THE ROLE OF AUDIT COMMITTEE COMPOSITIONS IN INFLUENCING THE QUALITY OF FINANCIAL REPORTING

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Abstract

An audit committee (AC) is crucial for corporate governance (CG) as it enhances the financial reporting environment and helps prevent corporate and stock market collapses. This research aimed to determine the influence of AC compositions on the quality of financial reporting. The study measured the underlying components of International Financial Reporting Standards (IFRS), such as relevance, faithful representation, understandability, and comparability, by using the financial reporting quality index (FRQI) provided by van Beest et al. (2009), Agyei-Mensah (2022). The sample included 500 observations of 100 non-financial corporate entities from 2019 to 2023 in Saudi Arabia. It was analysed using a number of diagnostic tests and model specification, including ordinary least squares (OLS) regression, fixed effect model (FEM), random effects model (REM), and multicollinearity and autocorrelation tests. Conceptual principles derived from resource dependency and agency theories explain the outcomes of our examination. The study found empirical evidence of a significant and positive effect of an AC's financial expertise and inclusion of independent members on the quality of financial reporting. The study may provide useful insights into regulatory bodies, investors, and moneylenders regarding the factors, especially from a qualitative perspective of financial reporting, that affect financial reporting quality (FRQ).

Keywords: Audit Committee, Qualitative Characteristics, Corporate Governance, Financial Reporting Quality, Agency Theory, Resource Dependency Theory

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1. INTRODUCTION

The Saudi stock market crash, which coincided with the wave of the global financial crisis (2008), has raised several questions about the financial reporting environment (Al-Faryan, 2020; Al-Nasser, n.d.; Lerner et al., 2017). The International Federation of Accountants (IFAC) suggested some significant causes, such as the absence of ethical behaviour, along with the presence of a risk-taking culture, unaccountable authority of executives, and manipulative internal control systems. Such an urgent response is expected, especially after the due pressure from the business community,

individual and institutional investors, along with finance agencies and regulatory authorities. In November 2006, the Capital Market Authority (CMA) introduced a corporate governance (CG) code, which is based on global best governance practices aimed at strengthening the financial reporting environment and hence strengthening confidence in the Saudi capital market (Al-Faryan, 2020; Al-Nasser, n.d.).

An audit committee (AC) is considered a crucial CG apparatus that can typically play a dynamic role in enhancing the company's financial environment by ensuring conformance and compliance (Alshammari, 2024; Saleh et al., 2024).

Consequently, the implementation of a constructive AC is essential, especially in an increasingly uncertain financial reporting environment. Consequently, the implementation of a constructive AC is essential, especially in an increasingly uncertain financial reporting environment (Al-Husban et al., 2022; Alqatamin & Alqatamin, 2024; Amanamah, 2024).

Although we have a mutual understanding of the vital role of an AC, it is usually complicated to identify a precise conception of the quality of financial reporting. Van Beest et al. (2009) suggested "one of the key problems found in prior literature is how to operationalize and measure this quality" (p. 3). Given this particular point, accounting research has acknowledged the multi-dimensional meaning of the concept and accordingly contains preferences among a set of components (Anderson et al., 2004; Asyik et al., 2022; Botosan, 2004). A variety of accounting research has viewed the quality of financial reporting in terms of the quantitative aspects of financial reporting. Consequently, they have primarily concentrated on the indicators of financial reporting, such as earnings management, earnings quality, financial restatements, timeliness, and financial-based measures, such as return on assets, return on equity, and others (Beasley et al., 2009; van Beest et al., 2009; Cohen et al., 2007; Pomeroy, 2010). Accordingly, many accounting research studies have operationalized and measured these aspects to determine how they have been influenced by different CG apparatuses. For example, the effect of the board structure has been examined in different Asian and Middle Eastern countries (Al-Ahdal & Hashim, 2022; Alqatamin, 2018; Chaudhry et al., 2020; Fariha et al., 2022; Ha, 2022; Habbash & Alagla, 2015; Kallamu & Saat, 2015; Musallam, 2020; Sulimany, 2023). Furthermore, significant research studies that were conducted in Saudi Arabia demonstrated the effect of AC manifestations on the firm's performance and timeliness of an audit report (Alshammari, 2024; Al-Matari, 2022; Altuwaijri & Kalyanaraman, 2016; Bazhair, 2022; Boshnak, 2023; Gerged & Agwili, 2020). While we completely acknowledge these studies' significant contributions to financial reporting, however, the qualitative measure as a significant dimension for the quality of financial reporting has been overlooked. Hence, we argued that qualitative measures as a significant dimension for the quality of financial reporting are increasingly important and have not received the attention that they warrant.

