directorship members is related positively to the quality of reporting. Meca and Ballesta (2009) found that independent audit committee is an effective mechanism in mitigating earnings management.

Carcello and Neal (2000) documented a positive association between audit committee independence and the likelihood of a going concern modification. They interpret their findings as consistent with an independent audit committee shielding the auditor from detrimental management pressure. We extend Carcello and Neal (2000) by investigating over time the association between audit committee and the auditor's going concern decision in conjunction with other corporate governance factors, in an alternate time period and using a different research methodology. Lin, Li and Yang (2006) also found in that particular case of a dispute between auditors and management, audit committees with independent members and financial expertise are more likely to support an independent auditor.

Even though Jordan is considered as a developing country, its financial market is well organised with the Amman Stock Exchange (ASE) currently consisting of 202 listed firms. The Jordanian market was created in 1979, and it developed over the past thirty years in various aspects (financial, regulatory and legislative). In addition, the Jordanian business laws and the SEC established regulations launched the Corporate Governance Code in 1999, where audit committees were requested for all listed corporations. As such, all listed firms are obliged to create audit committees allowing board of directors to gain assurance of the financial reporting quality and audit processes and to guarantee the independence of auditor is exists to offer an effective evaluation of the firm’s going-concern (Al-Saeed, 2011).

Jordanian firms create audit committees in reaction to the Security Exchange mandating of all listed committees to do so in order to monitor and control firms’ management (Nimer *et al.*, 2012). Nevertheless, the committee’s performance appears to be poor and ineffective because of the limitations in the audit committee’s work and its members’ weak independence.

Corporate governance and manipulation in financial statements is motivated by the recent interest showed by the government of Jordan. Thereafter, the listed companies at Amman Stock Exchange (ASE) should form boards and committees to apply corporate governance mechanisms. The Securities Law issued in 2002 also requires the public companies to apply corporate governance to enhance the transparency and accountability of financial statements in Jordan. After the financial crises in 2008, the Jordan Securities Commission issued the "Corporate Governance Code for Shareholding Companies Listed on the Amman Stock Exchange" which defines the responsibilities and duties of boards and committees in public companies (ASE, 2009; Al-Sa'eed, 2011).

For the most part, studies have proven that regular audit committee meetings often result in favorable outcomes. Anderson, Mansi and Reeb (2004) explained that creditors acknowledge the positive impact of proactive members on the reported earnings, since there is proof that frequent meetings mostly equate to minimal cost of debts. Abbott, Parker and Peters (2004) discovered that frequent meetings equate to the lower probability of reinstatement, and that an active committee is only considered as such if it carries out four meetings per year. Farber (2005), who drew a comparison regarding meetings' regularity between fraud and non-fraud firms, reported that fraudulent firms held significantly fewer meetings, contrary to their non-fraudulent counterparts. Moreover, the study indicated that the number of meetings in the fraudulent firms have improved steadily throughout the duration of the analysis. The result signaled that the audit committee members prove to be more participative in overseeing the financial reporting procedure upon the exposure of any infringement. Owens-Jackson, Robinson & Shelton (2009) also proved that there is a presence of a negative association between frequency of meetings and the occurrence of fraud.

Prior studies' findings with regards to the effect of audit committee size on earnings management are inconsistent. For example, Xie *et al*. (2003) and Bedard *et al*. (2004) investigated the association between audit committee size and earnings management. Both studies showed no significant relationship between audit committee size and earnings management. In the same way, Baxter and Cotter (2009) studied whether or not the audit committee size is related with earnings quality (e.g. Australian listed firms). Their findings showed no relationship between audit committee size and earnings quality. Moreover, Abbott *et al*. (2004) also studied the audit committee size-financial reporting quality relationship and revealed that the former had no significant effect on the latter. In another related study, audit committee size and earnings restatement association was examined by Lin *et al*. (2006) and they found a negative association between them.

The following table offers a summary of major previous studies that examines the relationship between audit committee and going concern evaluation.

Table 2.4

Summary of major previous studies that examining Audit Committee and going concern evaluation.

No.	Author year	Sample	Audit Committee			Main results
			Audit Committee Independence	**Audit Committee Meeting**	**Audit Committee Size**	
1	Parker, Peters and Turetsky, (2005)	A sample of 161 financially distressed firms for the time period 1988-1996.	Audit Committee Independence	Audit Committee Meeting	-	They also confirmed across time the positive association between audit committee independence and going concern modifications. -They also found positive association between audit committee meeting and going concern modifications.
2	Carcello and Neal (2000)	Sample of public companies experiencing financial distress during 1994 (financial institutions are excluded).	Audit Committee Independence	**-**	-	-document a positive association between audit committee independence and the likelihood of a going concern modification.
3	Bronson *et al*. (2009)	sample of public companies experiencing financial distress during 1994	Audit Committee Independence	-	-	Show that wholly independent audit committees are positively associated with the likelihood that an audit firm issues a going concern opinion to a financially distressed client, and negatively associated with the likelihood of auditor dismissal following the issuance of a going concern opinion.

2.11.4 Audit Quality

In auditing, the demand stems from the auditor's monitoring role in the relationship between principal and agent (Eilifsen & Messier, 2000; Salehi & Nanjegowda, 2006; Salehi, 2007). The agency theory postulates that an agency relationship is an agreement under which one or more principals employ an agent to conduct some service on their behalf and allocate some decision making authority to such agent (Jensen & Meckling, 1976). Conflicts in the principal-agent relationship may hinder the client from acting in the principal's best interests. To steer clear or curtail such divergence from the principal's interests, the principal may take recourse in monitoring systems (Barzegar & Salehi, 2008). One of these systems is the financial statement audit, a mechanism that assists in minimising information asymmetry and reinforcing the principal's interest (particularly the stockholders and potential stockholders) by ensuring that the management's prepared financial statements are error-free and accurate (Watts & Zimmerman, 1986; Salehi, 2008).

This study seeks to examine the relationship between audit quality and going-concern passes firstly by the distinction between the several characteristics of audit quality, such as the auditors' fees, audit firm size and non-audit services. The following section will provides more details of such relationship.

2.11.4.1 Auditor's Fees

Previous studies stated that there is a positive relationship between the audit fees and the performance of the external auditor (Bashtawi & Sufian, 2003) Asfor, (2003) on the other hand, showed that there was a relationship between the fees and the independence of the auditor. The low fees affect his performance and independence negatively (Sufian, 2003). However, Siam (2003) aimed to analyse the affecting factors on the external auditor's

independence in Jordan under the vocational regulations classified to financial and behavioral factors, and other factors related to the customer and the audit firm. The researcher calculated all the necessary statements. The results showed that there were many factors that negatively affect the independence of the external auditors in Jordan. Some of those factors are financial factors such as auditing fees.

On the other hand, AL-Basheer (2003) assures that the law of companies in Jordan determined the responsibilities of the auditor towards companies and their future. However, it did not determine the auditor's rights especially the audit fees to evaluate the going concern ability of the company. Matter (1994) also emphasises that audit fees was an important factor and had a negative effect on the independence of the auditor. Pelham and Neter (1995) examined the relationship between the financial motives and the auditor's performance. They concluded that auditors who get high fees are more independent. On the other hand, Ashton (1990) added that financial motives improve the auditor's performance. Asfor (2003) assured that audit fees affect the evaluation of the audit risks related to the companies' going concern.

Obviously, AL-Amoudi (2001) has shown that there is a gap between the audit fees and the responsibilities of the auditor. He also showed that there are no standards to determine audit fees. Therefore, Thneibat (1991) has viewed that the recent audit fees do not suit the auditor's job, which negatively affects his performances. Therefore, Khasharmeh (2003) assured that the audit fees affect the company's selection of the auditor after comparing his fees with the other firms. In addition, Basodan, Mustafa and Almotaz (2004) showed that the fees of the audit firm might lead to the changing of auditor in the public companies, which negatively affects his independence. Vanstraelen (2000) asserted that audit fees have a big effect on the audit quality; and the decrease in the audit fees is considered one of the problems by the Jordanian audit firms. The higher the audit fees, the better the audit quality. (Francis &

Simone 1987; Clarkson & Simunic, 1994; Gist, 1994). Furthermore, Geiger and Rama's (2003) study find that lawful audit fees was factually associated with going-concern audit opinion which suggest for more audit efforts in reporting the potential of the suitable going-concern assumption.

According to Al-Ajmi and Saudagaran (2011), economic reliance of external auditors on their clients is one of the independence threatening factors. Unpaid audit fee is one of the factors that were found to negatively affect the perceived auditor independence (Alleyne, Devonish & Alleyne, 2006). Abu-Bakar, Ouyang, Li & Siegel (2005) reported that commercial bank loan officers in Malaysia perceived that auditor independence is affected by the size of the audit fees.

Basioudis, Papakonstantionu and Geriger (2008) have practically assessed audit reports that deliberated over financially-oppressed firms in the United Kingdom and the sum of the audit charges payment made to the auditing firms. The study revealed that the scale of the audit fees is notably linked to the rendering of a going concern adjusted audit judgment. Particularly, firms that are under financial duress and fraught with tall audit charges are prone to obtain a going concern's adjusted auditing judgment. Al-Awaqleh (2008) has surveyed 473 external auditors that are enlisted by the Jordanian Association of Certified Public Accountants (JACPA) in 2007 and discovered audit fees are significantly and positively linked to the assessment of the firm's going concern by auditors.

2.11.4.2 Audit Firm Size

Of the factor affecting the perceived auditor autonomy, the audit firmsize has remained most highly referenced (AL-Ajmi & Saudagaran, 2011). According to them, auditing firm size is

considered as important elements that regulate the perceived auditor autonomy and quality of audit activities. They also found that a Big-Four audit firm as a promoting factor to auditor independence, corroborating the perception of the negative influence on the auditor independence whenthe auditor does not belong to a Big-Four.

Because the major outcome of an audit is the standardised audit report, studies employed several proxies in order to enhance audit quality and to determine the presence of differential in audit quality. A specific stream of audit differentiation literature addresses the quality of the client's financial statements, where discretionary accrual are frequently utilized as audit quality proxy, as they represent the auditor's limited control the reporting decisions of management (Lawrence, Minutti-Meza & Zhang, 2011; Foroghi & Shahshahani, 2012).

In Krishnan's (2003) study, he reported a significant association between discretionary accruals and future earnings of Big-Fourmore than non-Big 4. But it only partially encapsulates the audit effectiveness in constraining earnings management, as discretionary accruals reflect management opportunism along with management's attempt and random noise (Guay, Kothari & Watts, 1996). Literature dedicated to valuation indicates that Big-Four auditors offer higher guarantee to the market compared to their non-Big-Four counterparts. The underlying notion for utilising valuation proxies to measure audit quality lies in the fact that if market participants perceive that the Big-Fourclients possess higher credible earnings compared to the non-Big-Four ones, then the former should have leniency in their cost-of-equity capital. For instance, Big-Fourclients were found to have less ex-ante cost of capital compared to non-Big-Four ones in the U.S.A by Khurana and Raman (2004) but this does not hold true in Australia, Canada, or Great Britain. In Behn, Choi and Kang (2008) study, they included analyst forecast accuracy as a proxy of audit quality. According to them, if one type of auditor maximises the reporting reliability of earnings compared to other types,

then analysts of the superior type's clients should logically make forecasts of future earnings that are more accurate compared to those made by analysts of non-superior types' clients. In the entire proxies discussed above, the distinction between Big-Four and non-Big-Four auditors largely presents the characteristics of clients, particularly the size of the client (Lawrence *et al*., 2011).

Previous studies dedicated to reporting errors have also revealed inconsistent results with regards to Big-Fourreporting effect. For instance, Mutchler, Hoopwood & McKeon (1997) and Geiger, Raghunandan & Rama, (2005) examined previous audit reports issued to bankrupt firms and reached to the conclusion that no significant Big-Foureffect exists on error rates. Contrastingly, Geiger& Rama, (2006) showed in comparison to non-Big 4 firms, Big 4 ones significantly minimise their issuance of going concern changes to bankruptcy clients following the establishment of the Private Securities Litigation Reform Act, indicating Big-Fourlower quality reporting. Moreover, Mutchler *et al*. (1997) examined the effects of mitigating factors upon reporting decisions, Geiger *et al*. (2005) tackled the changes in reporting with regards to the Sarbanes-Oxley Act 2002, and Geiger & Rama, (2006) narrowed in on reporting changes with regards to the Private Securities Litigation Reform Act. While previous studies find a consistent Big-Fourquality effects in different contexts, the findings in current studies of audit reporting errors is inconsistent (Foroghi & Shahshahani, 2012).

Siam (2003) found that there were many factors that affect the independence of the external auditors in Jordan negatively, such as the size of the auditing firm and the period of auditing. The result was that the big auditing firms are more independent than those smaller ones. Therefore, Siam (2003) recommended that they should be integration between the small audit firms to give more independence to the auditor. Mousa (1992) also saw that the size of the audit firm and the time needed to audit its financial statements affected the audit fees, which

affected the independence of the external auditor. So, Priscilla and Devine (1995) aimed to find out the effect of the size of the audit firm on the auditor's opinion on the going concern of the company. He ensured that there was a relationship between the size of the firm and the qualified opinion, which means that the auditors who work in big firms are more independent in giving their opinion regarding the going concern. On the other hand, Matter (2000) states that 89% of the respondents agreed that the size of the audit firm affects auditor's opinion about the going concern.

Parng and Fu (2011) detected firms with going-concern risk is precisely critical to all financial professionals. The analytical features included three aspects: the industry domain, the corporate governance characteristics, and the financial performance. They examined the influence of audit firm size on the going concern. Their practical finding provides comprehensive under standings of the behaviors of the firms with corporat governance. The testing results showed 87.5% successful rate which demonstrated itself as an effective and analytical tool and will suffice the practical needs for detecting firms with going-concern risk.

In the research conducted by Alleyne *et al.* (2006) that focused on the external auditor and financial statement clients in Barbados, it stated that independence is further compromised due to audit firm size been small. Abu Bakar *et al.* (2005) reported that loan officers' in Malaysia commercial bank, observed that auditor independence is determined by theaudit firm size. In Jordan, Al-Awaqleh (2008) looked into the connection between audit firm size and firm's going concern evaluation by auditors.The study took a sample of external auditors who are registered with Jordanian Association of Certified Public Accountants (JACPA) in 2007. The results affirmed that audit firm size was positively and significantly correlated company's going concern evaluation by auditors.

2.11.4.3 Non-Audit Services (NAS)

One the factors that were subjected to extensive research are the impact of the provision of NAS on auditor independence (AL-Ajmi & Saudagaran, 2011). In particular, Siam (2003) said many factors affected the independence of the external auditors in Jordan negatively. Some of those factors were financial, such as the consulting services. Therefore, Guy and zeff (2002) opposed giving consultant services by the external auditor especially after the collapse of the Athron Power Company, which lead to issuing a law by the Securities and Exchange Commission in America (SEC) that prohibited the external auditor from giving consultant services to the customer. On the other hand, Jarboa (2000) stated that the consultant services should be given by qualified persons to give advice about the problems and their solutions. However, the most important problems related to independence were the consultant services the auditor gives to the company.

According to previous studies, the provision of non-audit services (NAS) by the auditor can minimise the reported earnings quality (Frankel, Johnson & Nelson, 2002; Chung & Kallapur, 2003; Michael, Gim & Danqing, 2004; Gul, Tsui & Dhaliwal, 2006). Significant amount of NAS are contended to result in the creation of economic bond between auditor and client that could adversely impact audit quality and hence, credibility of earnings (Flynn, 2009). Based on the study by Gul, *et al.,* (2006), with the increase of non-audit fees, the auditor's dependence on the client also increases. Auditors may be inclined to compromise their independence in order to keep their major clients who pay significant non-audit fees. Hence, NAS may compromise auditor's independence and result in lower earnings quality (Flynn, 2009).

The concerns of regulators regarding the premise that provision of NAS could negatively affect auditors' independence are reflected via governing bodies. In the context of the U.S.A,

the Securities Exchange Commission (SEC) and the Sarbane-Oxley Act (SOX) confines the ability of the external auditor to provide NAS. In the context of Malaysia, the NAS threats towards financial reporting quality are stressed in the revised Malaysian Code of Corporate Governance of 2012 (MCCG, 2012). According to the Code, the external auditors' independence can be compromised by their provision of NAS (Securities Commission, 2012). The MCCG (2012) emphasised that audit committees have to lay down policies that govern the situation under which contracts for NAS provision can be honored and procedures that external auditors can follow (Securities Commission, 2012, p. 19). Al-Awaqleh's (2008) survey involving 473 external auditors listed on the Jordanian Association of Certified Public Accountants (JACPA) in 2007 revealed that NAS negatively and significantly associated with the auditor's evaluation of the firm's going-concern.

