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Audit Quality as an Adjunct Digital Governance Mechanism: An Evidence from Dividend Policy in Jordan

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ABSTRACT

Audit Quality as an Additional Governance Mechanism in the Context of Corporate Dividend Policy: Empirical Evidence from Listed Jordanian Industrial Companies. Based on agency theory, this study examines whether audit quality enhances corporate governance by influencing the formulation, distribution ratio, and stability of dividend policy. Using panel data from 2010 to 2020, the analysis employs hierarchical regression to examine the direct effects of corporate governance, as well as the boundary conditions for these direct effects (i.e., the moderating roles of audit quality, measured by affiliation with one of the Big Four audit firms, audit report dates, and audit report types). This evidence suggests that board and company size have a positive influence on dividend decisions, whereas ownership concentration is not statistically significant. However, audit quality does have a significant moderating effect. In particular, there is a strong positive correlation between the Big Four audit firms and all dividend indicators in ownership concentration, suggesting that high-quality audits enhance oversight by major shareholders. Furthermore, audit quality positively affects dividend stability, indicating that reliable external audits contribute to more stable, sustainable dividend patterns. Audit quality complements, rather than replaces, internal controls. These findings have significant implications for regulators, investors, and corporate boards in developing economies, highlighting the importance of audit quality for good governance by fostering confidence in the credibility and sustainability of dividend distributions.

JEL Classification: G34*, *G35, M42*, & *C23

1. Introduction

Dividend policy has played a prominent role in both corporate finance and accounting research for decades because of its effect on firm value, shareholder wealth and the effectiveness of corporate governance. In addition to the classical role of functioning as a means of returning earnings, paying dividends is often recognized as a strategic signal that provides information on firms' financial health, future opportunities and manager's confidence (Brav et al., 2005; Easterbrook, 1984). Agency theory portrays dividends as a governance mechanism to monitor free cash flow under managerial dominion and to curb

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agency problems between managers and shareholders, especially in settings of information asymmetry and low investor protection (Jensen & Meckling, 1976; Shleifer & Vishny, 1997). Notwithstanding considerable theoretical advances, the empirical evidence continues to support that dividend policy consequences are deeply context dependent and reflective of institutional environment and corporate governance regimes. In developing countries, due to high ownership concentration, family control and lack of enforcement of shareholding protection regulation that make internal governance mechanisms ineffective; dividend policy becomes a significant means for protecting the interest of minority shareholders (La Porta et al., 1999; Mitton, 2004; Al-Najjar & Kilincarslan, 2016). Consequently, the recent literature has been stressing on studying dividend policy in an integrated governance system, rather than as an independent financial decision. In this oversight-intense environment, audit quality has emerged as a primary external monitoring process that strengthens the reliability of financial statements and restricts managerial opportunism. High quality audited enhance transparency (Alzoubi, 2016); lower earnings management and provide stakeholders with more confidence on reported financial information contributing to dividend decisions and their perceived credibility (DeAngelo, 1981; Francis et al., 2012; Karajeh & Ibrahim, 2017). The quality of audit has evolved beyond its traditional monitoring function, in view of recent developments in auditing technologies and digital reporting systems.

The growing adoption of such digital tools, through data analytics, automated audit procedures and continuous monitoring systems - has led to a more proactive and tech-enabled nature of auditing as a key governance function. Along these lines, audit quality stands as a complementary digital governance mechanism to internal governance mechanisms such as the board of directors and ownership which makes monitoring effective, timely and informative (Alsaif et al., 2025). This perspective is particularly pertinent in emerging markets, as digital audit can help address institutional and regulatory shortcomings. However, mixed and inconclusive empirical evidence regarding the association between audit quality and dividend policy persist. Although some other studies emphasize that strong audit quality improves ECG, and aligns to a better sustainability in terms of dividends payments (Trinh et al., 2022; Aly et al., 2023), some studies indicate that the role of audit quality is not significant in enhancing the dividend–performance or governance–dividend relationship in emerging economies indicating weakness and limitations related to enforcement mechanism on auditing practices and auditor independence (Bakri, 2021; Diab et al., 2024). These conflicting findings imply that audit quality as a governance mechanism has to be context-bound and is not equally valid across contexts.

