AUDIT COMMITTEE CHARACTERISTICS AND FINANCIAL REPORTING QUALITY: EVIDENCE FROM THE EMERGING MARKET

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Abstract

This paper seeks to provide empirical evidence regarding the effect of audit committee (AC) characteristics on the financial reporting quality (FRQ) in the Jordanian context. The sample was selected from nonfinancial Jordanian companies during 2016 and 2023. This specified period permits for the study of tendencies and altertions throughout time (Callahan & Soileau, 2017). This study used panel regression analysis and the random effect method to achieve the study aim. The study found a positive and significant relationship between audit size, gender diversity, independence, number of audit meetings, and FRQ. The results could benefit some financial information users, such as investors, and regulators. This paper has the goal of informing interested parties in auditing and managers about the value of selecting the right members of the AC since they contribute to enhancing the FRQ. It also adds to the existing literature by providing empirical evidence regarding the effect of AC characteristics on FRQ. Therefore, our research advances our understanding of the intricate relationships between AC as a corporate governance tool and FRQ by elucidating the precise roles that different AC characteristics play in influencing the accuracy and reliance of financial reports.

Keywords: Audit Committee, Financial Reporting Quality, Amman Stock Exchange, Jordan

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1. INTRODUCTION

It is disconcerting to witness frequent misreporting of earnings and other financial information, which casts doubt on the validity and precision of published data. Accurate financial reporting is one of the main goals of the accounting profession, as emphasized by the International Financial Reporting Standards (IFRS) (Soroushyar, 2022). Financial reports are the primary reference for many users of financial information. Therefore, the more solidly and faithfully these reports are conveyed, the more informed decision-makers will be, leading to better conclusions (Golmohammadi Shuraki et al., 2021) However,

financial manipulation practices persist. A survey conducted by PricewaterhouseCoopers (PwC) by Kaawaase et al. (2021) revealed that many large firms, including some audit firms, such as PwC India, the Bank of Uganda, and Miller Energy, had instances of fraud and financial crimes due to their failure to meet the quality standards. Financial reporting quality (FRQ) has long been a significant concern for individuals, firms, the security market, and researchers. The Sarbanes-Oxley Act of 2002 requires companies to establish an independent audit committee (AC) to address this issue. This committee serves as a vital link between management and shareholders. In conformity with the agency theory, an AC plays a crucial role in safeguarding shareholders' interests by overseeing financial reporting and ensuring accurate information. This is important for maintaining transparency, accountability, and trust within an organization. An AC's responsibilities also include overseeing internal controls and facilitating communication between the external audit, the board, and management. Despite these measures, however, challenges surrounding financial reporting persist. When examining the nexus between AC attributes and FRQ, it is critical to assess how the composition of an AC can affect the accuracy and reliability of financial reports.

Previous studies have indicated that when an AC comprises members with diverse expertise and a strong sense of independence, the overall quality of financial reporting is enhanced Mardessi (2022), and Moses (2016) suggest that the AC size is not the primary driver of poor- or high-quality financial reports.

Rich (2009) examined the relationship between AC experience and FRQ. His findings suggest that while the presence of an experienced auditor may have some impact on FRQ, it might not be significant. By contrast, other researchers, such as Mashayekhi et al. (2018), have found that the auditor's experience contributes to improved reporting quality. Additionally, several investigations, including those by Sari (2018) and Soroushyar (2022), have demonstrated the substantial effect of AC attributes on FRQ. Existing literature has explored the implications of AC traits on FRQ but has yielded different conclusions, highlighting the need to consider the application of audit practices and economic environments in different countries. This paper examines how AC characteristics influence FRQ in service and industrial sectors for firms listed on the Amman Stock Exchange (ASE).