The following table offers a summary of major previous studies that examines the relationship between audit quality and going concern evaluation.

Table 2.5
Summary of manjor previous studies that examining auditor quality and going concern evaluation

No.	Author Year	Sample	Auditor Quality			Main results
			Fees	Audit Firm Size	Non Audit Services	
1	Bashtawi & Sufian (2003)	External Auditors	Fees	-	-	Stated that there is a positive relationship between the audit fees and the performance of the external auditor
2	Asfor (2003)	External Auditors	Fees	Audit Firm Size	-	There was a relationship between the fees and the independence of the auditor He found that there were many factors that affect the independence of the external auditors in Jordan negatively, such as the size of the auditing firm
3	AL-Amoudi (2001)	External Auditor	Fees	-	-	There is a gap between the audit fees and the responsibilities of the auditor.
4	Khasharmeh (2003)	External Auditor	Fees	-	-	The audit fees affect the company"s selection of the bauditor after comparing his fees with the other firms.
5	Mustafa and Basodan (2004)	External Auditor	Fees	-	-	The fees of the audit firm might lead to the changing of auditor in the public companies, which negatively affects his independence.
6	Vanstraelen (2000)	External Auditor	Fees	-	-	Audit fees have a big effect on the audit quality; and the decrease in the audit fees is considered one of the problems by the Jordanian audit firms. The higher the audit fees, the better the audit quality.
7	Geiger and Rama"s (2003)	External Auditor	Fees	-	-	Find that lawful audit fees were factually associated with going-concern audit opinion which suggest for more audit efforts in reporting the potential of the suitable going-concern assumption.

Table 2.5 (Continued)

8	Alleyne, Devonish&Alleyne (2006)	External Auditor	Fees	-	-	Unpaid audit fee is one of the factors that were found to negatively affect the perceived auditor independence
9	Abu Bakar*et al.* (2005)	External Auditor	Fees	-	-	That commercial bank loan officer in Malaysia perceived that auditor independence is affected by the size of the audit fees.
10	Basioudis, Papakonstantionu and Geriger (2008)	External Auditor	Fees	-	-	They found that the magnitude of audit fees is significantly associated with the issuance of a going concern modified audit opinion. In particular, financially stressed companies with high audit fees are more likely to receive a going concern modified audit opinion.
11	Al-Awaqleh (2008)	External Auditor	Fees	Audit Firm Size	Non Audit Services	-Found that audit fees were positively and significantly related to the auditor evaluation of the company going concern. -Found that audit firm size were positively and significantly related to the auditor evaluation of the company going concern. -Found that NAS were negatively and significantly related to the auditor evaluation of the company going concern.
12	Krishnan (2003)	External Auditor	-	Audit Firm Size	-	Finds a greater association between discretionary accruals and future earnings for Big-4 than for non-Big 4 clients.
13	Khurana and Raman (2004)	External Auditor	-	Audit Firm Size	-	Find that Big-4 clients have a lower ex ante cost of capital than non-Big 4 clients in the U.S.A; however, they do not find such a difference in Australia, Canada, or Great Britain
14	Geiger et al. (2006)	External Auditor	-	Audit Firm Size	-	Conclude that, compared to non-Big 4 firms; Big-4 firms significantly reduce their issuance of going concern modifications to bankruptcy clients after the Private Securities Litigation Reform Act, suggesting lower quality reporting for Big-4 firms.

Table 2.5 (Continued)

15	Siam (2003)	External Auditor	-	Audit Firm Size	-	Found that there were many factors that affect the independence of the external auditors in Jordan negatively, such as the size of the auditing firm and the period of auditing.
16	O'Clock, &Devine (1995)	External Auditor	-	Audit Firm Size	-	He ensured that there was a relationship between the size of the firm and the qualified opinion, which means that the auditors who work in big firms are more independent in giving their opinion regarding the going concern.

2.12 Chapter Summary

This chapter has reviewed the literature related to this study such as overview of corporate governance, corporate governance in Jordan, overview of going concern evaluation and the theories related to this study. Finally, this chapter provides more details on the relationship between corporate governance mechanisms (i.e ownership structure, board characteristics, audit committee and auditor quality) with going concern evaluation. This chapter also guides the researcher to develop some hypotheses, and develop framework of study in the next chapter.

CHAPTER THREE

RESEARCH FRAMEWORK AND METHODOLOGY

3.0 Introduction

Previous chapter has elaborated the relevant literatures pertaining to the issue of the influence of corporate governance on the going concern evaluation in Jordan. Before the methodological issues are elaborated, this chapter presents the theoretical framework that becomes the basis of the present study and the hypotheses development. Cavana, Delahaye and Sekaran (2001) maintained that a theoretical framework is a foundation on which the entire research project is based. To achieve the research objectives, this study uses annual reports of Jordanian companies and also describes the methods and procedures that are used in this study. The purpose of this study is to test the relationship between the corporate governance and the extent of the external auditor evaluation of the going concern ability in the Jordanian companies. This chapter describes the research framework, hypothesis development, and research methodology. The chapter ends with a summary section.

3.1 Research Framework

The schematic diagram depicting the relationship between the independent variables corporate governance mechanism (consisting of the ownership structure, board characteristics, audit committee, and audit quality) and dependent variables (which is the going concern evaluation of the company) is illustrated in Figure 3.1. Based on the study by Sekaran (2003), a research model is the theoretical framework that conceptualises the manner in which one theorises the connections among the several factors deemed crucial in resolving the problem. This framework investigates the influence of corporate governance mechanism on the evaluation of the company's going concern.

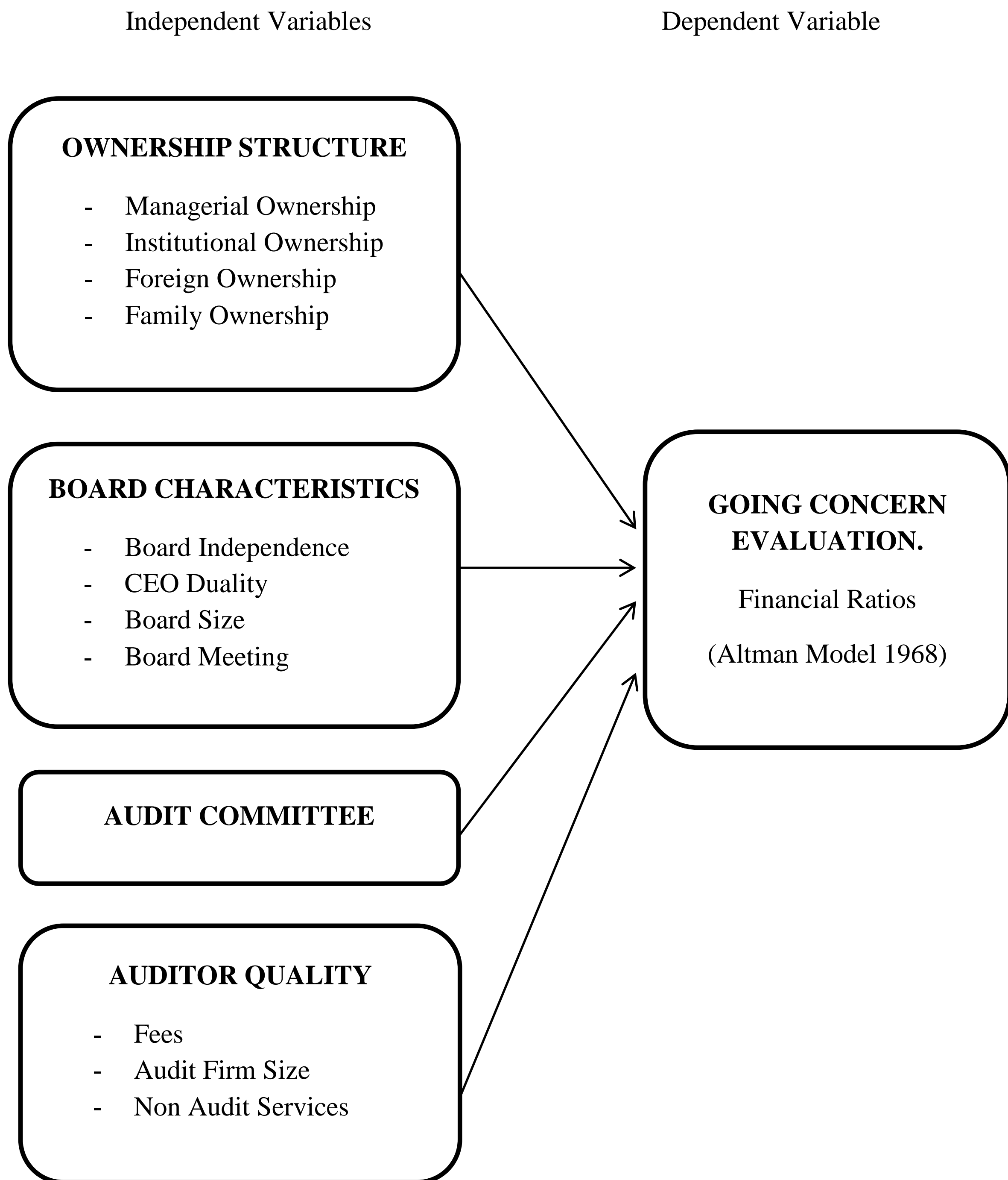


Figure 3.1
Research Framwork

The proposed model is based on the ISA No. 570 connotation on the judgment of the financial statements and the procedures that must follow in evaluating the going concern of companies. Therefore, the researcher derived the independent variables form as shown in Chapter Three

of this study as the independent variables would enhance the ability of companies in terms of going concern evaluation.

To overcome going concern problems, the agency and accountability theories have focused on the relationships between auditors and policy makers to improve the going concern evaluation. Such evaluation was made possible through the examination of relationships between the ownership structure, board characteristic, audit committee and audit quality with the going concern evaluation.

The theoretical model is also based on the accountability theory. The theory stated that the external auditors must have knowledge, experience and good skills to evaluate the going concern of companies (Hill, *et al.,* 1989; Sylvester, Macro & Eric, 2000).

In short, this study sought to examine the direct relationship between each of ownership structure, board characteristics, audit committee and auditor quality and going concern evaluation separately.

3.2 Hypotheses Development

The following hypotheses seek to test the relationship between corporate governance and the going concern evaluation. These relationships are explained in Chapter Two. The following sections provide the research hypotheses.

3.2.1 Ownership Structure

This study defined the ownership structure as the distribution of shares to amongst owners (McCann & Vroom, 2009). This study also examines the ownership structure as classified into managerial, institutional, foreign and family ownership, and its association with the

auditor’s evaluation of the company's going concern ability. There classificatiosare used to represent the ownership structure of firm in this study.

3.2.1.1 Managerial Ownership

Past studies on the effects of management equity ownership on the company performance have shown inconsistent results. For example, Kim *et al*. (2004) found non-linear relationship for companies involving initial public offerings in Thailand. They observe positive significant relationships between managerial ownership and earnings before interest and tax when the ownership is low or high. They also found negative relationship between managerial ownership and company performance. Parker *et al*.(2005) suggested that equity ownership by the management and external mechanisms respectively improve the company’s financial performance.

In contrast, previous studies also showed that management equity ownership has a significant positive relationship with firm value and agency cost (Iskandar *et al*., 2011). Other study reports non-linear relationships whereby at a certain level of management ownership reduces agency costs but at another level it increases the agency costs (Kim *et al*., 2004). Based on the agency theory, it is expected that management equity ownership has a significant negative relationship with going concern problem. When a manager becomes part of the company owners, they will have the same amount of incentive as that of the owner. Such a manager will not take risks that will not benefit them. It is therefore expected that the higher the level of management ownership in the company, the lower is the level of conflict of interest. This would in turn increase the performance of the company and avoid companies from facing Going Concern (Gul *et al.* 2003).

Parker *et al.* (2005) found that managerial ownership is inversely associated with repeated going concern modifications. Iskandar *et al.*(2011)also found that the management equity ownership has a negative significant relationship with going concern. Thus, these findings support the agency theory which argues that the best practice of corporate governance helps companies avoid financial and operational problems.

Based on the agency theory and discussion above, it is expected that there is a negative association between managerial ownership and going concern evaluation. Thus, this study presents the following hypothesis:

H1a: There is a negative relationship between managerial ownership and going concern evaluation.

3.2.1.2 Institutional Ownership

Earlier findings were consistent with Bhattacharya and Graham (2007) in the contention that institutional ownership stakes negatively impact performance. They also revealed that firm performance does not influence pressure-resistant institutional ownership stakes; a result consistent with other studies in literature such as Demsetz and Villalonga (2001) and Thomsen*et al.*(2006), which contended that ownership decisions do not vary with firm performance.

Clay (2001) and Iskandar *et al*. (2011) found apositive impact of institutional investment where institutional investors are able to act more effectively to the management compared to individual investors. Institutional investors have more incentives to monitor the management because the value of their investments is larger. Ahmad (2008) also showed that the

institutional investors have more expertise to implement the monitoring responsibility at the lower costs (Gilson & Kraakman, 1991).

In the relationship between institutional ownership and going-concern, to the knowledge of the researcher, there is lack of studies that are carried out in this context (Iskandar *et al.*, 2011). Parker *et al.* (2005) examined such relationship and their results suggest that equity ownerships by the management and institutional investors from internal and external mechanisms respectively to improve the company's financial performance. Iskandar *et al.* (2011) found that the institutional investor equity ownership respectively has negative significant relationships with going concern. These findings support the agency theory which argues that the best practice of corporate governance helps companies avoid financial and operational problems. In the meantime, institutional investors become as external monitors other than the auditors (Iskandar *et al.*, 2011). Based on the discussion above and agency theory, this study provides the second hypothesis as follows:

H1b: There is a negative relationship between the institutional ownership and going concern evaluation.

3.2.1.3 Foreign Ownership

Wei *et al.* (2005) discovered that foreign ownership is significantly and positively connected to the company's value, as measured by Tobin's Q. Bagaeva *et al.* (2008) did not detect any justification for the hypothesis that non-listed Russian firms as owned by foreign investors that have been reported to earn more are better than the Russian-owned non-listed firms. Nevertheless, it has been found that the non-listed Russian firms with foreign ownership report their earnings with a more précised recognition of economic gains compared to the rest.

Jiang and Kim (2004) described that foreign ownership has a correlation with higher corporate transparency and lower information asymmetries.

Mohandi and Odeh (2010) found that companies with higher percentage of foreign ownership correlate positively with the quality of financial statements in Jordan. Aydin *et al*. (2007) found a positive relationship between foreign ownership and a company's performance. They argued that foreign ownership enhances a company's performance better than domestically owned. On the contrary, Klai and Omri (2011) found a negative relationship between foreign ownership and financial reporting quality. Similarly Ali, Salleh and Hassan (2008) found a negative relationship between foreign ownership and discretionary accruals in Malaysia.

Thus, following the agency theory and the result of previous studies that mentioned above found that foreign ownership enhances quality of financial statements and firm performance. The next hypothesis is developed as follows:

H1c: There is a positive relationship between the foreign ownership and going concern evaluation.

3.2.1.4 Family Ownership

The agency theory contends that the existence of family members in the board of the firms will increase the possibility of attaining a qualified audit report. An explanation based on the agency theory is that family dominance in family-based companies is assumed to be associated with lower extents of board independence, higher agency cost and lower level of corporate transparency. Moreover, the boards are less likely to impose on the auditors on the release of a clean report since the cost of receiving an adverse opinion is lower in family-

controlled companies. Furthermore, the increase of family influence would lower the probability of shareholders taking disciplinary actions (Ballesta & Garcia-Meca, 2005).

Previous studies on predictors of going concern opinion are plenty (e.g., Knechel & Vanstraelen, 2007; Shafie, *et al*., 2009; Boone, *et al.,* 2010). However, there is only one known study that assessed the association between family control and the establishment of such opinion which is by Ballesta and Garcia-Meca (2005). The study was conducted upon the population of all Spanish non-financial companies listed in the Madrid Stock Exchange during 1999 to 2002. Specifically, the study investigated the effect of ownership concentration, board ownership, board size and family members' influence on audit report. Result of the multivariate logistic regression indicated that, among others, the more family members in the board, the more likely the companies to receive qualified audit opinion. This paper is an extension of Ballesta's work as it ascertains the effect of family control on the going concern (GC) opinion decision in the context of Jordan.