The Jordanian stock market constitutes a suitable environment to test the above developments. Jordan is known for high ownership concentration, family-owned companies, and the investors` protection system which are also relatively weak that increases agency problems and information asymmetries (Bataineh, 2021; Haddad et al., 2017). Despite the reforms that have enhanced corporate governance and audit quality, evidence on whether audit quality is actually a useful addition to internal governance mechanisms in influencing dividend policy is scanty and fragmented. Previous research in Jordan has primarily focused on corporate governance or audit quality in isolation and disregard much of its interactive impact on dividend decisions (Zureigat, 2011; Karajeh, 2023). This gap in the literature calls for a more comprehensive analytical treatment of audit quality, not only as a control variable but as an active governance mechanism which conditions how effective ex-post corporate governance tends to be. As such, the aim of this paper is to investigate audit quality as an (additional) digital governance mechanism and its influence on dividend policy for Jordanian listed companies. In particular, the research attempts to examine whether corporate governance variables have a direct significant influence on dividend policy and if audit quality enhances or changes this relationship in context of Jordanian institutions.

2. Literature Review

The Jordanian context offers a compelling setting for examining the governance–audit–dividend nexus. Prior studies document challenges related to ownership concentration, limited investor protection, and uneven governance enforcement in Jordanian firms (Haddad et al., 2017; Zureigat, 2011). While existing research investigates corporate governance or audit quality separately, very few studies analyze their interactive effects on dividend policy. Recent work by Karajeh (2023) highlights the importance of governance interactions but focuses primarily on disclosure quality rather than dividend outcomes. Similarly, Bataineh (2021) examines ownership structure without considering the conditioning role of audit quality. Consequently, there remains a clear empirical gap concerning whether audit quality functions as an adjunct governance mechanism that strengthens the effectiveness of internal governance in shaping dividend policy.

2.1 Dividend Policy and Corporate Governance

The dividend policy has been widely studied as a fundamental financial decision that is representative of firms' governance quality, agency problems and determination to maximize the shareholder wealth. The positive signal of dividends is broadly attributed to "agency theory," which advocates that paying dividends decreases agency costs because it reduces the amount of free cash flow managers can invest discretionarily, thus aligning managers' interests with those of shareholders (Easterbrook, 1984; Jensen & Meckling, 1976). Under this approach dividends serve not only as earnings distribution, but as an internal monitoring device which constrains management and curbs managerial opportunism. The empirical support to date largely confirms that corporate governance structures have a significant impact on dividend policies. The strand of literature in both developed and developing economies shows that firms with stronger governance mechanisms are more likely to embrace the shareholder-oriented dividend policies (Jiraporn, Kim & Kitsabun, 2011; Rajput & Jhunjhunwala, 2019). Board attributes, ownership patterns and shareholders' rights have been established as critical governance factors influencing the extent of dividend payout, the stability of payout and the probability of dividend distribution (Benjamin & Mat Zain, 2015; Kanojia & Bhatia, 2022). This goes also in emerging markets where ownership concentration is high and institutional infrastructure is weaker, and dividends play even more of a governance role. La Porta et al. (1999), and Mitton (2004) contend that dividends serve as a substitute for poor legal protection, generating minority shareholders returns at least in some circumstances where controlling owners are likely to expropriate them. Empirically, weak evidence from Turkey, India and Southeast Asia suggests that governance mechanisms influence dividend policy outcomes but are largely contingent on the institutional context (Al-Najjar & Kilincarslan, 2016; Sawicki, 2009; Sener & Akben Selcuk, 2019).

2.2 Board Characteristics and Dividend Policy

The board of directors is the primary internal control mechanism to monitor managerial actions, including dividends. The size and independence of the board, as well as its composition affect the intensity of monitoring, CEO's strategic deliberation and the trade-off between retained and distributed earnings. According to the resource dependence theory, bigger boards supply various expertise and external links for higher quality of decision-making which in turn contributes to more stable dividends (Boone et al., 2007). In empirical research, the evidence on board size and dividends are generally consistent with our model. Literature consistently finds that board size and level of dividend payout are positively associated, larger boards have a strong monitoring effect, they respond more to shareholder pressures (Gugler & Yurtoglu, 2003; Francis et al., 2012). But other studies warn that very large boards may face coordination problems, which reduces their governance effectiveness (Yermack 1996). The independence of the board has been also widely explored in dividend literature. Independent directors are supposed to defend minority shareholders and advocate transparent payout policies. There is evidence that developed Markets would support this view (Fogel et al., 2021), but results in emerging Markets are mixed. Setia-Atmaja (2010) and Bataineh (2021) show that independent directors do not necessarily promote higher dividends, hence indicating that their efficacy varies with the maturity of institutional environment, level of regulatory compliance and director quality.