The remaining sections of this research flow as follows. Section 2 provides a review of the literature about the connections between FRQ and AC attributes and introduces the research hypotheses. Section 3 presents the methodology of our study. Section 4 describes the empirical tests and discusses the results. Finally, Section 5 summarises the conclusions and implications of our findings.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Recently, many researchers have placed noticeable concerns regarding the quality of financial reporting. The International Auditing and Assurance Standards Board indicates that recent financial terms focus on the intrinsic importance of having reliable and high-quality financial reporting for all facilities around the world (Li et al., 2008; Soroushyar, 2022). Users of financial reports have a constant demand for more realistic and reliable information to make decisions in a volatile economy. However, ACs are considered a major mechanism of corporate governance. Strengthening financial reporting is an AC's biggest challenge by overseeing managers who tend to manipulate financial reports and affirm the adequacy of a company's internal control mechanisms as they pursue to initiate clear and complete disclosures (Abdulhussein et al., 2023; Aljaaidi & Alwadani, 2023; Kaabi, 2023; Hasnan et al., 2022). ACs review financial statements before declaring them to users (Sharhan & Bora, 2020). Furthermore, must follow the laws and rules leading to clear and complete disclosures. Moreover, an AC is entitled to support management with recommendations. Thus, this study looks into the relationship between the size, independence, gender diversity, education level of members, and frequency of meetings.

An AC is key in overseeing financial reporting tasks and ensuring their accuracy and reliability. A larger committee may potentially uncover and resolve challenges related to financial reporting (Moses, 2016). Furthermore, the size of a committee is determined by the total number of memberships within the group chosen by governing bodies. This membership count indicates the resources available to the group (Inaam & Khamoussi, 2016). According to Pucheta-Martínez and de Fuentes (2007), the larger the AC, the more likely it is that issues stemming from financial reporting tasks will be identified and addressed. Studies by Persons (2009) and Li et al. (2008) suggest that the size of an AC can impact the extent of corporate disclosures, possibly indicating that a larger committee might lead to more transparent reporting than a smaller committee. Abbott et al. (2004), who investigated companies with deceptive financial statements and restatements, found that the quality of financial reporting was not significantly impacted by the size of the AC. Nonetheless, a negative correlation between AC size and financial reporting was discovered by Lin et al. (2011). This suggests that larger committee sizes might have a detrimental effect on FRQ. Overall, the literature reflects the complexity and mixed findings regarding the relationship between AC size and its impact on financial reporting. Different studies seem to offer varying perspectives: Some suggest a favourable correlation between committee size and FRQ, while others find no significant relationship or even a negative association (Al Lawati & Kuruppu, 2023; Al Husban et al., 2022; Hasnan et al., 2022). The specific context, methodologies, and limitations of each study must be considered when interpreting their findings. Thus, based on the previous literature, the hypothesis is developed as the following:

H1: There is a positive relationship between the size of an audit committee and the quality of financial reporting.

Limited empirical evidence exists to support the hypothesis that gender diversity within an AC directly affects the quality of financial reporting. While several studies have explored the potential impact of gender diversity on board performance, AC effectiveness, and corporate governance outcomes,

they have found no direct evidence linking gender diversity within an AC and FRQ. Some studies have suggested that diverse ACs may contribute to better financial reporting and monitoring, but the evidence remains inconclusive. For example, Ud Din (2021) found that the addition of an external female director to a previously all-male AC improved AC performance and led to higher FRQ. Similarly, others have argued that diversity may enhance AC effectiveness and avoid the possibility of serious financial reporting errors (Mwangi, 2018). However, Shaheen (2022) found that gender diversity in ACs had little effect on the quality of financial reporting. Therefore, it is unclear whether gender diversity in ACs improves FRQ. More research is hence needed to determine the causal relationship between gender diversity and FRQ. Our second hypothesis is formulated as follows:

H2: There is a positive relationship between gender diversity within an audit committee and the quality of financial reporting.

According to Beasley et al. (2009), AC's members are dedicated to productive and significant discussions that enhance financial reporting. Shahkaraiah and Amiri (2017) concluded that the regularity of AC meetings has a significant negative effect on FRQ. In addition, Xie et al. (2003) stated that the degree of profit management is inversely correlated with the number of board meetings. This indicates that active boards devote time to address any imminent difficulties that might discourage earnings management and contribute to better FRQ. The aforementioned studies and evidence support the notion that an active AC with a regular meeting schedule plays a crucial role in enhancing FRQ and deterring earnings management. The hypothesis that follows is developed:

H3: There is a negative relationship between the frequency of audit committee meetings and the quality of financial reporting.