Ballesta and Garcia-Meca (2005) in Spain, which is also a less litigious context like Malaysia, found a positive impact of family ownership on going concern (GC) opinion issuance. The findings in a way showed that Malaysian auditor can maintain independence and provide quality audit even though they operate in situations where family owners are very dominant. The findings did not support agency theory explanation which suggests that high degree of family control is associated with lower level of board independence and makes auditors more likely to issue going concern (GC) opinion. Future studies could explore this association between family control and going concern (GC) opinion issuance by adopting other measure for the family control concept and use a larger sample. Thus, following the agency theory and the results of previous studies mentioned above which claimed that family ownership enhances qualified audit report; the next hypothesis is developed as follows:

H1d: There is a positive relationship between the family ownership and going concern evaluation.

3.2.2 Board Characteristics

This study examines board characteristics as classified into board independence, CEO duality, board size and board meeting, and its association with the auditor's evaluation of the company's going concern ability. This classification is used to represent the board characteristicsof firm in this study.

3.2.2.1 Board Independence

Independence of board of directors and equity ownership have been widely researched in the context of company performance in many countries including the U.S.A, U.K., Canada, Australia and Belgium (Iskandar *et al*., 2011). Independence of board of directors is often referred to in terms of independence of board of directors and its leadership structure. However, results of the studies have been inconsistent. Independence of board of directors is often associated with the composition of non-executive directors which is also referred to as external directors. Previous studies in this area have shown mixed results. Some studies show positive relationships between the existence of external directors and the company's performance (e.g. Alexander *et al*., 2001; Elloumi & Gueyie, 2001) while others show no such significant relationships (Fosberg, 1998; Iskandar *et al*., 2011). In contrast, Parker *et al.* (2005) found that board independence is inversely associated with going concern modifications.

The study provides evidence that independent external directors have better ability to monitor and control the management relating to specific contexts such as company takeover, financial

performance and financial reporting (Iskandar *et al*., 2011). The appointment of independent board members is the main criteria to ensure the effectiveness of the board of directors. Boards of directors with independent external directors as members would be able to avoid any conflict of interest and to monitor the management effectively (Abdullah, 2001). Perry and Shivdasani (2005) finds that boards comprised of outsiders are more likely to make proactive efforts intended to curb downward performance trends.

Parng and Fu (2011) detected firms with going-concern risk is precisely critical to all financial professionals. Based on the above discussion, it is argued that the existence of external directors has a positive influence on the company performance in reducing the company going concern (Iskandar *et al*., 2011). Therefore, the next hypothesis is as follows:

H2a: There is a positive relationship between the board independence and going concern evaluation.

3.2.2.2 CEO Duality

CEO duality arises when the chairman of the board also occupies the CEO position. Advocates of CEO duality cite the argument that duality results in maximised effectiveness, which will be represented in the company performance improvement (Peng, Zhang, & Li, 2007). In another study, Alexander *et al*. (2001) found that companies possess superior corporate governance system when the board chairman and the CEO positions are occupied by separate individuals. Additionally, Haniffa and Hudaib (2006) reported that firms with separate CEO and chairman of the board appeared to report superior performance compared to those with duality of role. On the other hand, Rahmat *et al*. (2004) showed that firms facing financial problems are more inclined to employ CEO duality compared to those who are in

clear waters. Along the same line of contention, Saleh *et al*. (2005) revealed that CEO/Chairman duality positively associated with earnings management. In the context of Belgium, Alexander *et al*. (2001) stated that CEOs in dual positions are more inclined to take actions that would maximise ROI with the aim of developing their brand name. Contrastingly, Abidin *et al*. (2009) and Ponnu (2008) failed to provide evidence that relates CEO/Chairman separation to higher performance. Also, Rahman and Ali (2006, cited in Iskandar *et al*., 2011) did not confirm a significant association between duality of role and earnings management.

The monitoring and controlling roles of board of directors can be carried out more effectively when positions of CEOs and chairman of board of directors are held by two separate individuals (Iskandar *et al*., 2011). An effective board of directors should be able to act independently without being influenced by the management particularly the CEOs (Abdullah, 2001). The separation of responsibilities between both positions is necessary because the monitoring role of the chairman and implementation role of management operation by the CEO may become ineffective if the positions are assigned to the same individual (Abdullah, 2004). Parker *et al.* (2005) found that auditors are twice as likely to address a going concern modification when the CEO is replaced. According to the Code of Corporate Governance (2009) in Jordan and the discussions above, the next hypothesis is as follows:

H2b: *There is a positive relationship between CEO duality and going concern evaluation.*

3.2.2.3 Board size

The Code of Corporate Governance applicable on the shareholding firms listed on the ASE has stipulated the number of board members – at least five and not over thirteen (JSC, 2009). Prior studies evidenced the role of board size in improving the oversight of management. According to Monks and Minow (2011), bigger boards are more committed in terms of time

and effort, while smaller boards are not as committed to management oversight. Klein (2002b) followed through on the argument and stated that board monitoring positively related with larger boards owing to their ability to allocate workload to different people. In another study, Xie *et al*. (2003) revealed that earning management is not as likely to occur in firms having larger boards while Yu (2008) reported that small boards are more susceptible to detecting earning management. These findings indicate that smaller boards are more influenced by management or block holders, because larger boards are more able to monitor top management. Other studies including Kao and Chen (2004) and Rahman and Ali (2006) revealed a significant positive relationship between the size of the board and earning management indicator. On the contrary, Xie *et al*. (2003) high lighted a negative relationship between the two. This is consistent with the study conducted by Bennedsen *et al.* (2004) who examined the relationship between boards' size and performance of 500 Danish companies. In addition to the negative association, they found that board size under six has no effect on performance and the finding is only true for large sized boards (over seven). In a related study, Diwedi and Jain (2002) carried out a study involving 340 large, listed Indian companies from 1997 to 2001. They reported a weak positive association between company board size and their performance. Meanwhile, Adams and Mehran (2005) demonstrated a non-negative relationship between board size and performance of the firm.

Parng and Fu (2011) examined the determining factors of the board size of directors on the going concern, and brought about results that lend to the comprehensive knowledge of the behaviors of the firms with going concern. In relation to the decision-tree modeling, the test results indicated that there is 87.5% success rate, which is established to be an effective and analytical means and is hoped to satisfy the practical needs of detecting firms that have going-concern risk. A variety of studies have gauged the board size by the total number of the

company's directors (e.g., Beasley, 1996; Yermach, 1996; Vafeas, 2000; Abbott *et al*., 2004 andColes, Daniel & Naveen, 2008). The present research makes use of the number of members on the board to estimate the board size; thus, to achieve the aspired results, this study recommends the following hypothesis:

H2c: There is a negative relationship between board size and going concern evaluation.

3.2.2.4 Board Meeting

Boards' directors that frequently have meetings are more likely to conduct their responsibilities according to the interests of their shareholders because ample time can be more dedicated to monitoring issues like earnings management, conflicts of interest and monitoring management. On the other hand, those that have fewer meetings do not have time to determine complex issues and spend their time managing plans (Abed *et al*., 2012). Although prior research has explored the relationship between independence and board size, to the best of the researcher's knowledge, only few studies were dedicate to the effect of board meeting frequency on earnings management. Based on Xie *et al*.'s (2003) findings, a board that does not meet frequently only has time to sign off management plans and conduct presentations and hence they may not have enough time to dedicate on issues like earnings management. Their study involved a sample of 282 firm-year observations and they concluded that earnings management significantly and negatively affects board meeting frequency. In a related study, Chen *et al*. (2011) demonstrated that board meeting does not moderate the negative impact of concentrated owners on the performance of the firm.

Xie *et al*. (2003) found that earnings management is significantly and negatively connected to the number of board meetings. Conversely, Uzun*et al.*(2004) did not find any major

differences in board meeting frequency among companies that are involved in fraud and other firms.

Holistically, board meetings are deemed to be a resource that navigates the board diligence. Many previous researches have assessed the effects of board meetings by taking into account the regularity or number of meetings (Vafeas, 1999; Beasley, Carcello, Hermanson & Lapides, 2000; Carcello, Hermanson, Neal & Riley, 2002). This study applies the same method and techniques to gauge the number of board meetings held yearly by the board of directors. This explanation brings about the following hypothesis:

H2d: There is a negative relationship between board meeting and going concern evaluation.

3.2.3 Audit Committee

Zahirul-Islam (2010) contends that an audit committee is a pragmatic means to minimise the management incentive predicaments such as manipulating financial statements to obtain higher bonuses. This is due to the fact that competent audit committees serve to improve the quality and credibility of annual audited financial statements. Goodwin and Seow (2002) discovered that the existence of a resilient audit committee minimises inaccuracies in financial reports and raises the prospect of identifying discrepancies in administration. Song and Windram (2004) stated that there miniscule proof on the connection among the literacy of member regarding financial issues, frequency of meeting, and external controls, and audit committee effectiveness.

Al-Shareif (2008) contended that there is a significant connection among incomes' quality and autonomous audit committee in Jordan. Ismail *et al*. (2008) explained that audit committee with multiple directorship members often has a positive correlation with the

quality of reporting. Meca and Ballesta (2009) deduced that autonomous audit committee represents an efficient means in moderating incomes' administration. Wan-Hussin and Haji-Abdullah (2009) looked into the connection between audit committee and the quality of financial statements in Malaysia, and discovered that the presence of a large audit committee has a positive correlation with the quality of financial reporting. In a similar research, Rainsbury *et al*. (2009) examined the link among the audit committee quality and quality of financial reporting, it was argued that there is no noteworthy link among an audit committee quality and financial reporting the quality. The results indicated that there is less expectation from regulators and decision-makers even with the formation of a high quality audit committee.

Al-Khabash and Al-Thuneibat (2008) revealed that inept corporate governance (particularly in the lack of an audit committee) has a significant and positive connection with the illegal incomes' administration. Furthermore, Ismail, Dunstan & Van Zijl (2009) discovered that the size of the audit committee has a positive link with the earnings' quality. Lin and Hwang (2010) further explained that incomes administration has an adverse association with the autonomy, skills and the frequency of meetings among the audit committee. On the contrary, Wenyao and Qin (2008) deduced that the presence of an audit committee did not minimise the propensity of the earnings' management.

According to the above discussion and the results of previous studies, this study proposes a positive relationship between audit committee and the auditors' evaluation of the company's going concern. Therefore, the next hypothesis isdeveloped as follows:

H3: There is a positive relationship between audit committee and going concern evaluation.

3.2.4 Audit Quality

This study examines audit quality as classified into fees, audit firm size and non-audit services, and its association with the auditor's evaluation of the company's going concern ability. This classification is used to present the audit quality of firm in this study.

3.2.4.1 Fees

Audit fees have a crucial role in the audit work since it affects the auditor's performance and the auditing quality. Audit fees are means that help to support the auditor's independence and improve his or her performance. Many researchers studied the relationship between the audit fees with other factors such as auditor's independent, audit quality, and auditor performance. Bashtawi and Suleiman (2003) confirmed that low audit fees negatively affect the auditor's performance. Siam (2003) found that the higher the audit fees, the higher the auditor's independence. This means that there is a positive relationship between the auditor's fees and his independence. In addition to that, companies tend to decrease their expenses by selecting audit firm with low audit fees. This leads to the competition in the market through the frequent changes of audit firm, which will affect the audit quality negatively.

One of the factors that impact the auditor's ability to evaluate the company's going concern is the fee received (Asfor, 2003; Bashtawi & Sufian, 2003; Siam, 2003; and Basodan *et al.*, 2004). Geiger & Rama (2003) explained that audit fees are related with going-concern audit opinion and this implies that higher audit efforts in reporting have to be expended for the assumption of going concern. Moreover, the audit fees magnitude is significantly related to the issuance of going concern as modified by the audit opinion. Specifically, financially challenged companies with high audit fees are more likely to get modified going concern audit opinion (Basioudis *et al.*, 2008).

According to the above discussion and the results of previous studies, this study proposes a positive relationship between audit fees and the auditors' evaluation of the company's going concern. Therefore, the next hypothesis is as follows:

H4a: There is a positive relationship between audit fees and going concern evaluation.

3.2.4.2 Audit Firm Size

Audit firm size is one of the most cited factors affecting perceived auditor independence and a Big-Four international firm is an enhancing factor to auditor's independence (Al-Ajmi & Saudagaran, 2011). Auditor's independence is compromised by the small size of the audit firm (Alleyne *et al*., 2006). Siam (2003) stated that when the external auditor works in a big audit firm, he becomes more independent. Big audit firms also have superior technology and more tented employees than smaller firms, and consequently have higher incentives to behave independently (Mclennan & Park, 2003). Behn *et al.* (2008) found that Big-Four have higher audit quality than non Big-Four. Ireland (2003) and Farrugia and Baldacchino (2005) argued that Big-Four audit firms are more likely to issue qualified opinion because they are with high quality that enabled them to detect and report any problem. At the same time, Big-Four are able to resist management pressure to issue clean opinion because they have more to lose if their reputations are stirred. Auditor's reports compiled by the larger audit firms tended to be less faulty since they have a technical department that provide advice on the ongoing changes in audit reporting (Audit Report, 2002).

The size of an audit firm stands as one of the aspects that shapes their ability in assessing the firm's going concern (Matter, 2000; Al-Basheer, 2003; & Asfor, 2003). Matter (2000) mentioned that Big-Four firms take more precised decisions about the going concern. Geiger and Rama (2006) discussed the audit going concern reports, as issued from the years 1990

to 2000 by firm size as the Big-Four, besides the national and regional. While controlling the amount of distress, they discovered that the Big-Four firms have primarily lower error rates than their national and regional counterparts. As such, smaller firms do not own as many resources as the Big-Four firms; hence, they are less competent in searching for errors (Craswell *et al*., 2002). Overall, the assessment of going concern by the Big-Four firms is more meticulous and comprehensive than the small audit firm and the following hypothesis is provided:

H4b: *There is a positive relationship between audit firm size and going concern evaluation.*

3.2.4.3 Non Audit Services (NAS)

Non-audit services means assistance offered by the external auditor or the audit firm to his agent, such as: (1) Tax Services; (2) Management Advisory Services (MAS); (3) Small Businesses, Non-audit Accounting Services; (4) Management Advisory Services (MAS) Engagement and MAS Consultation. Thus, non-audit services can be used as a management tool to assess, assist the internal audit, and improve the financial performance of the client (Al-Momani, 2004).

Some arguments have been proposed to prevent auditors from performing Non- Audit Services (NAS) to their clients and these include; business association increases audit fees, attracts client to the auditor and clouds auditor's judgment while attempting to maintain the client (Swanger & Chewnini, 2001). In fact, the auditors have come into increasing focus in the recent years concerning significant NAS fees they receive from clients, and the potential adverse effect of such fees on their independence. The proponents of this view argue that the provision of NAS to clients may make it more possible for auditors to compromise their independence at the client's wishes (Basioudis *et al*., 2008). Such arguments are of specific

concern in case of reporting decisions associated with the going-concern uncertainties of major clients.

Provision of Non Audit Services (NAS) to the client by the auditor makes them the defender of the client. The auditor will feel that his or her reputation as a consultant is related to the reputation of the client, which prevents him from taking any action that might affect the reputation of that client. In addition, the auditor may be closer to the company's management, providing a chance for a personal relationship between them and then affecting his or her independence. The client may also choose to change the audit firm that provides the non-audit services, which could also reduce the auditor's ability to objectively report any going concern problems. Provision of non-audit services affects the auditor's ability in evaluation of the client's going concern (Basodan, *et al.,* 2004). Clients with high non-audit fees are less likely to receive a going-concern modified audit opinion from the auditor (Basioudis *et al*., 2008). Companies that have relatively higher non-audit services fee are less likely to receive a going-concern opinion in the preceding year of bankruptcy (Sharma, 2001). Clients that paid high non-audit services charges are more likely to obtain anobjective audit report asa result of non-audit services sorting out areas grey at the client firm or it could also be due to high non-audit services chargesunderminingautonomy of auditors (Firth, 2002).Furthermore, the increasing dependence on non-audit services charges may establish an economic bond that could jeopardiesautonomyof external auditor (Francis, 2006).

The U.S.A Securities and Exchange Commission stated that the provision of NAS may negatively impact independence. The compromise of auditor's independence is higher when NAS fees obtained by the auditor reflect a greater portion of the total audit fees (Frankel, *et al.,* 2002). In other words, the greater the auditor's involvement with the client, the lower will be the level of objectivity he holds in providing audit services (Ferguson, Seow & Young,

2004). When greater levels of NAS are provided to audit clients, loss of auditor's independence is more likely, and the issuance of qualified opinion on the financial statements of the company is not as likely when NAS provision is greater (Ahadiat, 2011).

Based on the prior studies, this study proposes a negative relationship between non-audit services, and the auditors' evaluation of the company's going concern. Therefore, the next hypothesis is developed as follows:

H4c: *There is negative relationship between the non-audit services (NAS) and going concernevaluation.*

3.3 Methodology

After developing the hypotheses and clarifying the framework of the study, this section explains the sample selection, data collection procedure, and measurement of variables under study, amongst others. Secondary data is used in this study as described below.