2.3 Ownership Structure and Dividend Policy

Ownership and control are key separators of dividend policy, especially the dividends policy in emerging markets with dominant ownership structure and family control. According to agency theory, two effects of ownership concentration can be expected. First, controlling owners may push for higher dividends to extract private benefits and constrain managerial discretion. On the negative side, they might prefer lower dividends so as to preserve earnings for private control benefits or internal financing (Faccio et al., 2001). Empirical evidence reflects this ambiguity. Research in Jordan, Sri Lanka, and Turkey indicates that ownership concentration does not have a consistent impact on dividend policy, indicating the contingent nature of ownership power (Bataineh, 2021; Nazar et al., 2021; Al-Najjar & Kilincarslan, 2016). OwnershipManager Weisbach, along with director ownership, has provided mixed results. Although alignment theory implies that greater managerial ownership mitigates agency costs and hence may be conducive to dividends, empirical literature indicates the insiders are found to prefer earnings retention for control preserving and financing growth (Short et al., 2002; Chen et al., 2017). These results suggest that ownership-based governance mechanisms may not be enough to ensure the shareholder-friendly dividend outcomes, particularly in settings where external monitoring is weak.

2.4 Audit Quality as an External Governance Mechanism

Audit quality serves as a key external governance device that improves financial reporting reliability and mitigates managerial opportunism. Auditor quality is also a function of the likelihood that auditors will uncover and report material misstatements (DeAngelo, 1981), drawing attention to auditor size, independence and reputation. Good quality audits mitigate information asymmetry, deter earnings manipulation and enhance stakeholders' confidence in the credibility of reported financial status of the entity (Francis et al., 2012; Karajeh & Ibrahim, 2017). Correlating with this, more recent literature has found a connection between audit quality and dividend policy. Firms audited by higher-quality auditors are more likely to pay dividends, since trustworthy financial statements allow boards and shareholders to feel free to make payout decisions (Ellili, 2022). Also, enhanced audit quality is found to have a positive impact on both dividend stability (by increasing the degree of earnings persistence and reducing reported earnings uncertainty) (Trinh et al., 2022). However, the evidence from developing countries is still more ambivalent. Some studies argue that the quality of audit has no significant effect on the decision of the firm to pay dividends, suggesting that this is due to low implementation, inadequate auditor independency and institutional factors (Bakri, 2021; Diab et al.,2024). These findings indicate that governance role of audit quality is context-specific and may need internal support to operates optimally.

2.5 Audit Quality as an Adjunct Digital Governance Mechanism

Recent advancements in auditing technology have led to a broadening in the conceptualization of audit quality over and above traditional assurance. In addition, the use of digital tools such as continuous auditing, automatice risk assessment and data analytics, has turned audting into a dynamic and reactive governance function (Alsaif et al., 2025). In the digital era, audit quality can be considered as a complement governance mechanism that is used to supplement internal governance mechanisms of monitoring the speed, accuracy and transparency. This view is consistent with new governance literature that stresses synergies between internal and external monitoring. Evidence also indicates that high audit quality improves the relationship between board characteristics and ownership structure on financial performance, such as dividend policy (Boshnak, 2023; Mohapatra & Rath, 2022). Audit quality does not work in isolation, but strengthens governance through the board and shareholder by verifying financial information considered during payout decisions. However, despite this theoretical development, empirical studies that investigate audit quality as a moderator or supplementary governance mechanism are scarce, especially in Middle Eastern and emerging market countries.

3. Hypotheses Development

As this work have three hypotheses, the following are hypothesis development for each hypothesis

3.1 Corporate Governance and Dividend Policy

The dividend policy is an important result of the efficiency of corporate governance, especially in environments with agency problems and asymmetric information. By cloak-and-dagger theory, internal corporate governance devices like board monitoring and "share-ownership" are fundamental mechanisms for controlling managers' behavior and ensuring that the firms' rents are allocated to shareholders (Jensen & Meckling 1976; Shleifer & Vishny 1997). Selection is exercised through free-cash flow drag by management and also via opportunistic checks Dividends function as a discipline device from free cash flow managerially controlled and from unfettered opportunism. Empirically, companies with higher corporate governance standards tend to pay shareholder friendly dividends. Board attributes, most notably board size and independence, help to bring about the monitoring capability as well as the quality of decision-making process which is positively associated with increased likelihood of dividend payments; higher payout ratios and stable dividends (Jiraporn et al., 2011; Benjamin & Mat Zain, 2015). Good governance tools are particularly essential in alleviating agency costs and protecting minority shareholders in EMs, where ownership concentration is highly common (John & Ramesh, 1987; La Porta et al., 2002). Because of the nature of the structure of Jordan`s institutions, concentration ownership and intermediate investor protection lead to agency conflicts in Jordan, thus internal corporate governance such as those that represent by BOD are crucial elements in determining dividend policy. Thus, the first hypothesis is:

H1: All corporate governance factors have a positive effect on dividend policy for the listed firm in Jordan.

3.2 Audit Quality and Dividend Policy

Audit quality is regarded as an important external governance mechanism that adds credibility to the financial reporting and firms' earnings reports. Good-quality audits mitigate information asymmetry, restrict earnings management and enhance the reliability of accounting data for dividend decisions (DeAngelo, 1981; Francis et al., 2012). Governance wise, we argue that when firms are under higher audit quality they face a stronger external monitoring process which constrains managerial discretion and favours more transparent payout policies. The empirical literature offers contradictory evidence regarding the direct effect of audit quality on dividend policy. A number of studies reported that firms that are audited by a high quality auditor are more likely to pay dividends and have steady payouts (Ellili, 2022; Trinh et al., 2022) while the other studies indicated than the impact of audit quality alone may not be significant in determining dividend policy decision among emerging markets as a result of weak enforcement and institutional barriers (Bakri, 2021; Diab et al., 2024). However, audit quality is still a basic condition of any credible dividend promise: Let there be no doubt that sound financial statements remain the cornerstone for boards and shareholders to know where they stand in terms of paying out after tax profits. In the Jordanian environment, where financial reporting credibility is still an issue of great concern, AQ inhibits the agency costs of dividend by providing transparency and reducing earnings uncertainty. Hence, the second hypothesis was formulated:

H2: Quality of audit has positive significant effect on the dividend policy in the Jordanian listed companies.

3.3 The Role of Audit Quality as a Co-ordinate Digital Governance Device

Recent developments in auditing digital technology had broadened the perception of audit quality from a narrow "revenue assurance" trait, to an extension of internal corporate governance mechanism as one review and control tool. Digtial audit tools (such as data analytics, automated testing and continuous monitoring systems) improve auditors' ability to detect misstatements and provide timely assurance of information, increasing the effectiveness of boards and ownership structures in overseeing managerial choices (Alsaif et al., 2025). From a contingent governance view, the voice of prior audit quality is conditional on internal mechanisms of governance that drive corporate value. Effective audits might help strengthen the monitoring of the boards and reduce potential conflicts associated with ownership concentration through assuring financial information upon which dividends are decided. The interaction effect between audit quality and corporate governance instruments on dividend outcomes is being supported by empirical evidences more and more (Boshnak, 2023; Mohapatra & Rath, 2022). Given institutional weaknesses in less developed countries, internal corporate governance mechanisms may be limited and therefore moderated by audit quality to enhance transparency and accountability as is the case in Jordan. Thus, dividend policies are more likely to be indicative of effective governance with the assistance from high-quality auditing. Therefore, the third hypothesis is stated as follows:

H3: The relationship between corporate governance mechanisms and dividend policy for listed Jordanian companies is positively moderated by audit quality.

4. Methodology

The paper uses a quantitative panel data model to analyse audit quality as an alternative form of digital governance that impacts dividend policy for listed Jordanian companies. The research design is based on agency theory and modern corporate governance publications referring to the complementary nature of internal governance mechanisms and external audit oversight in influencing corporate financial decisions. Empirical analysis concentrates on nonfinancial firms from ASE listed corporations during 2010–2020. The financial sector is omitted because of the specific regulation and dividend distribution scheme. The firm-level information was collected from audited annual reports, corporate governance reports and official ASE reports. After manipulating the data availability and consistency, we created a balanced panel of firm-year observations. Three proxies are used to reflect the dividend policy multidimensionality and indicate Dividend policy: DIVP (Dividends payment decision), DIVR (Dividends payout ratio) and DIVS (Dividends smoothness). The independent variables of this study is based on corporate governance mechanisms about board structure and ownership characteristics that widely used in governance studies. The moderating effect of audit quality is also included in the model as auditor type, audit report lag, or audit opinion and represents a measure of the degree of effectiveness of external auditing regulation within a system based on digital financial reporting. This paper also includes firm-specific financial characteristics such as size, leverage, profitability and growth opportunities in the models to reduce the effect of omitted variable bias. We use panel regression techniques, including logistic regression for the dividend payment decision and fixed-effects estimation for the dividend payout and smoothness. It uses robust standard errors to control for heteroskedasticity and serial correlation.