AC independence is essential for the quality of financial reporting because it ensures that auditors receive support from the AC in any disputes with management rather than being under their control. This can affect investors' decisions, as they depend on the veracity and accuracy of the financial information provided in the investee companies' annual reports to make their investment decisions (Kibiya et al., 2016). AC independence plays a critical role in preventing conflicts of interest (Mardessi, 2022). Therefore, the connection between FRQ and AC independence is of great significance for understanding the functioning of corporate governance mechanisms (Pomeroy & Thornton, 2008). By fostering an environment in which AC members can make informed and independent decisions, organizations can minimize the risk of managerial interference and maintain high levels of FRQ. The effectiveness of AC independence can also be influenced by factors such as the AC's composition, size, and expertise. A well-structured and diverse AC may be more independent and effective in overseeing an organization's financial reporting. When the AC is more independent, it may provide a more effective check on management's activities and foster a more inclusive decision-making process. This can enhance FRQ by reducing the likelihood of fraud, improving the accuracy of financial reporting, and promoting greater compliance with auditing standards and regulations. AC independence may influence the effectiveness of AC oversight. For example, when an AC is more independent, it may be more effective in detecting and avoiding financial fraud and improving the accuracy of financial reporting.

H4: There is a positive relationship between audit committee independence and financial reporting quality.

The requirement of financial education of AC members is likely to contribute to the improvement of annual reporting quality, reduction of information asymmetry, and enhancement of directors' information disclosure (Li et al., 2008). Therefore, the association between financial education in an AC and the FRQ is expected to be significant. According to previous studies, the presence of financial and accounting education in an AC is positively related to FRQ (Masmoudi & Makni, 2020). This implies that audit quality should be positively related to financial accounting education in ACs. According to Ghafran and O'Sullivan (2017), the significance of education for audit quality varies according to the particular financial reporting concerns that businesses encounter. Furthermore, Al-Shaer et al. (2017) explained that audit quality tends to promote quality rather than the extent of environmental accounting disclosures. We should thus consider the possibility that the interplay between financial and accounting education and audit quality may differ depending on the size and type of firms listed. Therefore, based on academic research, the following hypothesis is developed:

H5: There is a positive relationship between audit committee members' financial and accounting education and the quality of financial reporting.

3. RESEARCH METHODOLOGY

3.1. Sample description

To study the nexus between AC properties and the FRQ in nonfinancial firms listed on the ASE, this study employed quantitative data. There are 190 companies registered on the ASE, of which 138 are in the service sector and 52 are in the industrial sector, which together comprise the sample. We eliminated organizations that either ceased operations during the study period or whose data were unavailable, culminating in a final sample of 145 businesses, comprising 101 service providers and 44 industrial companies, creating 1,160 observations. The information was gathered between 2016 and 2023 from the annual reports of nonfinancial companies listed on the ASE. Jordanian companies were chosen for this study for several reasons. First. Jordan has a distinct financial reporting system that makes it an attractive setting for the study. Second, Jordan is a developing country with an open economy, which has enabled it to adopt laws similar to those of its international counterparts, Jordan's economic philosophy is based on trade liberalization and the adoption of a market economy, which has facilitated the adoption of international standards also, Jordan has a relatively recent history of corporate governance practices, starting in 2008, which makes it an interesting case study. Thus, Jordan offers a unique and interesting context for studying financial reporting and corporate governance practices, particularly in a developing country with an open economy. Considering

the COVID-19 pandemic between 2019 and 2020, we included the three years before and the three years following the pandemic in our exploration of the relationship between an AC and FRQ. Financial annual reports were the main source of information since they provide reliable and detailed data to measure FRQ and auditors' attributes.