3.3.1 Research Design

This study uses causal and descriptive type of research design. In fulfilling the first objective, that is examining the extent of the corporate governance and the going concern evaluation in Jordanian listed companies; descriptive research design is used. In order to fulfill the other objectives that is to examine the relationship between corporate governance (i.e. ownership structure, board characteristics, audit committee and auditor quality) and going concern evaluation in Jordanian listed companies, causal research is used. The collection of data to accomplish all objectives are derived through data of secondary in nature primarily that is obtained through published annual reports, Amman Stock Exchange's website as well as the respective company's website.

3.3.2 Sample and Data Collection

3.3.2.1 Sample

There are three sectors under ASE; these sectors namely financial, industrial and service sector divided into 113, 72 and 58 firm respectively. This study uses only two sectors (industry and sector service) because these sectors make up of 130 firm or 53.5% of the Jordanian listed companies (ASE, 2012). This lead to (390) firm year observations for the whole sample (130 firm multipled by 3 years). The final sample after excluded the firms that do not have the necessary data and involved to the analysis process was 339 firms at the rate of 46.12% of the orginal population. This study uses only two sectors (industry and sector service) because the majority of bankruptcy cases have been concentrated in these sectors. In detail, 26 of companies that have went bankrupt from 2002 until 2011 were under the industrial sector, while 15 of them under the service sector (CCD, 2012).

This study uses data from 2009 to 2011 because of the implementation of the policy of corporate governance in Jordan, which began in 2009. Companies in the financial sector were excluded because they have different Code of Corporate Governance issued by the Insurance Commission and Central Bank of Jordan (Al-Akra *et al*., 2009). Additionally, only three bankruptcy cases have occurred in the financial sector (CCD, 2012). Thus, the industrial and services sector are more suitable to test the relationship between corporate governance and going concern evaluation in Jordanian listed company.

3.3.2.2 Data Collection

As mentioned earlier, this study follows the quantitative research approach; the data for the current study came from secondary data. All secondary data were hand-collected from the firms' annual reports.

This study uses secondary data to test the relationship between corporate governance and going concern. In detail, data is extracted from the annual reports of industrial and services companies listed in the Amman Stock Exchange. This study is from 2009 to 2011, as a result of the implementation of the policy of corporate governance in Jordan, which began in 2009.

3.3.3 Unit Analysis

The unit of analysis in this study is the Jordanian listed companies.

3.3.4 Method of Data Collection

This study seeks to examine the influence of corporate governance on the going concern evaluation in Jordan. In order to achieve this objective, several statistical tools are adopted in this study namely, descriptive statistic, regression and correlation analysis.

3.3.4.1 Descriptive Analysis

Descriptive approach is used in fulfilling the first objective of the study. It is used to describe some situation or attributes by providing measures of an event or activity (Hair, Black, Babin & Anderson, 2010). This approach is used to examine the extant of corporate governance on the going concern evaluation in Jordanian listed companies.

3.3.4.2 Multivariate Analysis

This study seeks to examine the second objective that is to examine the corporate governance (i.e. ownership structure, board characteristics, audit committee and auditor quality) and going concern evaluation in the financial reports in Jordanian listed companies. Several statistical tools are adopted in this study in order to achieve this objective, such as, regression and correlation analysis.

3.3.5 Operational Definition and Measurement of Variables

3.3.5.1 Measurement of Going Concern

The financial strength of the company affects the evaluation of its going concern. This strength has been measured by financial ratios in most cases (SA 341; SAS 59; ISA 570, Altman, 1968; Ohlson, 1980; Mutchler, 1985; Boritz, 1991; Citron and Tafler, 1992; Beaver, 1996). Likewise, the present study adopts the financial ratio to measure the going concern of firms as financial ratios are extensive used in literature (Haron *et al.,* 2009).

3.3.5.1.1 Financial Ratios

In this study, one model of financial ratios will be adopted to evaluate the going concern of firms, namely; Altman Model (1968), since the percentage use of accuracy in this model is more than 90%. In addition, financial ratios are currently in widespread use as an indicator of company's going concern. Previous studies have indicated that statistical models based on financial ratios have strong explanatory to support the auditor's judgment on the issue of a going-concern opinion (Altman, 1968; Altman & McGough, 1974; Koh & Killough, 1990; Haron *et al.,* 2009). However, Hopwood *et al.* (1994) and Haron *et al.,* (2009) stronglyclaimed that a statistical model of financial ratios has the same predictive ability as the auditor's judgment. The following section will explain the Altman's model:

- **Altman Model (1968)**

Altman (1968) made use of a multivariate, linear, discriminate analysis (MDA) and identified a cut-off value that allowed him to decide on the condition upon which companies are financially distressed or otherwise. His prediction had a 95% successful accuracy. Hence, this study employs five of Altman's ratios to determine the Z score;

$$Z\ Score = 1.2\ \frac{WC}{TA} + 1.4\ \frac{RE}{TA} + 3.3\frac{EBIT}{TA} + 0.6\frac{MV}{BV} + 1.0\frac{SA}{TA}$$

Where:

Z score	=	Firms' financial condition (strong, moderate and weak)
WC/TA	=	Working capital ÷ total asset
RE/TA	=	Retained earnings ÷ total asset
EBIT/TA	=	Earnings before interest and tax ÷ total asset
MV/TA	=	Market value of share ÷ book value of debt
SA/TA	=	Sales ÷ total asset

Based on the Z score, Altman categorizes companies as strong, moderate and weak. Z score values for strong, moderate and weak are as follows:

- Strong when Z score is > 2.99
- Moderate when Z score is 1.811–2.98
- Weak when Z score is < 1.811

3.3.5.2 Corporate Governance

The corporate governance concept is the rules and standards defining the company management-stakeholders relationship. Stakeholders comprise of employees, suppliers, lenders, creditors, consumers, shareholders and bondholders (Kim, 2006; Shanikat and

Abbadi, 2011). In the present study, corporate governance mechanisms are stressed as crucial factors affecting the financial statements quality. Specifically, the corporate governance factors included in this study are listed as follows:

3.3.5.2.1 Ownership Structure

This study defined the ownership structure as the distribution of shares to amongst owners (McCann & Vroom, 2009). This study also tests managerial ownership, institutional ownership, foreign ownership and family ownership. Governmental ownership was excluded from this study because Al-Fayoumi *et al*. (2010) stated that the Jordanian economy is private sector oriented, and state ownership is relatively small.

a) Managerial Ownership

Anderson *et al.* (2006) have defined the managerial ownership as the percentage of equity held by the firm's top executive. The managerial ownership is measured by the Chief Executive Officer (CEO) who also measured the institutional ownership and the percentage of the total number of firm's shares board (Habbash, 2010).

b) Institutional Ownership

Institutional ownership was measured as ratio, calculated by dividing the number of shares owned by institutions to total number of company's shares, following Al-Fayoumi *et al*. (2010), who measured institutional ownership "as the percentage of shares held by institutions, which includes shares owned through social security and other funds".

c) Foreign Ownership

Foreign ownership was calculated as the percentage of shares owned by foreigners to the total number of company's shares Ali *et al*. (2008), and Klai and Omriche (2011).

d) Family Ownership

This study uses family ownership to reflect a significant aspect of ownership structure in Jordan. Family ownership is calculated as the percentage of shares held by families to total number of firm's shares, as suggested by Alkhawaldeh (2012).

3.3.5.2.2 Board Characteristics

The board of directors is the top defense of shareholder's interest against unjust management activities. The board is responsible for monitoring management actions and working with senior management to bring about corporate, legal and ethical adherence (BRC, 1999; Habbash, 2010). The present study examines board independence, CEO duality, board size and board meeting.

a) Board Independence

A board member who is independent refers to the member of the board of directors who is separate from the company, executive management, affiliations or external auditors in terms of financial associations or relationships aside from being a shareholder of the company, that may benefit him (financially or incorporeally) and this benefit may impact his decision or enable him to exploit his position (ASE, 2009). Board independence is measured by the proportion of independent non-executive directors to total board members (Habbash, 2010).

b) CEO Duality

Duality of CEO refers to the situation where the chairman of the board of directors also occupies the position of CEO. Advocates of CEO duality argued that duality results to

maximised effectiveness which will be clear from the improved company performance (Peng, Zhang & Li, 2007). In this study, CEO duality is denoted as “1” if the CEO and Chairman of the Board positions are combined, and “0” if they are separate.

c) Board Size

Board size represents the total number of directors on the board with the inclusion of the CEO and the Chairman of the Board. It is calculated as the total number of board directors (Ismail *et al*., 2009).

d) Board Meeting

Board meeting is described as a formal gathering of the board of directors that is held at specific schedules in a year to rehash policy issues and problems. The meeting is presided over by the chairman of the board or an appointee and it must meet the conditions, with the deliberations recorded in minutes. Board meeting is calculated as the number of board meetings held in a year (Habbash, 2010).

3.3.5.2.3 Audit Committee

In the present study, audit committee is considered as a committee that the company appoints to liaise between the external auditors and the board of directors. The committee is generally comprises of majority of non-executive directors who are expected to discuss the affairs of the company in a practical manner (Habbash, 2010). The audit committee measurement recommended by Goodwin and Seow (2002) and Gulzar and Wang (2011), where ‘1’ denotes a company that has audit committee, and ‘0’ otherwise, is employed in this study.

3.3.5.2.4 Audit Quality

Audit quality is defined by DeAngelo (1981) and Habbash (2010) as the joint probability that the auditor will discover, observe, and report errors in the financial statement. The present study examines auditor's fees, audit firm size and non-audit services with regards to audit quality.

a) Auditor's Fees

The remuneration provided to the auditor in the current year is the auditor's fees and it is calculated as the natural log of fees paid for the services of audit as adopted in studies such as Geiger and Rama (2003), and Basioudis, Geiger and Papanastasiou (2006).

b) Audit Firm Size

The researcher uses the audit firm size measurement adopted in Hayyani's (2008) study, where he considered the firm as 'big' if it is one of the Big-Four or if it is affiliated with international entities, and '0' otherwise. This study considers the audit firms as "1" if it is big and "0" if it's small.

c) Non-Audit Services (NAS)

Non-Audit Fees are measured as the natural log of fees paid for NAS as adopted by certain studies (e.g. Geiger & Rama, 2003; Basioudis *et al.,* 2006).

Consequently, this study develops the following regression model which employs to fulfil the research objectives:

$$Z\,Score = \beta_0 + \beta_1 MANGOWN_{it} + \beta_2\, INSTOWN_{it} + \beta_3 FONOWN_{it} + \beta_4 FAMOWN_{it} + \beta_5 BRDIND_{it} + \beta_6 BRDCEO_{it} + \beta_7 BRDSIZE_{it} + \beta_8 BRDMEET_{it} + \beta_9 AC_{it} + \beta_{10} AFEES_{it} + \beta_{11} AFSIZ_{it} + \beta_{12} NAS_{it} + \varepsilon_{it}$$

Where:

Z score	= Financial condition of the company (strong, moderate andd weak)
MANGOWN	= Managerial ownership, the percentage of shares held by directors on the board to the total number of firm's shares board.
INSTOWN	= Institutional ownership, the natural logarithm of the number of shares owned by institutional investors.
FONOWN	= Foreign ownership, the percentage of shares held by foreigners to total number of firm's shares.
FAMOWN	= Family ownership, the percentage of shares held by families to total number of firm's shares.
BRDIND	= Board Independence, the proportion of independent non-executive directors to total board members.
BRDCEO	= Board CEO, dummy variable = 1 if CEO-Chairman roles combine, 0 if separate.
BRDSIZE	= Board Size, the number of directors in the board.
BRDMEET	= Board meeting, the number of board meetings held annually by the board of directors.
AC	= Audit committee was measured by the presence of audit committee in the company, in which a company that has audit committee was coded as 1, and 0 otherwise.
AFEES	= Audit fees, the natural log of fees paid for audit services (in thousands)
AFSIZ	= Audit firm size, 1 if the company is audited by a Big 4 firm, else 0
NAS	= Non-audit services, the natural log of fees paid for non-audit services (in thousands).

3.4 Chapter Summary

Past literatures and research have identified the factors of going concern and the role of external auditor in evaluating the ability of going-concern in Amman Stock Exchange, Jordan. This study uses secondary data to test the relationship between corporate governance and going concern. Data is extracted from annual reports of industrial and services companies listed in Amman Stock Exchange. This study uses data from 2009 to 2011. This study examines the indications on going-concern that is corporate governance research (i.e. ownership structure, board characteristics, audit committee and auditor quality) which influences the external auditor evaluation of the company's going concern ability.

CHAPTER FOUR

ANALYSIS AND FINDINGS

4.0 Introduction

This chapter presents the results of the empirical tests based on the research process as outlined in Chapter Three. This chapter starts with descriptive statistics of the studied variables. Then analyses of normality, multicollinearity, homoscedasticity, auto correlation are thenconducted. Next, this chapter presents the results of multiple regression tests of direct impacts of ownership structure, board characteristics, audit committee and auditor quality on going concern evaluation. Finally, discussions of results in comparison to the previous studies are presented.

4.1 Regression Assumptions

As mentioned earlier, data analyses of research model are based on regression analysis. Thus, before regression analyses were conducted, the assumptions of multiple regression analyses for research model were checked for all the variables. The assumptions are outliers, normality, linearity, multicollinearity, autocorrelation and hetroscatasticity (Coakes & Steed, 2003; Hair *et al.,* 2010).

4.1.1 Outliers

In this study, the outliers refer to "the cases that have extreme values pertaining to a single variable. It is common to define outliers as cases that have – to a certain extent – three standard deviations from the mean of the variable" (Tabachnick & Fidell, 2007). As such, outliers are perceived to be cases with extreme values with respect to a single variable. To

sum it up, outliers are cases that have more than plus (+) or minus (-) three standard deviations from the mean of the variable (Tabachnick & Fidell, 2007).

Based on Table 4.1, this study uses Mahalanohis Distance Test to examine the existence of outliers. Accordingly, outliers problem exist if the Mahalanobis Distance Values exceeds a critical value obtained from statistical tables (Tabachnick & Fidell, 2007). It was found that the critical chi-square value, using the number of independent variables as the degrees of freedom is 34.528 at alpha level of .001. In this study, the maximum value of Mahalanobis Distance Value is 33.129, which did not exceed the critical value. Thus, based on these statistics, the outlier assumption is met.

In addition, to check whether cases have any excessive influence on the model as a whole, the value of Cook's Distance was checked and cases with value than 1 are a potential problem (Tabachnick & Fidell, 2007). In this study, the results show that the maximum values of Cook's Distance is 0.036 Thus, based on these statistics, the outlier assumption is met.

Table 4.1
Mahalanohis Distance Test & Value of Cook's Distance

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	31.47	315.10	170.00	51.173	339
Std. Predicted Value	-2.707	2.835	.000	1.000	339
Standard Error of Predicted Value	9.910	27.085	16.943	3.611	339
Adjusted Predicted Value	31.42	322.32	170.15	51.428	339
Residual	-203.920	180.212	.000	83.584	339
Std. Residual	-2.392	2.114	.000	.981	339
Stud. Residual	-2.463	2.159	-.001	1.001	339
Deleted Residual	-216.139	187.931	-.145	87.155	339
Stud. Deleted Residual	-2.482	2.171	-.001	1.003	339
Mahal. Distance	3.572	**33.129**	12.962	6.079	339
Cook's Distance	.000	**.036**	.003	.004	339
Centered Leverage Value	.011	.098	.038	.018	339

4.1.2 Normality

In general, normality means “the distribution of the error (or residual) is normally distributed. Normality is needed for valid hypothesis testing. To test the normality of all variables in research model, the skewness and kurtosis values are used. The data is considered reasonably normal if the skewness values are lower than 3 and kurtosis values are lower than 10 (Kline, 1998)”. As shown in Table 4.2, the maximum and minimum Skewness values for variables are - ,884 and 2.936 respectively. This mean that all of Skewness values in the research model are lower than 3. As for the kurtosis values, all variables are ranged from – 1.999 to 8.263. These values mean that all of Kurtosis values are lower than 10. In addition, several graphs based on predicted residuals were used to check the normality assumption such as the standardised normal probability plot (normal p-p plot) and Histogram of residuals (Figure 4.1). Based on the above values and the Histogram figure, the normality assumption is met.