To the best of our knowledge, no research conducted in Saudi Arabia has yet examined the influence of the attributes of an AC on the qualitative dimension of the financial reporting quality (FRQ). Accordingly, the quality of financial reporting is understood in this study as the fundamental and enhanced qualitative characteristics underlying the International Financial Reporting Standards (IFRS) within the conceptual framework components. In effect, we adopted and operationalized the measures of FRQ as proposed by van Beest et al. (2009). An examination of the underlying fundamental and enhancing qualitative characteristics as indicated in the exposure draft, "An improved conceptual framework for financial reporting", of the IFRS issued by the International Accounting Standards Board (IASB, 2008) can contribute not only to the multi-dimensional meaning of the concept but also to an understanding of the significant effect of qualitative financial reporting measures. Accordingly, this research investigates the connection between the most influential AC attributes on the FRQ. Key AC attributes are identified as manifestations that enhance the proactive and typical duties and obligations in effective manners, such as financial expertise, the number of audit members serving on a board, and the rate of conducting audit meetings. And the independence of the AC associates (Collier & Gregory, 1996; DeZoort et al., 2002; Sultana et al., 2015). The research results may be used by regulatory agencies to further enhance, develop, and improve AC regulations. Finally, consistent with expectations, the research results demonstrate a positive and significant association between specific AC attributes and the FRQ. These outcomes suggest that including members with financial expertise, along with increasing the size of the AC and the inclusion of independent members, would contribute to the usefulness of the AC.

The subsequent sections of this article are structured as follows. Section 2 discusses both theoretical and empirical literature. Section 3 describes the research methods. Section 4 presents the results. Section 5 discussed the research consequences and discussion, while Section 6 concludes the study.

2. LITERATURE REVIEW

2.1. Theoretical framework

The agency and resource dependency theories have been widely used in the literature as complementary conceptual constructs for explaining the influence of CG mechanisms on the environment of financial reporting. In particular, agency theory takes for granted that all contracting parties within any corporate setting seek to maximise utility, even at the expense of others, regardless of any ethical considerations or limits (Jensen & Meckling, 1976). Accordingly, the presence of a constructive AC would be essential for deterring any opportunistic behaviour and hence removing agency costs (Wiseman et al., 2012). In addition, promoters of agency theory take for granted that the AC is in principle created to monitor the actions of management with the interests of the corporate entities and their shareholders in mind by assuring sound internal control systems over the processes of financial reporting (Beasley et al., 2009; Cohen et al. 2004; Archambeault et al., 2008; Klein, 2002; Krishnan & Visvanathan, 2009). Therefore, we expect a positive relationship among the research control and dependent variables.

In the context of financial reporting, resource dependency theory gives rise to the perceived importance of the external environment for corporate entities. That is, corporate entities are heavily reliant on external resources, such as capital and wealth, to survive in uncertain and harsh business settings (Pfeffer & Salancik, 1978). To attain such significant capital, Hillman et al. (2009) suggest that corporate entities would essentially implement a constructive corporate apparatus to assist in managing their external dependency. Hence, an AC needs to be established and designed in a productive way to ensure that high-quality and reliable financial statements are presented to external decision makers. On the other hand, the absence of

a productive AC will challenge the environment of financial reporting and thus undermine the quality of financial reporting. Consequently, we adopted this significant view and expect that the presence of AC will determine the quality of financial reporting.