Table 1. Sample description

Description	*Number*	*Percentage*	*Pooled*
Initial sample			
Service sector	138	73%	1.104
Industrial sector	52	27%	416
Excluded			
Firms with unavailable data	45	24%	360
Total	145	76%	1.160

3.2. Variables and their measurements

In this section, the measurements of the research variables are explained in detail. We used *FRQ* as the dependent variable. Multiple earlier studies have examined FRQ. However, they used different metrics since there is no individual measure for it. For instance, nondiscretionary accruals and the adjusted modified Jones model as proxies for earning quality to evaluate FRQ were used in some earlier research (Sari, 2018; Soroushyar, 2022; Hundal & Eskola, 2023), other questionnaires were used in other studies (Albawwat et al., 2021). An index can also be used to calculate FRQ (Tawiah & Borgi, 2022; Ahmed, 2023). In accordance with earlier research, we created an FRQ index since it offers trustworthy data and is better suited to the Jordanian setting. It contained a list of 57 items that equip readers of these yearly reports with the necessary knowledge to make decisions. The Appendix displays the eight categories into which these items were divided. The FRQ score is tested using Eq. (1) as follows.

$$FRQ = \sum_{i=1}^{n_j} \frac{X_{ij}}{n_j} \quad (1)$$

where,

- *FRQ* stands for financial reporting quality;
- n_j is the highest number of items included in the financial report of a company j that ranges from 0 to 57;
- X_{ij} scores the value of 1 if the item is disclosed by company j for the period i and 0 otherwise.

AC's attributes were measured with regard to the size of the AC, the proportion of female participation in the AC, the number of AC meetings, in addition to the AC member's independence, and education (Safari Gerayli et al., 2021; Kibiya et al., 2016). Despite that, other studies evaluated AC's attributes using the auditor's specialisation and experience (Salehi et al., 2020; Soroushyar, 2022).

A board review of prior literature proved that controlling variables such as firm size (*FSIZE*), financial leverage (*FLEV*), return on assets ratio (*FROA*), business age (*FAGE*), and whether the firm is audited by one of the Big Four audit firms (Deloitte, PwC, Ernst & Young [EY], KPMG) can all affect FRQ (Soroushyar, 2022; Masmoudi & Makni, 2020; Sari, 2018; Alqatameen et al., 2020). When calculating a company's size (*FSIZE*), the natural logarithm of its assets is used. (Gul et al., 2013; Alqatameen et al., 2020). Debts are divided by assets to get the financial leverage (*FLEV*) variable (Alqatamin & Shbeilat, 2023; Soroushyar, 2022; Alqatameen et al., 2020). The number of years the company has been in the market is represented by its business age (*FAGE*). One way to calculate the *FROA* is by dividing net income by assets (Gul et al., 2013; Masmoudi & Makni, 2020; Sari, 2018). If one of the Big Four audit firms has audited a company, the value imposed by the audit firm is 1, otherwise it is 0.

To evaluate our study's hypotheses, we employed the regression model below.

$$FRQ_{it} = \beta_0 + \beta_1 AUDSIZE_{it} + \beta_2 AUDGEN_{it} + \beta_3 AUDMEE_{it} + \beta_4 AUDIND_{it} + \beta_5 AUDEDU_{it} + \beta_6 FSIZE_{it} + \beta_7 FLEV_{it} + \beta_8 FAGE_{it} + \beta_9 PROF_{it} + \beta_{10} FSECT_{it} + \beta_{11} BIG4_{it} + \varepsilon_{it} \quad (2)$$

Table 2. Definitions and measurements of variables

Label	*Variable*	*Description*
FRQ	Financial reporting quality score	Using FRQ index.
AUDSIZE	Audit committee size	Measured by the total number of members in the AC.
AUDGEN	Gender diversity	Percentage of women on the AC.
AUDMEE	Audit meeting number	The number of audit committee meetings held in 1 year.
AUDIND	Audit independence	The percentage of independent members in the AC.
AUDEDU	Audit education	Takes the value of 1 if at least one member of the AC has financial certificates and 0 otherwise. The firm's log of total assets at each fiscal year-end.
FSIZE	Firm size	Ratio of total liabilities divided by total assets. No. of years that the company has been in the market. Calculated by dividing net income before taxes by total assets.
FLEV	Leverage ratio	Ratio of total liabilities divided by total assets.
FAGE	Company age	No. of years that the company has been in the market.
FROA	Company profitability	Measured as the net income before tax divided by total assets.
FSECT	Company sector	Service companies receive a value of 1 while industrial companies receive a value of 0.
BIG4	Big Four auditors	An indicator variable with a code of 0 otherwise and 1 if the auditor is not PwC, E&Y, KPMG, or Deloitte.