Table 4.2
Normality Test

	N	Skewness		Kurtosis	
	Statistic	**Statistic**	**Std. Error**	**Statistic**	**Std. Error**
MANGOWN	339	.064	.132	-.957	.264
INSTOWN	339	.363	.132	-.928	.264
FONOWN	339	2.130	.132	4.077	.264
FAMOWN	339	2.438	.132	5.516	.264
BRDIND	339	-.884	.132	.727	.264
BRDCEO	339	.113	.132	-1.999	.264
BRDSIZE	339	.689	.132	.303	.264
BRDMEET	339	1.055	.132	3.133	.264
AC	339	-.547	.132	-1.711	.264
AFEES	339	1.287	.132	1.369	.264
AFSIZ	339	.172	.132	-1.982	.264
NAS	339	2.936	.132	8.263	.264
GCON	339	-.472	.132	2.417	.264

MANGOWN= Managerial ownership. INSTOWN= Institutional ownership. FONOWN= Foreign ownership. FAMOWN= Family ownership. BRDIND= Board independence. BRDCEO= CEO duality. BRDSIZE=Board size. BRDMEET=Board meeting. AC= Audit committee. AFEES= audit fees. AFSIZ= Audit firm size. NAS= Non-audit service. GCON= Going concern evaluation.

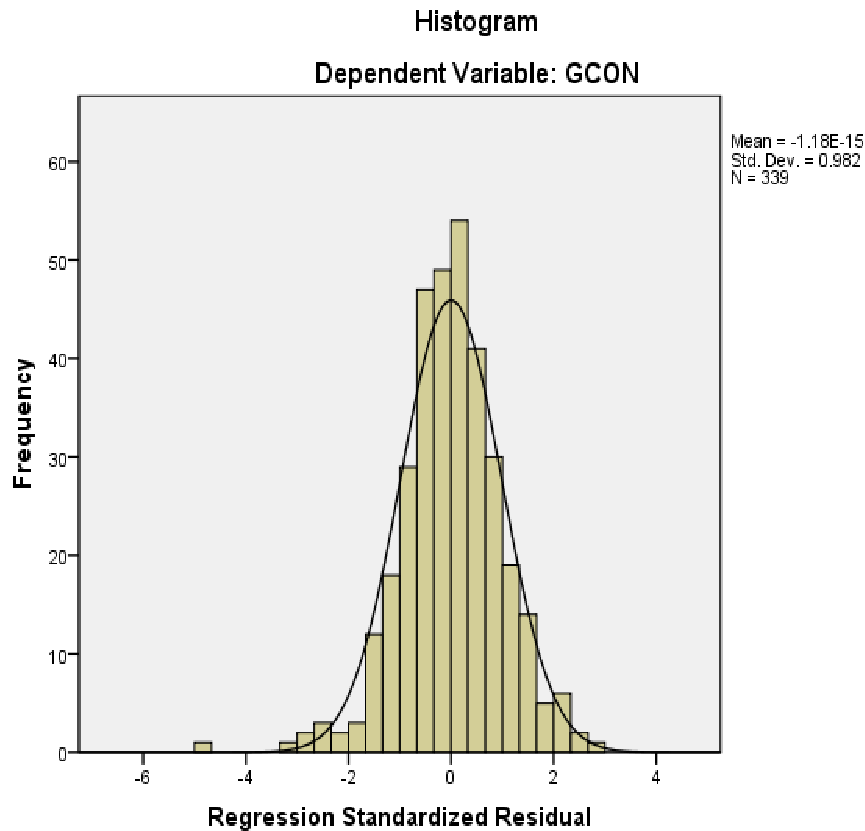


Figure 4.1
Histogram

4.1.3 Linearity

The rationale behind the testing of linearity is to examine the linear association between dependent and independent variables, which is also founded on the concept of correlation as prescribed in the linear relationship; thus, it renders it as a vital matter in the regression analysis (Hair *et al*., 2010). To monitor the linearity between the dependent and independent variables in the research model, there must be a comparative analysis applied to the standard deviation of the dependent variable with the standard deviation of the residuals (Hair *et al*., 2010). Additionally, an evaluation of the scatter plots of residuals against a predicted value for research model (Figure 4.2) indicated that there is no vivid relationship between residuals and predicted values, which is consistent with the assumption of linearity.

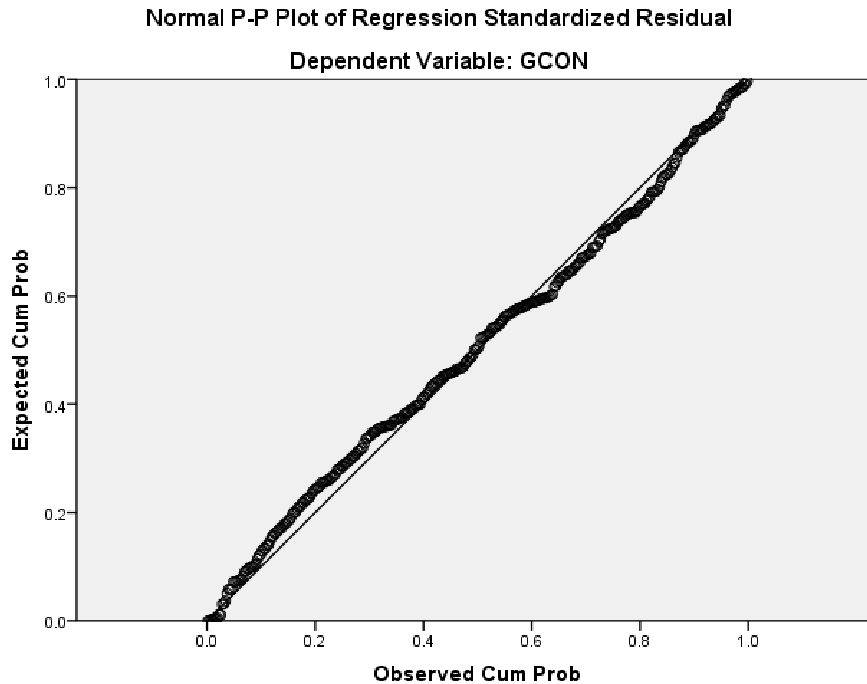


Figure 4.2
Linearity test

4.1.4 Multicollinearity

Multicollinearity is "the inter-correlation of the independent variables"(Hair *et al*., 2010). Hence, it could exist if there is high correlation among the independent variables in the regression model. To check for multicollinearity, two steps are considered. The first step is to examine the correlation among the independent variables of research model (Table 5.3). The correlation matrix (r) should not be more than 0.80 (Gujarati, 1995). As shown in Table 4.3, although the value of (r) is not more than 0.80 but some of the independent variables of the research model appear to be significantly correlated at 0.01 level.

The next step is to look at the Tolerance and Variance Inflation Factor (VIF). A VIF greater than 4 indicates a serious multicollinearity problem (Halcoussis, 2005). Table 4.3 indicates

the Tolerance of greater than 0.30 and VIF of below 4 for all variables (the highest VIF value is 1.325). These results suggest that multicollinearity is not a problemin this study.

Table 4.3
Testing for Multicollinearity

Variables	**Collinearity Statistics**	
	Tolerance	**VIF**
MANGOWN	.758	1.319
INSTOWN	.755	1.325
FONOWN	.905	1.105
FAMOWN	.899	1.113
BRDIND	.840	1.191
BRDCEO	.881	1.136
BRDSIZE	.943	1.060
BRDMEET	.906	1.104
AC	.913	1.095
AFEES	.876	1.142
AFSIZ	.824	1.214
NAS	.953	1.049

4.1.5 Autocorrelation

Autocorrelation test is used "to check if the sample data set is generated from random processes" (Hair *et al*., 2010). Kazmier (1996) indicated that the value Durbin-Watson (DW) can range from 0 to 4 and if the value of DW is below 1.4, it refers to the existence of a strong positive series problem of correlation among sample data, while a value greater than 2.6 refers to the existence of a strong negative series problem of autocorrelation. As shown in Table 4.4, the value of DW is 1.425 which means that there is no problem of autocorrelation between sample data.

Table 4.4
Autocorrelation Test:

R	R Square	Adjusted R Square	Std. Error of the Estimate	**Durbin-Watson**
.512[a]	.263	.235	.89020	**1.425**

4.1.6 Heteroscedasticity

To detect the existence of heteroscedasticity, residuals from the research model were plotted against the predicted value of reliance decision and going concern evaluation and against each explanatory variable to determine whether the error terms of the research model had constant variances. The distribution of residuals can be seen from the Scatter Plot Graph as shown in Figure 4.3.

Based on the results of the test for heteroscedasticity, it can be seen from Figure 4.3 that the spread of data does not form a certain pattern and data is spread around the null number. The scatter plot graphs indicate that the data used in this study (the whole sample) are considered free from heteroscedasticity (Hair *et al.*, 2010).

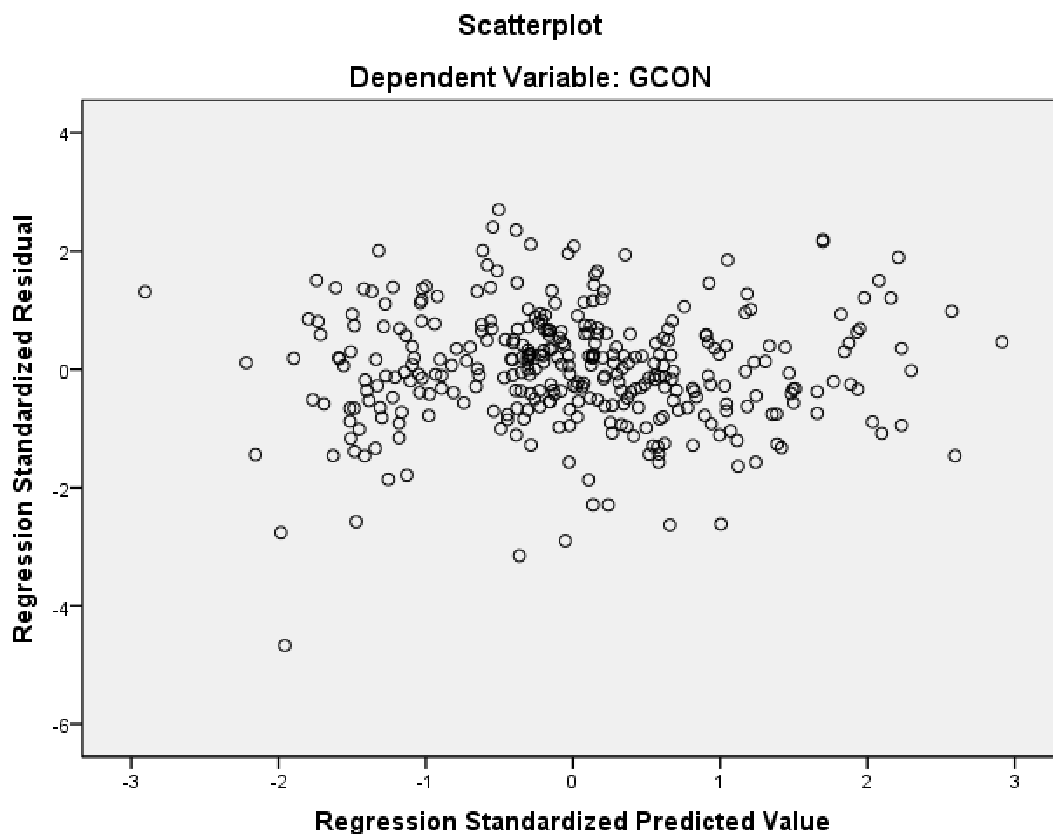


Figure 4.3
Scatter Plot

4.2 Descriptive Statistics

Descriptive statistics describe the basic features of the data in the study. The aim of this statistics is merely to summarise a data set, rather than being used to test hypotheses. Table 4.5 presents the descriptive results of the variables used in the study.

Table 4.5 shows the descriptive statistics of the dependent variables and the independent variables used in the study. The dependent variables going concern evaluation (GCON), while the independent variables are managerial ownership (MANGOWN), institutional ownership (INSTOWN), foreign ownership (FONOWN), family ownership (FAMOWN), board independence (BRDIND), CEO duality (BRDCEO), board size (BRDSIZE), board meeting (BRDMEET), audit committee (AC), audit fees (AFEES), audit firm size (AFSIZ) and non-audit Services (NAS). The descriptive statistics show the mean and standard deviation of variables. As for going concern evaluation (GCON) the mean was 77%. This ratio means that 77% of Jordanian firms received audit report with going concern. This ratio is higher than Tronnes (2011) and Kaplan and Williams (2012) who found that 25.2% and 50.8% of U.S.A firms received audit report with going concern respectively, This mean that the Jordanian firms lost the credibility of financial report due to the existence of the bankruptcy cases among Jordanian firms.

As presented in Table 4.5, the mean of managerial ownership for the sample of this study is 43.2%. Whereas the minimum value is 0%. This result indicates that there is a conflict between corporate managers and shareholders due to the asymmetry of the information between them.These findings are very close to Gharaibeh, Zurigat and Al-Harahsheh (2013) and Binoand Tomar (2012) who reported an average value of managerial ownership among Jordanian listed firms of 47.2% and 53.53% respectively. However, the mean of managerial ownership among Malaysian companies reported by Sulong, Gardner, Hussin, Sembilan,

Sanusi & Mcgowan (2013) study is closer to the study's result at 43.8%. This result mean than 43.2% of Jordanian listed firms are owned by managers of firms.

The results in Table 4.5 show that the mean of institutional ownership in this study was 34.5%, whereas the minimum value is 0%. The agency theory reported that the higher the percentage of institutional investors or greater concentrated ownership, the greater the monitoring function of these investors, and thus the greater the opportunity for better financial performance (Alkhawaldeh, 2012). This means that the Jordanian firms have followed to the privatisation system that launched during King Abdullah's reign in 2000 as an important step in economic reform system (ASE, 2009). The Jordanian government has imposed a new reinforcement into its privatisation schemes, some of which are assumed to remain in progress even as a new ruler takes leadership. In the last twelve years, the Jordan Cement Factories Company, the Aqaba Railway Company, and the Jordan Telecommunications Company have all been fully or partially privatised. Furthermore, as a move to cement the privatisation move, the government has also privatised the country's national airline, the Royal Jordanian (ASE, 2009).

As presented in Table 4.5, the results show that the mean value of foreign ownership in this study was 11%, whereas the minimum value is 0%. These findings are lower than the value of Zureigat (2011) who reported an average value of foreign ownership among Jordanian listed firms of 32.2%. This difference is due to the new strategy that followed by Jordanian government to encourage the foreign investors to allocate part of their investment in Jordan.

Regarding to the family ownership, the descriptive statistics in Table 4.5 shows that the mean of family ownership in this study was 5.3%. whereas the minimum value is 0%. These finding is lower than the findings of Warrad *et al.* (2012) who reported that the mean of family

ownership in all industrial companies listed on the Amman Stock Exchange (ASE) for the period from 2005 to 2007 was 16.4%. This difference is due to the sample and the study period.

As presented in Table 4.5, the results show that the mean of board independence was 61%, whereas the minimum and maximum values were 00 and 1.00% respectively. This results show that the Jordanian listed firms have complied with the requirements of Corporate Governance Code (2009) which stated that the majority of board members should be independent.

As reported in Table 4.5, the result shows that the mean of CEO duality for the companies in this study was 47.2%. This finding means that almost half of the Jordanian listed firms did not complied with the requirements of Corporate Governance Code (2009) to separate the roles of CEO/chairman. This result is supported by Al-Khabash and Al-Thuneibat (2009) who reported 75.4% of Jordanian listed firms did not separate the roles of CEO/chairman.

As presented in Table 4.5, the mean of board size measured by the number of board members was almost 7 members, whereas the minimum and maximum values were 1 and 13 members respectively. This finding refers that the Jordanian firms have followed the corporate governance regarding to the size of boards, while some of these firms have violated the requirement by having one member on the board of directors which is less than the minimum number of board members according to the code of corporate governance of Jordanian firms. These findings are very close to Al-Tahat (2010) and Abu-Haija (2012) who found an average value of board size among Jordanian listed firms of 8 members. This results mean that the Jordanian listed firm have an acceptable commitment with the requirements of Corporate

Governance Code which stated that the board members should be at least 3 and nor more than 13 members.

As presented in Table 4.5, the result shows that the mean of board meeting measured by the number of board meeting in a year was almost 6 meetings, whereas the minimum and maximum values were 2 and 13 meetings respectively. This result means that the Jordanian listed firms have complied with the requirements of Corporate Governance Code which stated that the board meeting should be at least 4 per year. This result indicates also that the boards of directors' meets dramatically and frequently which suggests that they addresses the important issues in their companies.