5. Findings and Discussion

This part outlines the empirical evidence in relation to the three hypotheses that cover the effect of corporate governance mechanisms, audit quality and their interaction on dividend policy for Jordanian industrial quoted companies during 2010–2020. Dividend policy is represented by three proxy variables: DIVP (dividend payment decision, DIVR) dividend payout ratio and the smoothness of dividends (DIVS).

5.1 Corporate Governance and Dividend Policy

H1: All corporate governance factors have a positive effect on dividend policy for the listed firm in Jordan.

5.1.1 Corporate Governance and DIVP (Dividend Payment Decision)

Table 1 presents the regression analysis to determine the impact of corporate governance mechanisms on dividend payment decisions.

Table 1. Regression Results on Corporate Governance and Dividend Policy

Variable	Coef.	Std. Err.	t	p-value
Constant	-0.972	0.328	-2.962	0.003
MAJS	0.123	0.180	0.680	0.497
BSZ	0.084	0.020	4.246	0.000
IDIR	-0.029	0.029	-0.991	0.323
DOW	-0.025	0.154	-0.165	0.869
FSIZ	0.090	0.037	2.413	0.017
FL	-0.008	0.010	-0.820	0.413
R^2	0.143			
Adj. R^2	0.118			

The findings indicate that board size (BSZ) is positively and strongly significantly correlated with dividend payment decision. This implies that firms with larger board size are inclined towards distributing dividends which is consistent agency theory perspective which suggests that the increase in board size enhanced the monitoring power and diminish the managerial discretion (Jiraporn et al., 2011; Nazar, 2021). Firm size has a positive and significant relationship as well, indicating that larger firms could be more financially stable and have better reputation in order to pay dividends (Mitton, 2004; Bataineh, 2021). On the other hand, ownership concentration, director ownership and board independence do not exert significant impact on the initiation of dividends, indicating that such governance mechanisms are also inadequate to predict dividend policy in the Jordanian industrial environment.

5.1.2 Corporate Governance and Dividend Payout Ratio (DIVR)

Table 2 shows the regressing results of dividend payout ratios.

Table 2. Results for Regression analysis Corporate Governance and Dividend Payout Ratio

Variable	Coef.	Std. Err.	t	p-value
Constant	-0.054	0.013	-4.234	0.000
MAJS	0.009	0.007	1.352	0.178
BSZ	0.005	0.001	6.343	0.000
IDIR	0.000	0.001	-0.285	0.776
DOW	-0.010	0.006	-1.613	0.108
FSIZ	0.004	0.001	2.731	0.007
FL	0.000	0.000	-1.028	0.305
R^2	0.235			
Adj. R^2	0.213			

Board size is a robust and significant driver of the dividend payout ratio: firms with larger boards tend to both pay dividends (lower propensity) and pay more of their reported earnings as dividends. This result is consistent with Benjamin and Mat Zain (2015) and Kanojia and Bhatia (2022), who contend that strong board oversight minimizes agency costs, forcing managers to pay excess cash. The size of the firm is still positively significant, indicating that larger firms can maintain higher dividend levels. The ownership and independence variables continue to have no significance, which provides further support for the belief that dividend levels are more dependent on governance quality than simply by level of ownership concentration.

5.1.3 Corporate Governance and Dividend Smoothness (DIVS)

Table 3 presents the results of the regression for dividend smoothness.