2.2. Empirical literature

2.2.1. Audit committee financial expertise

Accounting literature demonstrates the vital role of associates with applicable education and expertise, especially in accounting and finance, in enhancing the environment of financial reporting within the corporate entities (Cohen et al., 2004). In particular, they can work with the board to ensure an effective control system is present and that underlying accounting policies and procedures are undertaken in a reliable and relevant manner. For example, empirical evidence has found that an AC with applicable education and experience can play an essential role in enhancing the relevance and reliability of financial reports in a timely manner (Agyei-Mensah, 2022; Alqatamin & Alqatamin, 2024; Amanamah, 2024; Alshammari, 2024). Moreover, empirical evidence has shown the perceived significance of this quality in enhancing positive and profound associations, especially in quantitative measures of corporate entities such as the financial performance (Bazhair, 2022; Mardessi, 2022). As a result, it is expected that having an AC member with applicable knowledge and experience will contribute to the quality of financial reporting by promoting the relevance and reliability of financial information. Accordingly, the subsequent hypothesis was proposed:

H1: A strong positive relationship between the financial expertise of an audit committee and the quality of financial reporting exists.

2.2.2. Audit committee size

The size of the AC is recognized by the number of associates serving within the committee (DeZoort et al., 2002). From a conceptual perspective, enlarging the size of the AC is well known as containing more external and valuable resources, as it can effectively manage the process of financial reports and internal controls (Hillman & Dalziel, 2003). For instance, accounting research has empirically demonstrated the prominent role of this attribute in enhancing the relevance and reliability of annual information (Agyei-Mensah, 2022; Alqatamin & Alqatamin, 2024; Hasnan et al., 2022). Moreover, alternative accounting research has concentrated on such significant quantitative dimensions for the quality of financial reporting, and empirically illustrated a positive and strong relationship with financial performance (Alqatamin, 2018; Dakhlallh et al., 2020; Musallam, 2020; Rifai & Siregar, 2021). On the other hand, it was found that a negative statistical relationship between audit committee size and financial performance existed (Al Lawati & Kuruppu, 2023; Bazhair, 2022). As a result, we have developed the subsequent hypothesis:

H2: A strong positive relationship between audit committee size and the quality of financial reporting exists.

2.2.3. Audit committee meeting

Accounting research has demonstrated the perceived significance of the AC meetings in determining the quality of financial reporting. More specifically, frequent audit meetings can help in reviewing and discussing any financial and reporting matters in a timely manner. For example, it is argued that fraud and deception within financial reporting can be reduced or even eliminated through regular AC meetings (Abbott et al., 2004; Beasley et al., 1999). Nevertheless, accounting research has outlined different outcomes regarding this specific attribute. On one hand, there is empirical evidence that suggests the frequent AC meetings positively impact financial performance as a significant dimension for the quality of financial reporting (Alqatamin & Alqatamin, 2024; Hasnan et al., 2022; Musallam, 2020). On the other hand, accounting research has shown negative or no significant association between the audit committee meeting and the quality of financial reporting (Agyei-Mensah, 2022; Al Lawati & Kuruppu, 2023; Alshammari, 2024; Bazhair, 2022; Hasan et al., 2022). Despite the complex findings, the following hypothesis was proposed to examine whether AC meetings contribute to enhancing the quality of financial reporting.

H3: A strong positive relationship exists between audit committee meetings and the quality of financial reporting.

2.2.4. Independent audit committee

Accounting literature has emphasized the critical role that an independent AC might play in shaping the financial reporting environment. In particular, the presence of independent directors can help provide objective oversight, as they are insulated from improper external pressures. This, in turn, serves as an important mechanism to safeguard the reliability, integrity, and timeliness of financial information (Hamada & Jwailes, 2021). Nevertheless, different research outcomes have been analytically observed. For example, accounting research has found an insignificant association between the audit committee independence and the quality of financial reporting (Agyei-Mensah, 2022; Hasan et al., 2022). Conversely, there is empirical evidence that strongly demonstrates a positive association between the independence of an AC and the quality of financial reporting (Alqatamin & Alqatamin, 2024; Al Lawati & Kuruppu, 2023; Amanamah, 2024; Alshammari, 2024; Bazhair, 2022; Ha, 2022; Mardessi, 2022). In effect, it is expected that the presence of independent associates within AC will enhance the quality of financial reporting, and the following hypothesis was proposed:

H4: A strong positive relationship between an independent audit committee and the quality of financial reporting exists.