As presented in Table 4.5, the results show that 63.1%, of Jordanian firms have an audit committee. Our result suggests that there is a lack of commitment in applying the governance rules that require companies to establish an audit committee, where 1125 or 36.9% of Jordanian companies did not have an audit committee. This finding is higher to the findings of Abu-Haija (2012) who reported an average value of audit committee among Jordanian listed firms of 48.2%. This difference is based on the period of study which was from 1997 to 2006. On the other hand, 43% of Jordanian firms do not comply with the Code of Corporate Governance (2009) which require the Jordanian firms to create an audit committee.

As presented in Table 4.5, the results show that the mean of audit fees in this study sample was 9,333 Jordanian Dinner JD (13,182 USD), whereas the minimum and maximum values were 1,110 and 25,358 Jordanian Dinner JD respectively.

As presented in Table 4.5, the results show that 45.7% of Jordanian listed firms were audited by Big-Four audit firm. This finding is almost similar to Zureigat (2011) who reported an

average value of audit firm size among Jordanian listed firms of 45.3%. As presented in Table 4.5, the results show that the mean value of non-audit services (NAS) in this study was 491.74% JD (693 USD), whereas the minimum and maximum values were 0 and 6,800 JD or (9,604 USD) respectively.

Table 4.5
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
MANGOWN	339	.00	.97	.4328	.26326
INSTOWN	339	.00	.97	.3455	.26598
FONOWN	339	.00	.99	.1106	.20288
FAMOWN	339	.00	.60	.0531	.10852
BRDIND	339	.00	1.00	.6101	.19610
BRDCEO	339	.00	1.00	.4720	.49995
BRDSIZE	339	1.00	13.00	7.0649	2.16656
BRDMEET	339	2.00	13.00	6.3569	1.51111
AC	339	.00	1.00	.6313	.48317
AFEES	339	1110.00	25358.00	9333.6696	4556.12244
AFSIZ	339	.00	1.00	.4572	.49890
NAS	339	.00	6800.00	491.7404	1275.31135
GCON	339	-4.41	3.61	.7714	1.01807

4.3 Correlation Analysis

Hair *et al*. (2010) indicate that "correlation describes the strength and importance of non-random correlation between two variables. This study uses bivariate correlation and computes Pearson's correlation coefficient with their significance levels". The strength of correlation ranges from -1.00 to 1.00. A correlation value of 0.00 indicates no correlation between the variables while the value of 1.00 indicates a perfect positive correlation. The negative value of 1.00 indicates a perfect negative correlation.

Table 4.6
Correlation between Corporate Governance Mechanisms and Going Concern Evaluation

	MANGOWN	INSTOWN	FONOWN	FAMOWN	BRDIND	BRDCEO	BRDSIZE	BRDMEET	AC	AFEES	AFSIZ	NAS	GCON
MANGOWN	1												
INSTOWN	.406**	1											
FONOWN	.128*	.213**	1										
FAMOWN	-.091	-.087	-.071	1									
BRDIND	-.170**	-.092	.107*	-.166**	1								
BRDCEO	.015	-.127*	.060	.024	-.104	1							
BRDSIZE	-.034	.052	-.020	-.005	-.015	-.121*	1						
BRDMEET	.086	.010	-.071	-.070	-.222**	-.090	-.081	1					
AC	-.066	-.014	.107*	-.024	.086	.184**	-.059	-.058	1				
AFEES	-.183**	.063	.083	.098	.067	-.064	.038	.017	.046	1			
AFSIZ	.047	.118*	.036	-.175**	.074	.117*	-.159**	.007	.198**	.185**	1		
NAS	.019	.021	-.007	.001	-.084	.110*	-.020	-.029	.053	-.014	.164**	1	
GCON	.066	.122*	.091	-.201**	-.055	-.244**	.128*	.103	.088	.202**	.291**	.046	1

Table 4.6 shows that going concern evaluation correlates positively with institutional ownership, board size, audit fees and audit firm size. It is also related negatively with board CEO and family ownership.

Managerial ownership has a positive relationship with institutional and foreign ownership while there is a negative relationship with audit fees and board independents and positive relationship with board CEO, board meeting, audit firm size and non-audit services while there is a negative relationship with family ownership, board size and audit committee.

Institutional ownership has a positive connection with foreign ownership and audit fees, whereas there is a significant and negative connection with the board of CEO, and it has a positive connection with the board size, board meetings, audit fees and non-audit services. Moreover, it also has a negative connection with family ownership, board independence and audit committee. In the case of foreign ownership, it was significantly and positively linked with board independence and audit committee, as it also has a positive connection with board CEO, audit fees and audit firm size. Otherwise, it has a negative connection with family ownership, board size, board meeting and non-audit services.

Family ownership has a negative relationship with board independents and audit firm size, and positive relationship with board CEO and audit fees, and negative relationship with board size, board meeting and audit committee.

As shown in Table 4.6 board independence has positive relationship with board meeting, and there is a positive relationship with audit committee, audit fees and audit firm size, and there is a negative relationship with board CEO, board size and non-audit services.

CEO is significantly positive related with audit committee, audit firm size, non-audit services, and there is a negative relationship with board size, and negative relationship with board meeting and audit fees.

Board size has a negative relationship with audit firm size, while positive relationship with audit fees and negative relationship with board meeting, audit committee and non-audit services. Regarding to the board meeting, it has a positive relationship with audit firm size and negative relationship with audit committee, and non-audit services.

Audit committee has a positive relationship with audit firm size, and negative relationship with audit fees, and non-audit services. Finally, there is an audit fees, it was positive relationship with non-audit services. The higher correlation coefficient was between board independence and board meeting at -2.22, and between institutional ownership and foreign ownership at 2.13.

4.4 Multiple Regression Analysis

As mentioned earlier, a multiple regression was performed between the dependent and independent variable of models. In this study, a multiple regression is performed between the going concern evaluation as dependent variable and the corporate governance mechanism which are ownership structure, board characterstics, audit committee, audit quality as independent variable. Based on the result the regression of the Model for the stady is as follows:

$$Z\ Score = \beta_0 + \beta_1 MANGOWN_{it} + \beta_2 INSTOWN_{it} + \beta_3 FONOWN_{it} + \beta_4 FAMOWN_{it} + \beta_5 BRDIND_{it} + \beta_6 BRDCEO_{it} + \beta_7 BRDSIZE_{it} + \beta_8 BRDMEET_{it} + \beta_9 AC_{it} + \beta_{10} AFEES_{it} + \beta_{11} AFSIZ_{it} + \beta_{12} NAS_{it} + \varepsilon_{it}$$

Where:

Variables	Description and measurement	Predicted Direction	Relevant Hypotheses
Dependent Variable			
GCON	Going concern evaluation, Financial condition of the company (strong, moderate and weak)		
Independent Variables			
MANGOWN	Managerial ownership, the percentage of shares held by directors on the board to the total number of firm's shares board.	Positive	H1a
INSTOWN	Institutional ownership, the natural logarithm of the number of shares owned by institutional investors.	Negative	H1b
FONOWN	Foreign ownership, the percentage of shares held by Foreigners to total number of firm's shares.	Positive	H1c
FAMOWN	Family ownership, the percentage of shares held by families to total number of firm's shares.	Negative	H1d
BRDIND	Board Independence, The proportion of	Negative	H2a

	independent non-executive directors to total board members.		
BRDCEO	Board CEO, dummy variable = 1 if CEO-Chairman roles combine, 0 if separate.	Negative	H2b
BRDSIZE	Board Size, the number of directors in the board.	Positive	H2c
BRDMEET	Board meeting, the number of board meetings held annually	Positive	H2d
ACIND	Dummy variable equal 1 if the company has an audit committee and 0 otherwise	Positive	H3
AFEES	Audit fees, the natural log of fees paid for audit services (in thousands).	Positive	H4a
AFSIZ	Audit firm size, 1 if the company is audited by a Big 4 firm, else 0	Positive	H4b
NAS	Non-audit services, the natural log of fees paid for non-audit services (in thousands)	Positive	H4c

4.5 Hypotheses Testing

This section presents the findings of the relationship between the dependent variables (going concern evaluation) and the independent variables (corporate governance mechanisms) to test the hypotheses of this study. In doing so, this study used Ordinary Least-Squares Regression (OLS) to test the aforementioned relationships.

As an attempt to achieve the objectives of the research, hypotheses were developed and presented in Chapter Three. The following sections provide the findings of the relationship between the variables under study as hypothesised in Chapter Three.

4.5.1 Corporate Governance and Going Concern Evaluation (H1a to H4c)

The following regression model was employed to test the relationship between managerial ownership, institutional ownership, foreign ownership, family ownership, board independence, CEO duality, board size, board meeting, audit committee, audit fees, audit firm size and non-audit services (NAS) and going concern evaluation in Jordanian listed firms.

Table 4.7
Corporate Governance and Going Concern Evaluation

Variables	B	Std. Error	Beta	T	Sig.
MANGOWN	.209	.211	.054	.990	.323
INSTOWN	-.117	.210	-.031	-.559	.576
FONOWN	.424	.251	.084	1.688	.092
FAMOWN	-1.596	.471	-.170	-3.390	.001
BRDIND	-.718	.269	-.138	-2.665	.008
BRDCEO	-.578	.103	-.284	-5.601	.000
BRDSIZE	.067	.023	.144	2.932	.004
BRDMEET	.034	.034	.050	1.004	.316
AC	.190	.105	.090	1.812	.071
AFEES	3.440E-5	.000	.154	3.029	.003
AFSIZ	.562	.107	.275	5.255	.000
NAS	1.820E-5	.000	.023	.468	.640
DV: GOCO	R^2=.263	Adj R^2= .235	F value= 9.673	Sig= .000	N=339

Where:

MANGOWN Managerial ownership, the percentage of shares held by directors on the board to the total number of firm's shares board.

INSTOWN Institutional ownership, the natural logarithm of the number of shares owned

	by institutional investors.
FONOWN	Foreign ownership, the percentage of shares held by Foreigners to total number of firm's shares.
FAMOWN	Family ownership, the percentage of shares held by families to total number of firm's shares.
BRDIND	Board Independence, The proportion of independent non-executive directors to total board members.
BRDCEO	Board CEO, dummy variable = 1 if CEO-Chairman roles combine, 0 if separate.
BRDSIZE	Board Size, the number of directors in the board.
BRDMEET	Board meeting, the number of board meetings held annually.
ACIND	Dummy variable equal 1 if the company has an audit committee and 0 otherwise.
AFEES	Audit fees, the natural log of fees paid for audit services (in thousands).
AFSIZ	Audit firm size, 1 if the company is audited by a Big 4 firm, else 0.
NAS	Non-audit services, the natural log of fees paid for non-audit services (in thousands).

Table 4.7 shows that the model is significant (F= 9.673) (Sig F = 0.000). The model also explained 26.3% of the variation in the reliance decision (Adjusted R^2= .263).

4.5.1.1 Ownership Structure and Going Concern Evaluation (H1a to H1d)

Hypothesis (H1a)

For the first independent variable (H1a), managerial ownership (MANGOWN), the result is not consistent with our expectation; the direction of this relationship is positive and not

significant between managerial ownership and going concern evaluation (t = .990 and P =.323). This result refers to the not significant relationship between managerial ownership and going concern evaluation. However, the result is supported by the result of Mueller and Spitz (2002) who found that a managerial ownership has a positive influence on firm performance. Hence, hypothesis (H1a) is not supported.

Hypothesis (H1b)

For the second hypothesis (H1b), institutional ownership has a negative relationship with going concern evaluation. Table 4.7 shows that the direction of this relationship is negative and not significant (t = -.559, P = .576). This refers to the not significant relationship between the institutional ownership and going concern evaluation. This result is not consistent with our expectation; Iskandar *et al*. (2011) also found that the institutional investor has a negative significant relationship with going concern. This refers that the institutional ownership not enhance the level of financial report quality and control the actions of management in terms of providing users with reliable financial information that assists them in their important decision making. According to the above mentioned result. Therefore, hypothesis (H1b) is not supported.

Hypothesis (H1c)

As for the third hypothesis (H1c), this study predicted a positive relationship between foreign ownership and going concern evaluation. As seen from Table 4.7, the direction of this relationship is positive and not significant (t = 1.688, P= .092). This refers to the insignificant relationship between the foreign ownership and the going concern evaluation. This result is consistent with the result of Wei*et al.* (2005) who found that foreign ownership is positively related to the firm value measured by Tobins Q. Jiang and Kim (2004) also showed that

foreign ownership is associated with higher corporate transparency and lower information asymmetries. Mohandi and Odeh (2010) found that companies with higher percentage of foreign ownership correlate positively with the quality of financial statements in Jordan. Aydinetal (2007) also found a positive relationship between foreign ownership and a company's performance. Therefore, according to the agency theory that stated that foreign ownership has a positive relationship on the quality of financial reports. Therefore, the dominating form of ownership structure in Jordan is family business ownership, where the families are listed and unlisted firms that are operating in many sectors and appear to be legally independent. Therefore hypothesis (H1c) is not supported.

Hypothesis (H1d)

Regarding to the fourth hypothesis (H1d), family ownership has a positive relationship with the going concern. The result shows that this relationship is significant but, and in a negative direction (t = -3.390, P = .001). This refers to the significant relationship between the family ownership and going concern evaluation. This result however, is consistent with Barak *et al*. (2006) who found thatfamily ownership has a negative relationship with performance. Lin and Wu (2010) in their study of financial institution in Taiwan over the 1996 to 2007 found that the family ownership has a significant negative effect on risk. Gursoy and Aydogan (2002); Pinteris (2002); Anderson and Reeb (2003); Hagelin, Holmen and Pramborg (2006) and Paligorova (2010) found a negative relationship between family ownership and investment risk. In addition, Darmadi (2012) reported that family firms are likely to hire small accounting firms as external auditors, and these audit firms have less quality of audit than big audit firms. Therefore, the dominating form of ownership structure in Jordan is family business ownership, where the families are listed and unlisted firms that are operating in many sectors and appear to be not legally independent. Therefore, hypothesis (H1d) is supported.

4.5.1.2 Board Characteristic and Going Concern Evaluation (H2a to H2d).

Hypothesis (H2a)

This study expected a positive relationship between board independence and going concern. However, the direction of the relationship between board independence and going concern is negative and significant (t = -2.665, P = .008) as shown in Table 4.7. This refers to the significant relationship between the board independence and going concern evaluation on studies on emerging markets present inconclusive results. While some studies report a significantly positive relationship between board independence and going concern firm value and firm performance, others present insignificant or negative relationships. This result is not consistent with Agrawal and Knoeber (1996), Yermack (1996) and Bhagat and Black (2002) report a negative relationship between board independence and firm value and performance in the U.S.A and Erickson, Park, Reising and Shin (2005) in Canada. Accordingly, hypothesis (H2a) is supported.

Hypothesis (H2b)

As for hypothesis (H2b), this study expects a positive relationship between CEO duality and going concern evaluation. However, the result refers to the significant negative relationship between the CEO duality and going concern evaluation (t = -5.601, P = .000). This result is unexpected and inconsistent with our expectations, but it is consistent with the agency theory, which stated the combined roles between CEO/chairperson may significantly harm the board function to control, monitor and disciplining senior managers (Barako, Hancock & Izan, 2006). Accordingly, hypothesis (H2b) is supported.

Hypothesis (H2c)

Regarding to the hypothesis (H2c), there is a positive relationship board size and going concern evaluation. Table 4.7 shows that the direction of the relationship between board size and going concern evaluation is positive and significant (t = 2.932, P = .004). This result is not consistent with our expectation. It refers to the significant positive relationship between the board size and going concern evaluation. However, this outcome is in correlation with the result from Kao and Chen (2004) and Rahman and Ali (2006), who discovered a significant and positive connection between the board size and the empirical indicator. Furthermore, Adams and Mehran (2005) evaluated the connection between firm's performance and board size and discovered a positive link between the two. However, the proof on board size is a mixed one.

Boards in most Jordanian firms are medium-sized. However, the Jordanian Corporate Governance Code (2009) refers that the size of board must be between five and thirteen. According to the descriptive statistics in Table 4.6, the maximum and minimum of board members were between 3 and 14 respectively. This result indicates that there are not violations of the requirements of the code of corporate governance in terms of the number of board members, but generally there are an ideal number of board members in most companies. This result supports the function of board size in monitoring and controlling the actions of management. Hence, hypothesis (H2c) is accepted.

Hypothesis (H2d)

As for hypothesis (H2d), this study found that the direction between board meeting and going concern is positive and not significant (t = 1.004, P =.316). This relationship between board meeting and going concern evaluation is positive but not significant. This result is supported by the result of Greco (2011) the where study shows that the board effectiveness is related to

the frequency of board meetings. Carcello *et al*., (2002) documented that the frequency of board of directors' meeting will lead to improve the levels of control in the financial reporting process. According to our result, hypothesis (H2d) is not supported.