Table 3. Results for Corporate Governance- DIVR Regression

Variable	Coef.	Std. Err.	t	p-value
Constant	0.252	0.351	0.717	0.475
MAJS	0.030	0.210	0.141	0.888
BSZ	0.050	0.020	2.563	0.011
IDIR	-0.048	0.028	-1.723	0.087
DOW	0.081	0.151	0.538	0.592
FSIZ	0.018	0.045	0.391	0.696
FL	0.314	0.279	1.127	0.262
R^2	0.133			
Adj. R^2	0.095			

As before, board size returns a significantly positive coefficient thus reinforcing its ethio-fitness in regularizing Dividend payouts. This is in line with Lintner (1956) dividend smoothing hypothesis and is consistent with the findings in Sawicki (2009). Independent directors have a negative marginal effect on dividend smoothness, possibly revealing that board independence adds flexibility rather than commitment to stable payouts. This is in-line with the studies by Setia-Atmaja (2010) and Al-Rahahleh (2017), suggesting that board independence is a context relative to emerging markets. Accordingly, H1 is partially supported focusing in the dominant governance mechanism that is the board size affecting all dividend dimensions.

5.2 Audit Quality as a Moderating Governance Mechanism (H2 & H3)

This section test H2 and the moderating effect of auditor quality on the relationship between corporate governance mechanisms and dividend policy (H3). These effects are tested using hierarchical regression for three dividend proxies: dividend payment decision (DIVP), the ratio of dividend payout (DIVR), and the smoothness of dividends (DIVS).

5.2.1 Audit Quality and Corporate Governance on Dividend Policy (DIVP)

The hierarchical regression results examining audit quality as a moderating variable in the relationship between corporate governance mechanisms and dividend payment decisions (DIVP) are shown in Table 4.

Table 3. Results of Hierarchical Regression

Variable	Model 1 (CG only)	t	Model 2 (+AQ)	t	Model 3 (+Interactions)	t
MAJS	0.123	0.680	0.413*	2.114	-0.479	-0.657
BSZ	0.084***	4.246	0.070***	3.474	0.082	1.419
IDIR	-0.029	-0.991	-0.002	-0.071	0.184	0.537
DOW	-0.025	-0.165	-0.074	-0.454	-0.740	-0.532
FSIZ	0.090*	2.413	0.102**	2.789	0.090**	2.487
FL	-0.008	-0.820	-0.008	-0.831	-0.007	-0.779
AQ (Big Four)			-0.216*	-2.030	-0.900	-1.754
RID			0.051**	2.606	0.123	1.357
ART			-0.033	-0.131	0.673	0.462
MAJS × AQ					1.088*	2.012
Constant	-0.972	-2.962	-1.114*	-2.501	-1.640	-1.066
R^2	0.143		0.200		0.265	
Adj. R^2	0.118		0.165		0.193	

Notes: *$p < 0.05$, **$p < 0.01$, **$p < 0.001$

The findings suggest that audit quality, as evidenced by Big Four auditors, has an adverse and significant direct effect on dividend policy. Presumably, firms audited by Big Four auditors are less likely to use dividends for payouts on the margin, and exhibit a more conservative payout behaviour. This result is in line with recent evidence from the emerging countries, since a tight audit scrutiny minimize the necessity of dividends as an important signaling devices (Bakri, 2021; Diab et al., 2024). More importantly, the coefficient of interaction term between ownership concentration and audit quality (MAJS × AQ) is positive and significant. This finding indicates that audit quality enhances the monitoring function of the majority shareholders, and thus affects the reduction in the possibility of distribution when there is high quality audit. This result is consistent with the agency theory that argues that external control device helps to complement internal governance system in order to resolve agency conflicts (Shleifer & Vishny, 1997). This have similar moderating results by Boshnak (2023) and Mohapatra and Rath (2022). Such findings partially support H2 and strongly support H3 with respect to dividend policy decisions.

5.2.2 Audit Quality and Corporate Governance on Dividend Payout Ratio (DIVR)

Hierarchical regression analyses for the moderating effects of AQ on corporate governance and dividend payout ratios are given in Table 5.

Table 5. Hierarchical Regression Results – Audit Quality, Corporate Governance and DIVR

Variable	Model 1 (CG only)	t	Model 2 (+AQ)	t	Model 3 (+Interactions)	t
MAJS	0.009	1.352	0.017*	2.261	-0.042	-1.469
BSZ	0.005***	6.343	0.004***	5.545	0.001	0.279
IDIR	0.000	-0.285	0.001	0.508	0.000	0.031
DOW	-0.010	-1.613	-0.008	-1.302	0.028	0.519
FSIZ	0.004**	2.731	0.004**	2.947	0.004**	2.965
FL	0.000	-1.028	0.000	-1.062	0.000	-1.030
AQ (Big Four)			-0.003	-0.796	-0.061**	-3.072
RID			0.002**	2.922	0.000	-0.066