4. RESULTS AND DISCUSSION

4.1. Descriptive statistics

The descriptive data are shown in Table 3 for key study variables, such as *FRQ,* AC characteristics, and firm characteristics. The *FRQ* score ranged from 0 to 0.91, with a standard deviation of 0.108598. This indicates a considerable dispersion in firm disclosure. A company's *AUDSIZE* influences the decision-making process. According to Table 3, AC size varied from one member to five members for the companies in our study. The standard deviation for this variable was 0.419. The maximum percentage of *AUDGEN*

was 0.67. The frequency of *AUDMEE* can also affect a company's decision-making process. According to Table 3, the number of audit meetings ranged from one meeting to 12 meetings per year. Furthermore, we measured the level of independence of the AC members and found that audit independence varied from 0% to 100%, indicating a wide range of audit independence. According to the results, the size of a company is important because it influences the company's resources and financial capacity. According to Table 3, company size varied from 137,049 Jordanian dinar (JD) to 1,440,221,599 JD, indicating a significant range of sizes. The leverage ratio measures a company's financial leverage, indicating the degree to which it can use its leverage to finance assets. We lowest and maximum values that were observed are 0.001 and 0.98, respectively, where the minimum value of 0.001 represents the company using 0.001 of its financial resources, while the maximum value of 0.98 represents the company using 98% of its financial resources. The firm's average age was 24.05 years. The range of profitability was -4% to 40%, with a standard deviation in between of 21%. Furthermore, Table 3 shows that the mean values of firm sectors and big auditors are 0.6986 and 0.3518, respectively.

Table 3. Descriptive analysis

Variables	*Obs.*	*Mean*	*Std. dev.*	*Min*	*Max*
FRQ	1,160	0.6623	0.1085	0	0.91
AUDSIZE	1,160	3.111	0.4196	1	5
AUDGEN	1,160	0.0314	0.1043	0	0.67
AUDMEE	1,160	4.266	1.397	1	12
AUDIND	1,160	0.5827	0.3225	0%	100%
AUDEDU	1,160	0.9777	0.1475	0	1
FSIZE	1,160	359.8	205.3112	137,049	1,440,221,599
FLEV	1,160	0.2974	0.2383	0.001	0.98
FAGE	1,160	24.05	14.95	3	83
FROA	1,160	-0.0098	0.1721	-0.0483	0.407
FSECT	1,160	0.6986	0.45904	0	1
BIG4	1,160	0.3518	0.4777	0	1

4.2. Checking for multicollinearity

We used the correlation coefficient matrix to control for the multicollinearity problem in this study. Gujarati and Porter (2008) suggest that an 80% or higher correlation indicates the beginning of multicollinearity. Table 4 shows that the highest correlation coefficient was 52% between auditors' independence and their education. Therefore, our result is unaffected by multicollinearity. In addition, the model was tested using the variance inflation factor (VIF) to make sure it does not have any multicollinearity matters, Gujarati and Porter (2008) suggest that if the VIF is less than 10, there is no multicollinearity problem. Table 5 reveals that the maximum VIF value is 1.76 and the mean is 1.25, meaning that there is no multicollinearity among the independent variables.