4.5.1.3 Audit Committee and Going Concern Evaluation (H3)

Hypothesis (H3)

As for audit committee (AC), Table 4.7 provides evidence on the positive and not significant relationship between audit committee and going concern evaluation (t = 1.812, P = .071). The outcome is in correlation with the researcher's expectation, and is also consistent with the findings from the study by Goodwin and Seow (2002) who found that the formation of a resilient audit committee reduces mistakes in financial reports and enables precise management fraud detection. Wan-Hussin and Haji-Abdullah (2009) also proved that the presence of a big audit committee is connected positively with the quality of financial reporting. As such, hypothesis (H3) is not supported.

4.5.1.4 Audit Quality and Going Concern Evaluation (H4a to H4c).

Hypothesis (H4a)

Audit fees has a positive and significant relationship with going concern evaluation (t = 3.029, P = .003). This refers to the significant relationship between the audit fees and going concern evaluation. Geiger and Rama, (2003) found that the Lawful audit fees associated with going concern audit opinion that suggest for more audit efforts in reporting the potential of suitable going concern assumption. Basioudis *et al*. (2008) reported that the magnitude of audit fees is significantly associated with the issuance of a going concern modified audit opinion. In

particular, financially stressed companies with high audit fees are more likely to receive a going concern modified audit opinion. Thus, hypothesis (H4a) is accepted.

Hypothesis (H4b)

This study found that the direction of the relationship between audit firm size is positive and significant (t = 5.255, P = .000). This refers to the significant relationship between the audit firm size and going concern evaluation. This result is consistent with the result of Siam (2003)who stated that when the external auditor works in a big audit firm, the auditor becomes more independent and get more experience and good skills based on the accountabitily theory. (Hill *et al*., 1989; Sylvester, Eljffinger, Macro, Hoeberichts & Eric, 2000). Big-Four audit firms also have superior technology and more talented employees than smaller firms, and consequently have higher incentives to have more independent auditors (Mclennan & Park, 2003). Ireland (2003) and Farrugia and Baldacchino (2005) argued that Big-Four audit firms are more likely to issue qualified opinion because they are with high quality that enabled them to detect and report any problem. At the same time, they are able to resist management pressure because they are seeking to protect and save their reputations. Thus, hypothesis (H4b) is accepted.

Hypothesis (H4c)

This study shows that non-audit services (NAS) has a positive and not significant relationship with going concern evaluation (t = 2.320, P= .022). This refers to the not significant relationship between the NAS and going concern evaluation. This result is not consistent with our prediction, but consistent with the result of Blay and Geiger (2012) who reported that providing NAS will lead the audit firms to increase their effort, at the same time increase the fees on initial audit engagements, ultimately, they are not likely to enjoy longer periods of

tenure. This result is not consistent with the accountability theory, which argues that auditors must have knowledge, experience and good skills to evaluate the going concern of firms. And thus, they may use their experience and skills to provide NAS to their clients, and therefore, they may harm their independence. Thus, hypothesis (H4c) is not supported.

Table 4.8 below shows summary of regression analysis of study based on the different between the expected sign and the actual sign of the research hypothese.

Table 4.8
Summary of Regression Analysias of Study

Independent Variable	**Expected Sign**	**Actual Sign**
MANGOWN	- ve	+ ve
INSTOWN	- ve	- ve
FONOWN	+ ve	+ ve
FAMOWN	+ ve	- ve
BRDIND	+ ve	- ve
BRDCEO	+ ve	- ve
BRDSIZE	- ve	+ ve
BRDMEET	+ ve	+ ve
AC	+ ve	+ ve
AFEES	+ ve	+ ve
AFSIZ	+ ve	+ ve
NAS	- ve	+ ve

4.6 Summary of Hypotheses Testing

Table 4.9 below provides a summary of the hypotheses that tested in the current study in order to facilitate understanding and comprehend the major results of the current study.

Table 4.9
Summary of the Results of Hypotheses Testing

No	Hypothesis Test	Results	
H1a	There is a negative relationship between managerial ownership and auditors‟ evaluation of the company's going concern.	Not Supported	+ ve
H1b	There is a negative relationship between the institutional ownership and the auditors‟ evaluation of the company's going concern	Not Supported	- ve
H1c	There is a positive relationship between the foreign ownership and the auditors‟ evaluation of the company's going concern.	Not Supported	+ ve
H1d	There is a positive relationship between the family ownership and the auditors‟ evaluation of the company's going concern.	Supported	- ve
H2a	There is a positive relationship between the board independence and the auditors‟ evaluation of the company's going concern.	Supported	- ve
H2b	There is a positive relationship between CEO duality and the auditors‟ evaluation of the company's going concern.	Supported	- ve
H2c	There is a negative relationship between board size and the auditors‟ evaluation of the company's going concern.	Supported	+ ve
H2d	There is a positive relationship between board meeting and the auditors‟ evaluation of the company's going concern.	Not Supported	+ ve
H3	There is a negative relationship between audit committee and the auditors‟ evaluation of the company's going concern.	Not Supported	+ ve
H4a	There is a negative relationship between audit fees and the auditors‟ evaluation of the company's going concern.	Supported	+ ve
H4b	There is a positive relationship between audit firm size and the auditors‟ evaluation of the company's going concern.	Supported	+ ve
H4c	There is negative relationship between the non-audit services and the auditor evaluation of the company's going concern.	Not Supported	+ ve

4.7 Chapter Summary

This chapter focuses on the analyses of the research hypotheses. This chapter contained five sections. These sections are presented as follow: Section 4.1 shows the regression assumptions, these assumptions are Outliers, Normality, Linearity, Multicollinearity, Autocorrelation and Heteroscedasticity. Section 4.2 provides the description of the sample

that presented in Table 4.5. Corelation analyses between dependent and independent variables were presented in section 4.3. Section 4.4 shows the multiple regression analyses while the hypotheses testing were presented in section 4.5. Multiple regression analyses were examined to test the relationship between corporate governance mechanisms, which are ownership structure, board characteristics, audit committee, and audit quality, and going concern evaluation. Summary of hypotheses testing were presented in Table 4.9.

As discussed before, the multiple regression analyses show that going concern evaluation has a positive relationship to managerial ownership, foreign ownership, board size, board meeting, audit committee, audit fees, audit firm size, as well as NAS. Additionally, the regression analyses show a negative relationship to institutional ownership, family ownership, board independence and CEO duality with going concern evaluation.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

The overall objective of the current study is to understand the relationships between corporate governance mechanisms and going concern evaluation among Jordanian listed firms. The concluding chapter discusses the results pertaining to the research. As such, the chapter initiates with a review of the research, and ensued with explanations on the theories that are relevant to the research model of the study. The effects from the research from the dimensions of its theory and practice are also described thoroughly. Lastly, the constraints of the study and recommendations for future research topics are provided.

5.1 Overview of the Study

The primary aim of this study is to look into the relationship between corporate governance mechanisms and going concern evaluation of Jordanian listed companies, as indexed in the Amman Stock Exchange from 2009 to 2011.

Among other aspects, this study acknowledges the issues pertaining to the conflict of interests between shareholders and management, within the corporate governance, and the going concern assessment in Jordan. Hence, to minimise the conflicts of interests between the managers and shareholders and limit the agency cost.This study developed a combination of corporate governance mechanisms that are related with the going concern issue in order to limit such conflicts.For instance, managerial ownership, institutional ownership, foreign ownership, family ownership, board independence, CEO duality, board size, board meeting,

audit committee, audit fees, audit firm size and NAS are all the means that have been formed to resolve such conflicts in the study.

The purpose of the current study is to proof the significant aspects of the mechanisms of corporate governance on the going concern evaluation among the Jordanian listed companies in the Amman Stock Exchange for the period of 2009 to 2011. Hence, in order to fulfill this purpose, the researcher has formed five research questions, which are (1) what is the extent of corporate governance and going concern evaluation in Jordanian listed companies, (2) What is the relationship between the ownership structure (including managerial, institutional, foreign, family ownership) and the going concern evaluation in Jordanian listed companies. (3) What is the relationship between the board characteristic (independence, CEO duality, size and board meeting) and the going concern evaluation in Jordanian listed companies. (4) What is the relationship between the audit committee and the going concern evaluation in Jordanian listed companies and (5) What is the relationship between the audit quality (fees, audit firm size and non-audit services) and the going concern evaluation in Jordanian listed companies?

To answer these research questions, a theoretical framework and research hypotheses are developed. For the purpose of validating the framework and hypotheses, annual reports of Jordanian listed firms are used to collect the data starting from 2009 until 2011. In addition, four sets of general hypotheses were developed for such purpose, as discussed earlier.

In accomplishing the aforesaid aims of this study, a thorough overview was performed and recorded during the study as stated in Chapter Three. Prior related literatures reported that minimal focus has been given to the investigation of corporate governance and its connection

with the going concern evaluation. Furthermore, the research framework was hypothetically founded upon the agency and accountability theory that are concerned with the corporate governance mechanisms and going concern evaluation.

To test the hypotheses of the study, multiple regression was applied to evaluate the connection between the corporate governance variables (consisting of the ownership structure, board characteristics, audit committee, and audit quality) and the going concern evaluation in Jordan. The going concern evaluation was gauged through the use of the Financial Ratios, Altman Model (1968) in ascertaining the financial situation of the company (whether it is strong, moderate and weak), as based on Z score. The relationship of the twelve corporate governance variables which are the managerial ownership, institutional ownership, foreign ownership, family ownership, board independence, CEO duality, board size, board meeting,audit committee, audit fees, audit firm size and non-audit Services form the going concern evaluation.

The research data are gathered from the companies listed in the Amman Stock Exchange for the years 2009 to 2011. The study also incorporates the multiple regression analysis through SPSS software version 18 in assessing the relationship between corporate governance and the going concern evaluation.In aiming to give an in-depth perspective to the results of this study, the next section describes the primary outcome from the study.

The findings of the current study are considered to be valuable for both practitioners and academics, as discussed in the following sections. Moreover, the limitations suffered by this study, as well as the suggestions for future studies are explained in more detail.

5.2 Discussion of the Study

This study gives a pragmatic verification on the link between the going concern evaluation and corporate governance (which is comprised of the managerial ownership, institutional ownership, foreign ownership, family ownership, board independence, CEO duality, board size, board meeting, audit committee, audit fees, audit firm size and NAS) in Jordan. In comprehensive, this study derived data from yearly reports made by the Jordanian industrial and service companies to examine the relationship between going concern evaluation and corporate governance. Four main hypotheses were developed in order to achieve the research objectives. Each main hypothesis was divided into sub-hypotheses. The following sections provide more details regarding the results of these hypotheses.

5.2.1 Ownership Structure

As stated in Chapter five, the ownership structure (managerial ownership and foreign ownership) are postively and not significantly related to the going concern evaluation, while institution ownership has a negative and not significant relationship wit going concern evaluation. Family ownership has a negative and significant relationship wit going concern evaluation.

5.2.1.2 Managerial Ownership

Managerial ownership is inconsistent with our expectation; the direction of this relationship is positive and not significant. This refers to the not significant relationship between the managerial ownership and going concern evaluation. This result is consistent with the result of Mueller and Spitz (2002) who found that a managerial ownership has a positive effect on

firm performance. According to Jensen and Meckling (1976) and Demsetz and Lehn (1985) a high level of managerial ownership may motivate managers to act in the best interest of shareholders and may serve as a positive monitoring substitute to reduce agency conflicts. Chen and Steiner (2005) use a nonlinear simultaneous equation methodology to examine how managerial ownership relates to risk taking, debt policy, and dividend policy. The results have implications for their understanding of agency costs. They find that risk is positive and significant determinant of the level of managerial ownership while managerial ownership is also a significant and positive determinant of the level of risk. The result supports the argument that managerial ownership helps to resolve the agency conflicts between external stockholders and managers but at the expense of exacerbating the agency conflict between shareholders and bondholders.

5.2.1.2 Institutional Ownership

The agency theory presumes that ownership concentration reduces agency cost (Kholief, 2008), while the logistic regression outcome indicated a negative connection between institutional ownership and the going concern evaluation. This result correlates with the findings of Iskandar *et al*. (2011) who discovered that the institutional investor has negatively significant connection with the going concern predicament. This serves as a proof that institutional ownership does enhance the excellence of financial statements and the control in management's decision by way of giving users valid information that would assist them in their decision-making. The results are also in favor of the agency theory that contends the notion that the best practice of corporate governance aids companies in evading financial and operational issues. In addition, This refers that the institutional ownership reduces the level of financial report quality and harm the control the actions of management in terms misleading

users with unreliable financial information that make them unable in taking their important decisions.

5.2.1.3 Foreign Ownership

The finding shows a positive relationship but not significant between the foreign ownership and the going concern evaluation. This signifies the unimportant connection between the foreign ownership and the going concern evaluation. The findings are compatible with the result of Wei *et al.* (2005), who discovered that foreign ownership is significantly and positively relevant to the firm's value, as gauged by Tobin's Q.(Jiang & Kim, 2004). Their research illustrated that foreign ownership is linked to the higher corporate transparency and lower information asymmetries. Meanwhile, Mohandi and Odeh (2010) ascertained the theory that companies with higher percentage of foreign ownership respond positively to the quality of financial statements in Jordan. Whereas Aydin etal. (2007) stated the presence of a positive connection between foreign ownership and the performance of firms.

Ball and Shivakumar (2005) showed also that foreign investors increase the demand for the going concern policy which would limits the incentives of managers and their ability to manipulate financial figures and so decrease information asymmetry. The Jordanian government has issued and revised various important regulations and laws, such as Privatization Instructions and Banks Law in (2000) in order to encourage and attract the investment by non-Jordanians. One of the strategy objectives is to prompt efficiency; transparency and fairness in the market, as well as to insure a high level of earning quality through adopting a higher level of going concern and reduces the information asymmetric between managers and shareholders (Hamdan, 2011; Hamdan, 2012a; Zureigat, 2011).

Previous evidences support that the foreigner ownership derived the demand of going concern evaluation practices (Ball & Shivakumar, 2005; LaFond & Watts, 2008), and financial report quality (Mohandi & Odeh, 2010).

5.2.1.4 Family Ownership

Family ownership has a negative and significant relationship with going concern evaluation; this refers to the significant relationship between the family ownership and going concern evaluation. This result is consistent with the result ofBarak, Cohen, and Lauterbach (2008) found Family ownership has a negative relationship with the performance of firms. Lin and Wu (2010) in their study of financial institution in Taiwan over the 1996 to 2007 periods found that the family ownership has a significant negative effect on risk taking. Gursoy and Aydogan (2002); Pinteris (2002); Anderson and Reeb (2003); Hagelin, Holmen and Pramborg (2006) and Paligorova (2010) found a negative relationship between family ownership and bank risk taking. In addition, Darmadi (2012) reported that family firms are likely to hire small accounting firms as external auditors, and these audit firms have less quality of audit than big audit firms.

Accordingly, that implies that family firms are likely to involve in the opportunistic behaviour in reporting earnings because it potentially could damage the reputation of family, wealth, and the long-term performance of firm. This result is contrast to our expectations. As mentioned earlier that family business groups are prevalent form of the structure of ownership among Jordanian firms. These families have many listed and unlisted firms that operate in different sectors. These firms seem legally independent. They are related to each other because they are owned by same family. It is predicted that agency theory could not be

usable over these groups, as the major shareholders and managers of these companies are owned by the family that harm the entity theory as well as the Jordanian code of corporate governance as confirmed by Warrad et al. (2012).

5.2.2 Board Characteristics

5.2.2.1 Board Independence

Board independence proves to have a negative and significant connection. This result complies with those of some studies that also defined the negative links between the presence of external directors and a company's performance (e.g. Agrawal & Knoeber (1996), Yermack (1996) and Bhagat and Black (2002) stated that there is a negative connection between board independence and firm value or performance in the U.S.A and Erickson *et al*., (2005) in Canada. The findings from this study are is backed by the agency theory that contends the idea of the association of independent directors on the firm board serves to be one of the important means that aims to minimise agency predicaments.

5.2.2.2 CEO Duality

As for CEO duality has a negative and significant connection between CEO duality and the going concern evaluation. This outcome correlates with the findings of Alexander *et al*. (2001) who stated that companies have better corporate governance performance when the position of the chairman of board of directors and the CEO are manned by different individuals. Haniffa and Hudaib (2006) opined that companies with a segregation of tasks among the CEO and chairman are inclined to perform better than those with binary roles. The result was unanticipated and does not meet the researcher's expectations; however, it did

comply with the agency theory that stated the merging of roles between CEO/chairperson may significantly jeopardise the board function to control, monitor and discipline senior managers (Barako *et al.,* 2006).