ART			-0.002	-0.202	0.015	0.267
MAJS × AQ					0.062**	2.965
BSZ × AQ					0.004**	2.362
Constant	-0.054***	-4.234	-0.061***	-3.484	-0.036	-0.609
R²	0.235		0.273		0.345	
Adj. R²	0.213		0.241		0.281	

The results show that the quality of audit is an antecedent that moderates these two board and ownership size effects on DPO. The positive and significant coefficients for the interaction terms (MAJS × AQ and BSZ × AQ) suggest that internal control measures are more efficient in explaining high level of payout ratios with the presence of high-quality external audit. These findings suggest that audit quality serves as a substitute governance mechanism which complements board monitoring and shareholder supervision. This result is in line with that of Ellili (2022), who finds that audit credibility enhances dividend outcomes and Karajeh (2023) who reports similar moderating effects on the Jordanian banking industry. It follows that H3 is strongly accepted with respect to dividend payout ratios and the direct impact of audit quality yields weak evidence for H2.

5.2.3 Audit Quality and Corporate Governance on Dividend Smoothness (DIVS)

Moderating effect of audit quality on corporate governance and dividend smoothness are examined using hierarchical regression results (shown in Table 6), the moderating role played by audit quality in connection: between firm’s governance mechanisms and dividend payment pattern.

Table 6: Hierarchical Regression on DIVS

Variable	Model 1 (CG only)	t	Model 2 (+AQ)	t	Model 3 (+Interactions)	t
MAJS	0.030	0.141	-0.293	-1.237	-0.864	-1.400
BSZ	0.050**	2.563	0.033*	1.774	0.109**	2.295
IDIR	-0.048*	-1.723	-0.044*	-1.645	0.157	0.565
DOW	0.081	0.538	0.303**	1.994	0.689	0.620
FSIZ	0.018	0.391	0.001	0.027	-0.033	-0.763
FL	0.314	1.127	0.000	0.002	-0.043	-0.157
AQ (Big Four)			0.299**	3.068	0.216	0.391
ART			-0.475*	-2.343	0.393	0.340
MAJS × AQ					1.199**	2.190
Constant	0.252	0.717	0.998**	2.374	-0.286	-0.233
R²	0.133		0.259		0.345	
Adj. R²	0.095		0.209		0.245	

The findings show that audit quality has a significant positive direct impact on dividend smoothness, implying that firms audited by Big Four auditors display more stable dividend payouts in the long-run. This result is in line with Ellili (2022) and Shubita (2024) who suggest that reliable financial reports make firms more capable of committing to steady payout policies. In addition, the strong interplay of ownership concentration and audit quality supported that a higher level of audit quality reinforces the conciliation function of controlling shareholders. Firms with high shareholding concentration and auditing quality show more stable dividend behaviour, which is consistent with the complementary leadership structure hypothesis. Therefore, H2 and H3 are supported from the perspective of dividend smoothness, which emphasizes audit quality is an important complementary governance contrivance in emerging markets.

6. Implication

The current study adds to the body of literature on corporate governance and dividend policy because it shows that audit quality does not only act as an independent determinant but also a supplemental governance mechanism of dividend policy. Our results also add to agency theory by demonstrating that high-quality external audits enhance the reinforcing role played by ownership concentration in influencing dividend policy, payout ratios and dividend stability. In practical terms, the results indicate that improving audit quality can indirectly improve shareholder protection by enhancing internal control. This in turn highlights the need for regulators to develop robust audit oversight mechanisms that support transparent and sustainable dividend policy. For investors, the quality of audit is a crucial indicator of dividend credibility, especially in concentrated ownership companies. Corporate boards need to acknowledge that the use of high-quality auditors affects dividend policies through promoting conservative and sustainable payout conduct.

7. Conclusion

Audit quality as a complementary governance mechanism in the link between corporate governance and dividend policy: evidence from Jordan listed firms Employing alternative dividend proxies, we find that audit quality selectively moderates the effect of ownership concentration on the dividends aggregate, level and smoothness that lends support to the substitute governance conjecture. The results indicate that the relationship between dividend policy and effective corporate in emerging markets is based on the activation of internal governance mechanisms as well as external audit quality, rather than specific controls. This paper is limited to industrial companies in Jordan, and we use standard proxies for audit quality. Our list may be expanded in subsequent studies into other industries, countries, and alternative measures of audit quality, or through dynamic or causal modelling analysis to investigate governance–dividend dynamics further.

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