Table 4. Correlation matrix

Variables	*AUDSIZE*	*AUDGEN*	*AUDMEE*	*AUDIND*	*AUDEEDU*	*FSIZE*	*FLEV*	*FAGE*	*FROA*	*FSECT*	*BIG4*
AUDSIZE	1.0000										
AUDGEN	-0.0594	1.0000									
AUDMEE	0.2533	0.0063	1.0000								
AUDIND	0.0104	-0.1200	0.1052	1.0000							
AUDEDU	-0.0792	0.0476	0.0160	0.5250	1.0000						
FSIZE	0.0332	-0.0581	-0.0201	0.0052	0.0095	1.0000					
FLEV	0.1510	-0.0141	0.0609	-0.0849	-0.0011	0.0220	1.0000				
FAGE	0.3041	-0.0736	-0.1674	-0.1229	0.0116	-0.0710	0.2676	1.0000			
FROA	0.0420	0.0284	0.0502	-0.0157	0.0248	0.0055	0.1717	0.2831	1.0000		
FSECT	-0.0328	0.0701	0.0542	0.1068	0.0913	0.0858	-0.1976	-0.2507	-0.1236	1.0000	
BIG4	0.1763	0.1266	0.1688	0.1879	0.0692	0.0109	0.1574	0.41692	0.3541	-0.0005	1.0000

Table 5. Variance inflation factor test

Variable	*VIF*	*1/VIF*
AUDEDU	1.76	0.5685
FAGE	1.26	0.7325
BIG4	1.20	0.7939
FSECT	1.17	0.8563
AUDSIZE	1.13	0.8302
FROA	1.11	0.8857
FLEV	1.10	0.9011
AUDMEE	1.05	0.9126
AUDGEN	1.04	0.9549
AUDIND	1.02	0.9803
Mean VIF	1.25	

4.3 . Regression analysis

In this study, we employed a cross-sectional panel regression analysis to examine the relationship between AC characteristics and FRQ in nonfinancial firms listed on the ASE, as supported by previous studies (Peni & Vähämaa, 2010). Since panel data allowed us to separate different firms and time series data, it was a suitable model for time series investigations and allowed us to eradicate any

sample variances that weren't predictable. (Himmelberg et al., 1999). As Table 6 indicates, the independent variables explain 71% of the variation in FRQ. The prob > F-value is highly significant at the level 0.00, meaning that the model used panel data is more applicable. Panel data models, however, can be separated into two distinct groups: 1) random effects and 2) fixed effects (the latter assists in determining the influence of businesses and time-specific heterogeneities). The Hausman test is used to gauge the appropriateness of the fixed random approach. Because the result was not significant (p-value = 0.27), the study was capable reject the fixed effects null hypothesis and proceed with the random effect technique instead.

Table 6 also presents the results of the regression coefficients, showing the impact of the AC characteristics on FRQ. In the *H1* of the research, the study proposes that when ACs have large sizes they are better able to provide high-quality financial reporting. According to the regression result, the coefficients of audit size are positively and substantially related to FRQ ($p < 0.035$). Consistent with the findings in previous studies (Mohammed et al., 2017), this result confirms that companies with larger committee sizes are more likely to reveal more information than those with smaller audit sizes. Therefore, the research findings support the idea that larger ACs are more effective than smaller ones, and this is because they have more resources to tackle the company's challenges. This result supports *H1* that a substantial positive association between the size of an AC and the FRQ. Furthermore, Table 6 shows that the coefficient ($p < 0.023$) for gender diversity in an AC is linked with a higher level of FRQ. This positive relationship could be due to the fact that a more diverse AC brings together individuals with different perspectives, experiences, and skills, leading to more effective oversight and monitoring of financial reporting. This means that as the gender diversity of the AC increases, the FRQ also tends to improve. This result supports the *H2*, which projected that the calibre of financial reporting and gender diversity in an AC would positively correlate. Our result fits with the argument that companies with a larger ratio of women on ACs are more inclined to release more information to make their financial statements easier for users to compare the firm's performance and make informed decisions.