The Jordanian Corporate Governance Code (2009) stated that "It is not allowed for one person to hold the positions of chairman of the board of directors and any executive position in the company at the same time" (p. 7). However, about 63% of Jordanian firms still did not comply with this requirement.

5.2.2.3 Board size

The Jordanian Code of Corporate Governance has defined the number of board members, which should be between five and thirteen (JSC, 2009). The result in this study showed that board size has a positive and significant relationship with going concern evaluation in Jordanian firms. This result is consistent with the result of result of Kao and Chen (2004) and Rahman and Ali (2006) found a significant positive association between board size and the empirical indicator of earning management. Also, Adams and Mehran (2005) accessed the relationship between banking firm's performance and board size and found a positive relationship between board size and firm performance. Akhtaruddin, Hossain and Yao (2009) partly supported the Dalton and Dalton's (2005) argument, by reporting a positive relationship between board size and voluntary disclosure, though the positive effect was due to more independent directors on the board. Nevertheless, evidence on board size is indeed mixed.

Boards in most Jordanian firms are medium-sized. However, the Jordanian Corporate Governance Code (2009) refers that the size of board must be between five and thirteen. According to the descriptive statistics in Table 4.5, the maximum and minimum of board

members were between 3 and 13 respectively. This result indicates that there is Application of the requirements of the code of corporate governance in terms of the number of board members, but generally there are an ideal number of board members in most companies. This result supports the function of board size in monitoring and controlling the actions of management.

5.2.2.4 Board Meeting

The result of this relationship is not consistent with our expectation; the direction of this relationship is positive and not significant. This refers to the not significant relationship between the board meeting and going concern evaluation. This result is consistent with the result of Greco, (2011) the previous studies show that the effectiveness of directors is related to the frequency of board meetings. Carcello *et al.* (2002) the frequency of board of directors' meeting will improve the levels of control in the financial reporting process.

5.2.3 Audit Committee

This study gives proof to the positive and insignificant connection among the audit committee and going concern evaluation. The finding supports agency theory which assumes that the existence of audit committee improves the quality of financial reporting. On the other hand, the outcome is in correlation with the result made by Goodwin and Seow (2002) that discovered that the existence of an audit committee minimises the financial statements errors and improve the possibility in detecting of management fraud. Wan-Hussin and Haji-Abdullah (2009) came across the establishment of an audit committee, which related positively with the quality of financial reporting.

5.2.4 Audit Quality

5.2.4.1 Audit Fees

The direction of this relationship is positive and significant. This refers to the significant relationship between the audit fees and going concern evaluation. This result is consistent with the result of Siam (2003) found that the higher the audit fees, the higher the auditor‟s independence. This means that there is a positive relationship between the auditor‟s fees and his independence. Geiger and Rama, (2003) the Lawful audit fees were factually associated with going concern audit opinion which suggest for more audit efforts in reporting the potential of suitable going concern assumption.

5.2.4.2 Audit Firm Size

In the case of the audit firm's size, it isfound that the direction of this relationship is positive and significant. This notion defines the vital connection between the audit firm size and the going concern evaluation. The findings are compatible with the discovery by Siam (2003) that asserted the independence of an external auditor is subject to the size of the audit form that he works for. As such, larger audit firms are also equipped with better technology and highly trained body of staff compared to their smaller counterparts resulting in the higher incentives of operating independently. (Mclennan & Park, 2003). Behn *et al.* (2008) also discovered that the Big-Four auditors have higher audit quality than those of non-Big-Four auditors.

5.2.4.3 Non Audit Service (NAS)

In the case of NAS, the result of this relationship is inconsistent with our expectation, the direction of this relationship is positive and not significant. This refers to the not significant relationship between the non-audit services and going concern evaluation. This result is consistent with the result of This result is not consistent with our prediction, and consistent with the result of Blay and Geiger (2012) who reported that providing NAS, audit firms increase audit effort, and do not reduce fees on initial audit engagements and are no more likely to enjoy longer periods of tenure. This result is not consistent with the accountability theory, which argues that the auditors must have knowledge, experience and good skills to evaluate the going concern of firms. Thus, they may use their experience and skills to provide non-audit services to their clients, and therefore, they may harm their independence.

5.3 Contribution of the Study

Obviously, it seems that the findings of the current study presents several contributions, including the academic field, as well as the going concern evaluation. This is demonstrated in the following subsections, where the advantages of this study are presented with detailed descriptions.

In spite of much literature that has been conducted, very few studies have addressed or examined the relationship between corporate governance mechanisms including ownership structure, board characteristics, audit committee, and audit qualityand going concern evaluation in the Jordanian context. Thus, by the end of this study, it is hoped that the findings of this study might bridge this gap in literature since the findings of the study include insights on the role of corporate governance mechanisms with regard to the going concern evaluation

(Iskandar *et al.,* 2011), as well as shedding light on the need to adopt the required amendments in the regulations that are related to corporate governance. Additionally, it appears that this study provides a novel contribution to going concern evaluation literature since this study is considered the few research that examines the effect of several corporate governance mechanisms on going concern evaluation. The contribution of this study to the literature is represented by examining both, the new corporate governance variables and using more representative measures for previously used variables.Moreover, the contribution to the literature includes examining new variables, including ownership structure ,board characteristics, audit committees and audit quality with going concern evaluation which have not been tested or investigated in the studies conducted previously.

5.3.1 Theoretical Contribution

The results from the current study show valuable insights to the understanding of factors that may affect going concern in Jordan. Findings provide important conclusions for major stakeholders including: (i) investors and shareholders; (ii) regulators and policymakers; (iii) scholars and academics; and (iv) corporate management.

It seems that the studies that have been conducted on the field of corporate governance were motivated by the perspectives of the agency theory; however, due to agency conflict in companies, these latter have employed corporate governance mechanisms, including the internal mechanisms such as ownership structure, board of directors, audit committee and auditor committee that have been developed to statisfy the purpose which is represented mainly by controling this conflict in companies between managers and shareholders. Consequently, the contribution of this study can enhance our comprehension regarding the

relevance of the above mentioned theory in explaining the behavior of the going concern evaluation within the context of the Jordanian business environment.

While researching the previous studies, it had supported the agency theory based on the context of several countries since the good coporate governance structure of companies is effective in increasing and strengthening the going concern of the firms (Parker *et al.,* 2005; Iskandar *et al.,* 2011). Evidence from the context of U.S.A and U.K. are supportive of the accountability theory as firms with good governance structure employ more going concern evaluation companies. Thus, based on this effective relationship between corporate governance and going concern, it is likely that the outcome of this study will reduce the gap in literature between corporate governance literature and going concern evaluation. Further, this study also provides evidence of applying the same tool in similar situations, especially in countries with emerging economies such as Jordan.

Although previous studies have examined the relationship between corporate governance and going concern evaluation, these studies were limited and based on a short term. Consequently, benefits that can be obtained from this study can motivate other researchers and scholars in order to examine or investigate this relationship more but for along extensive period in the context of other developing countries. Thus, the results that might emerge from such future studies can be generalised and lead to more meaningful interpretations that can bridge the gap in literature associated with the current subject of this study. Additionally, the outcome of this study can be useful to researchers empirically since it provides empirical evidence associated with agency conflicts in developing countries such as Jordan.

Based on the researcher's knowledge, this study has been conducted in one of the Arab countries (Jordan), where financial markets remain less developed and the regulations and

corporate control are still weak (Chahine & Tohme, 2009). Further, Arab culture tends to have a high "power distance" between the different parties in the companies (such as rulers and ruled, employers and employees) (Nimer, Warrad & Khuraisat, 2012). Thus, the current study contributes to the research in the context of Arab countries where the practice of corporate governance is still in the development stage in contrast to that in the developed countries.

5.3.2 Contribution to the Practice

Results from the current study could help the corporate management in creating more awareness regarding to the importance of going concern in improving the credibility and quality the accounting information of firms. As argued earlier, going concern is considered as an important underlying attribute often used by the participants of capital market in order to make their important decisions (Kung et al., 2008).

The significance of the financial reporting is implied in its useful usage not only in evaluating the company's financial position with the purpose of anticipating the company's future trends and schemes but also in exploiting the outcome in the analyses adopted by financial analysts, managers, creditors, investors and executives in decision making.Since the process of comprehending the factors that might influence the financial statements can be effective in depending on financial statement figures and building confidence in decision making.

Furthermore, the results of this study can play a vital role to management that is concerned with the qulaity of financial reporting and corporate governance practices in its companies' financial analysts who, in their turn, can perform several effective tasks, including assisting

the businesses in making investment decisions, analysing the financial reports and following up the interviews with company's representatives in order to obtain better insights into the company's prospect and managerial effectiveness. Consequently, the findings of this study can be significant to both, the management and the financial analsts since the results can underline the factors that can contribute to the going concern of the company and help them to evaluate effectively the financial report.

The third contribution of the current study is represented by adopting the ways through which stakeholders' interests can be safeguarded by means of appointing non-executive directors who are really independent. One of the ways adopted to have independent non-executive directors is achieved through having an independent body in charge of these directors, and make all listed firms choose and appoint independent directors. Therefore, anybody who is qualified to sit as an independent non-executive director can register with this independent body. Then, firms that need independent directors will contact the regulatory body and make a selection. Consequently, creating a committees of independent directors with experience and skills in specific areas might provide the required quality of independent directors, including family businesses.

5.3.3 Contribution to the Policy Makers

It can be said that the Jordanian code on corporate governance emphasises on sound governance principles due to their role in producing the prosperity and accountability in the capital markets. Therefore, in 2009, Jordan Securities Commission issued the corporate governance code for the listed companies in Amman exchange market. Obviously, the main aim of the corporate governance code in Jordanian firms appears to be enhancing the roles and responsibilities of both the board of directors and audit committees. However, despite the

diversity of efforts on the part of the Jordanian Government in the field of corporate governance with the purpose of promoting good practices of corporate governance in the context of the Jordanian firms; several researchers and regulators' arguments are circulating around the possibility of the effectiveness of the same standard of governance, that proved its effectiveness in developed countries, in a country, like Jordan, with a different legal system, business culture and corporate structure.

The contribution of this study also includes standard setters, where the obtained information can be exploited usefully in the domain of companies going concern, especially when a need arises for cases that require modifying the existing ISA 570 Going Concern. Additionally, policy makers, regulators, top management, audit committee, and standard setters can obtain information and have insights in terms of the qualifications and experiences that the external auditor should have in order to reveal reasonable opinions on going concern.

Previous theoretical research suggests enhancements in board characteristics, audit committee and auditor quality may guide the firms to be as a going concern If the intention of Jordanian capital market policymakers and regulators was to extend the life of firms through improved the characteristics of board of directors, audit committee and the quality of auditor, the results of this study suggest such an aim is highly optimistic.

5.4 Limitations of the Study

Although the Jordanian data provides an indepth understanding of this study, the generalising process of the results must be carefully done due to the various regulations, practices, and economic factors. Therefore, this study is subject to some limitations such as:

1. The Amman Stock Exchange differs from international markets in terms of size, number of listed firms, and market valuation. However, the findings and policy

implications of this study can be extended to other economies where there are different ownership categories, and may have more disclosure about characteristics of audit committees.

2. The secondary data were collected from the industrial and service sectors aslisted in the ASE, which is comprised of 339 companies that involved to the analyses process for the year 2009 to 2011. The current study was limited to the data of Jordanian firms after 2009, in other words, after it has become imperative for the Jordanian listed companies to apply the rules of corporate governance. Therefore, this study used only data from 2009 to 2011 because the financial reports of Jordanian companies after 2011 have not been published yet. However, 51 of Jordanian annual reports do not contain the necessary data were excluded from the study sample. As such, the industrial and service sectors were selected since they make up 48% of the ASE. In addition, 62% of the failed companies during last three decades in Jordan were from this sector (ASE, 2009).
3. The financial sector is also ruled out, due to its different regulations in relation to financial reporting, as issued by the Insurance Commission and the Jordan Central Bank.
4. This study employed four important mechanisms of corporate governance namely; ownership structure, board characteristics, audit committee and auditor quality. It is possible that other external governance factors not included in this study also contributed to the practices of going concern.

There are several constraints in this study that should be addressed while processing the findings. The first of such would be related to the sample size; hence, the generalisability of the present study's results may pose to be a challenge. In spite of the limitations, there is

potential in generalising the findings to a much larger population due to the sample chosen (53.5%) that seemed to mirror the entire population. ‘

Previous studies have reported the institutional factors of developed and developing economies may vary significantly. Consequently, adopting hypotheses for a developing economy such Jordan, based on opinions and views drawn from developed economy such U.S or UK may not be suitable. Consequently, outcomes from the current study need to be considered with some caution and vigilance, and results may not be as easily applicable to other emerging economy.

In general, it is found that all the independent variables explained 26.3% of the variance in going concern. This ratio indicates that 73.7% is unexplained. In other words, there are other substantial factors that are important in interpreting the going concern that have not been considered in this study. Consequently, future research should take this into account.

5.5 Suggestion for Future Research

As stated, this study pays attention to the relationship between corporate governance mechanisms (comprised of ownership structure, board characteristics, audit committee, and audit quality) and the going concern evaluation in Jordan.

As such, the study has experimented with corporate governance and the going concern evaluation for the listed companies in the Amman Stock Exchange. It will prove useful for prospective research in drawing a comparative analysis among Jordan and other countries that utilise corporate governance. Furthermore, it will simultaneously aid in comprehending the

impact of corporate governance and to take advantage from the experience of others in this domain.

This study looked into the link between the corporate governance and the going concern evaluation for the companies listed in the Amman Stock Exchange. To the end of this study, it addressed the industrial and services sector for the aforesaid reasons. Espanding the sample to consist of more sectors from the Amman Stock Exchange would prove to be worthwhile to further support or contend the findings of this study.

The study also can further investigated the impact of other variables besides the ownership structure, board characteristics, audit committee, and audit quality and going concern evaluation on the reliance decision, namely in management characteristics, government ownership and audit committee meeting. The researcher also opined that substituting this study with the non-listed companies in Jordan and comparing the results with the findings would be helpful to understand the difference between the two groups.

This study sought to determine the underlying factors that influence the going concern of Jordanian firms by employing corporate governance mechanisms. Therefore, further research is necessary to search for other factors that have a significant influence on the going concern, such as political influence, transparency and disclosure, anti-takeover provisions, shareholder"s rights, audit committee independence, audit committee financial expertise, auditor specialization.

Further study should on the non-listed firms in Jordan and compared the results with the findings of the current study in order to highlight the differences between the two groups.

5.6 Conclusion

Through reviewing the literature of going concern, and to the best of researcher's knowledge, this study is the first comprehensive study that examined the relationship between corporate governance mechanisms and the going concern evaluation.

On the other hand, users of financial statements and analysts should acknowledge the firm's going concern issue, which is related to the interests and expectations of the financial statements users and investors. In order to confront these challenges and resolve them, the firms must record their ability to evaluate the going concern of their firms in the annual report and keep informed of any doubts that may jeopardise the company's going concern. In accomplishing this, the study analyses the impact of corporate governance mechanisms, which include ownership structure, board characteristics, audit committee, and audit quality on the going concern evaluation. Furthermore, the multiple regression analyses indicate that the going concern evaluation has a positive connection with the managerial, institutional, foreign and family ownership, as well as with the board independence, meeting, audit committee, audit fees, audit firm size, and NAS. Nevertheless, the regression analyses depict a negative connection among CEO duality and board size with the going concern evaluation.

As such, the results from this study are vital, theoretically and practically. Moreover, there was an opportunity to authenticate the research model that was formed for this study. The model can be applied as an explanatory model for the users of financial reports in assessing the company's going concern.

Overall, findings from the current study show valuable insights and understanding not only in respect to the linkage between corporate governance mechanisms going concern, but also to

the individual dynamics and importance of corporate governance and going concern, and quality of financial reporting which lead to quality of financial information.

This chapter also elucidates on the effects concerned with the study's findings. The outcome from the experiments paved access to the information on corporate governance that has significant effects on the going concern evaluation and, simultaneously, enhance the practice of corporate governance mechanisms that revolve around the going concern evaluation. Also, the study's outcome is in favour of the contention that corporate governance methods do affect the going concern evaluation among the listed companies in Jordan. The consequences and effects that construct the theoretical and practical aspects of this study are explained in this chapter. Lastly, the limitation and suggestions for potential studies are also mentioned in this chapter.

In general, this study has contributed to the field of financial accounting, particularly going concern. This study is the first comprehensive study that examined the issue of going concern from the perspective of corporate governance in a developing country, Jordan. It is also hoped that the current study will open various avenues for more future studies on going concern not only in Jordan, but also in other countries where this field of study is lacking. Moreover, it opens up opportunities and provides avenues for more in-depth studies related to going concern.

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