Regarding *H3* we found that the coefficient of this variable is strongly correlated with the level of FRQ ($p < 0.001$), supporting the hypothesis that the number of AC meetings is positively and significantly related to FRQ. The outcome, consistent with the conclusions of See et al. (2020), suggests that an AC with strong active members is more likely to have a strong relationship with FRQ. Thus, *H3* is supported. The outcomes further assert that the significance of AC independence is crucial in FRQ since the coefficient of AC independence is $p < 0.022$. This result is in line with Mardessi's (2022) findings and supports *H4*, which states that a positive relationship between the independence of an AC and the FRQ. The findings are consistent with the hypothesis that FRQ benefits from having a larger number of independent AC members since the independence of AC members improves their monitoring skills and enables them to withstand managerial pressure and make decisions that are best for the business. Furthermore, the results align with agency theory, which posits that impartial participants might be pivotal in reducing the conflict of interest that arises between the principal shareholders and agent managers.

Table 6 shows that the AC education coefficients have a significant positive relationship ($p < 0.024$) with FRQ. This positive relationship could be due to the fact that more educated AC members are better equipped to understand complex financial reporting issues and to provide effective oversight of the financial reporting process. This conclusion validates that organisations that have at least one member of the AC who has financial certificates are more likely to provide more information than those without financial certificates. Therefore, this finding confirms H5, which states that there is a positive relationship between AC members' financial and accounting education and the quality of financial reporting. At the 1% significance level, the calculated coefficients of leverage ratio among the control variables demonstrate a negative correlation between leverage and FRQ. According to this study, highly indebted enterprises have a lower FRQ, which is consistent with findings from other research (Hasan et al., 2020; See et al., 2020). Regarding firm profitability, the variable *FROA* is related to FRQ at the 4% significance level. This finding indicates that firms with high profits are more likely to improve their FRQ. In addition, Table 6 concludes that service companies are more likely to disclose more information than industry companies do. Furthermore, according to this finding business entities audited by the Big Four were expected to provide higher quality information than companies audited by audit firms other than the Big Four.

Table 6. Regression results for panel sample companies

FRQ	*Coef.*	*Coefficient*	*Z*	*P > |Z|*
AUDSIZE	+	0.0048	1.61	0.035*
AUDGEN	+	0.0356	1.18	0.023**
AUDMEE	+	0.0085	3.68	0.001***
AUDIND	+	0.0227	2.30	0.022**
AUDEDU	?	0.0299	2.27	0.024**
FSIZE	?	7.34e-06	0.49	0.625
FLEV	+	-0.0499	-3.55	0.001***
FAGE	-	0.0001	0.59	0.558
FROA	+	0.0377	1.99	0.047*
FSECT	?	0.0001	3.48	0.001***
BIG4	?	0.0162	2.24	0.0125**
Constant	+	0.0472	11.77	0.000
Total observations	1160			
R-squared	71%			
Prob > F	0.000			

*Note: ***, **, and * significant at 1%, 5%, and 10%.*

This study aims to address this gap by looking into the relationship, in the Jordanian setting, between FRQ and AC characteristics. The AC, which is part of the corporation's governance structure, is in charge of appropriately analysing, monitoring, and directing the financial and operational operations of the company in order to improve FRQ. This study offers empirical evidence for the following claims: first, AC size is positively and significantly related to FRQ. Secondly, the coefficient for gender diversity in an AC is associated with a higher level of FRQ. Third, this analysis shows that there is a positive and substantial relationship between FRQ and the average of AC meetings. Fourth, the outcomes further suggest that AC independence plays an essential role in FRQ. Lastly, the AC education coefficients have a significant positive relationship with FRQ. We focus on Jordan for two main reasons. First, reliable and accurate information is key for decision-makers to make well-informed decisions, and ACs play a significant role in enhancing the financial reporting process, as we discussed earlier. Second, to the best of our knowledge, evidence regarding this specific case in Jordan is lacking. The economic environment in Jordan has distinct characteristics compared with those of other countries.

Furthermore, the study used the type of sector as a controlling variable and by analysing the descriptive statistics in Table 7 for industry and service sectors the average FRQ for manufacturing businesses varies from 0.12 to 0.91 with a mean of 0.65, which is higher than the service providers range. Concluding that manufacturing companies interact with FRQ more than service companies do.

Table 7. FRQ scores among non-financial firms

Sectors	*N*	*Minimum*	*Maximum*	*Mean*	*Std. dev.*
FRQSORE.service	816	0	0.83	0.6518	0.1019
FRQSCORE.industry	344	0.12	0.91	0.6854	0.1196
Valid N (listwise)	1,160				

5. CONCLUSION

Decision-makers require high-quality reports to make sound judgements. Hence, they require additional information on how to analyse FRQ. This study aimed to clarify the ways in which AC qualities influence the FRQ evidenced by ASE nonfinancial firms for the years 2016–2023. since it emphasised five traits of internal AC that are known to have an impact on the caliber of financial reporting. The findings revealed that AC size, gender diversity, number of meetings, and auditor independence are all strongly related to FRQ. This leads to the conclusion that FRQ can be enhanced by considering these traits when establishing an AC, and broadening the investor's understanding of the significance of the AC's influence on FRQ because they are actively involved in financial report declaration. Previous research reached a different outcome, and it's possible that each auditor's subjective substantive assessment partially explains the lack of an influence of experience on reporting quality.

The main constraint of the study result is that it focuses on AC characteristics among many other aspects that impact FRQ. Like timelines of issuing financial reports, government politics and control.

The overall FRQ in Jordan is unsatisfactory, and ACs should play a more significant and engaged role. The findings of this study — the first of its kind in Jordan — contribute to the expanding body of knowledge about the qualities of auditors and FRQ by highlighting the specific qualities that are essential to improving FRQ. As previously stated, we suggest using an index to gauge the quality of financial reporting, although alternative approaches are also available for examining this quality. Additionally, the findings are based on the FRQ index and attributed only to nonfinancial businesses. We suggest the use of Beneish M score and discretionary accruals in further studies on FRQ as these metrics are more appropriate for financial firms, we also recommend investigating other factors to improve FRQ.

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APPENDIX. FRQ INDEX

Category	*Item*
Background information category	1. A statement of corporate goals
	2. A general statement of corporate strategy
	3. Action taken during the year to achieve the corporate goals
	4. Barriers to entry are discussed
	5. Description of principal markets
	6. The impact of current competition on current profits
	7. The impact of current competition on future profits
	8. Multiple language presentation
	9. Information about the economy
	10. Discussion of major industry trends
	11. General information on the impact of inflation on the company
Future and projected information category	12. Factors influencing future business
	13. Cash flow projection
	14. Planned research and development for the next year
	15. Information on current sales (revenue)
	16. Information on future sales (revenue)
	17. Forecast of next year's profits
	18. Financial structure
Management discussion and analysis category	19. Discussion of changes in sales
	20. Discussion of changes in net income
	21. Discussion of changes in inventory
	22. Discussion of changes in market share
	23. Discussion of changes in gross profit
	24. Discussion of changes in accounts receivable
	25. Discussion of changes in selling and administrative expenses
	26. Discussion of changes in the cost of goods sold
Historical information category	27. Sales (revenue) for last 3–5 years
	28. Sales (revenue) for last 6–10 years
	29. Summary of net income for more than 2 years
	30. Historical summary of the price range of ordinary shares for at least 5 years
	31. Capital expenditures
	32. Production
	33. Cost
	34. Expenses
	35. Gearing ratios
	36. Rate of growth in earnings per share for past years
	37. Ratio of number of units produced compared with the previous year
	38. Working capital
	39. Other ratios
Capital market data category	40. Market capitalization at the end year
	41. Number of outstanding shares compared with previous years
Acquisition and disposal category	42. Reason for disposals
	43. Discussion of future business opportunities of disposals
	44. Reason for acquisitions
	45. Discussion of the future business opportunities of acquisitions
Stock market liquidity	46. Price of materials consumed
	47. Number of units produced
	48. Breakdown of net income by major product lines or customer classes
	49. Geographical location
	50. Financial graphics and pictures
Employee information category	51. Categories of employees by sex
	52. Categories of employees by function
	53. Number of employees for two or more years
	54. Money spent on training
	55. Number of employees trained
	56. Safety policy
	57. Social responsibility