3. METHODOLOGY

At the outset, this study acknowledges that qualitative methods, such as field research, could be suitable alternatives for exploring the qualitative aspects of financial reporting. It typically involves direct engagement with participants in natural settings using techniques like interviews or ethnographic observation. While such approaches offer rich and contextual insights, they may be subject to researcher

bias. This, in turn, limits generalizability due to the interpretive nature. To enhance objectivity and allow for broader generalization, this study adopts a positivist methodology using pooled ordinary least squares (OLS) regression, fixed effect model (FEM), and random effects model (REM), along with diagnostic tests for multicollinearity and autocorrelation. Thus, it enables the examination of statistical relationships between variables and supports causal inference based on empirical panel data.

3.1. Research sample

The primary data, containing annual reports and financial statements that were used in this empirical analysis, were obtained directly from Tadawul's website (https://www.saudiexchange.sa). Consistent with previous literature (Hossain et al., 1995), financial corporate entities were excluded from the sample since their business and reporting systems are totally different from other non-financial industries. Moreover, corporate entities should be listed on the Tadawul, which is the Saudi financial securities exchange market, for more than two years. In addition, corporate entities with only public data have been included, and outlier data were excluded to enhance the statistical power (Bernard, 2013). After applying these specific criteria, the study's sample encompassed a balanced panel data set of 100 nonfinancial corporate entities and resulted in 500 observations that considered a five-year period from 2019 to 2023. This time period was selected because several changes occurred within the Saudi reporting environment, including the adoption of the IFRS on January 1, 2017, that might have affected the quality of financial reporting (Ebaid, 2022; Sulimany, 2023).

3.2. Dependent variable: Financial reporting quality index

The qualitative characteristics underlying the IFRS conceptual framework represent the dependent variable in this study. It was accordingly proxied by fundamental and enhancing qualitative characteristics, such as faithful representation and relevance, along with understandability and comparability. In particular, van Beest et al. (2009) operationalised these fundamental qualitative characteristics by establishing the financial reporting quality index (*FRQI*). Each fundamental and enhancing attribute was measured based on specific criteria. Each element was given a specific value when it meets a specific feature. The formula for the *FRQI* is: total items disclosed/expected total disclosure marks (20). In mathematical terms, the *FRQI* evaluation equation is represented as shown below [adopted from Agyei-Mensah (2022)]:

$$FRQI = \frac{Actual\ disclosure}{Total\ possible\ disclosure\ (20)} = \frac{\sum_1^m d_i}{\sum_1^n d_i} \quad (1)$$

3.3. Measurement of independent and control variables

The primary independent variables in this study were determined by the characteristics of the AC. At the outset, audit committee financial expertise (*ACFE*) was measured based on actual members who had knowledge and expertise in accounting and financial-related subjects (Agyei-Mensah, 2022). Second, the audit committee size (*ACSZ*) is identified as the total number of AC associates of firm *i* during time *t*. In relation to the audit committee meeting (*ACMT*), *ACSZ* denotes the total number of frequent AC meetings for firm *i* during time *t*. Finally, audit committee independence (*ACIND*) is calculated as the total number of independent members within the AC.

3.4. Statistical test and model

The key regression test involved in properly examining the underlying hypotheses associated with the *FRQ* is shown by the following model:

$$FRQ_{it} = \beta_0 + \beta_1 * ACFE + \beta_2 * ACSZ + \beta_3 * ACMT + \beta_4 * ACIND + \beta_5 * FSIZE + \beta_6 * BOSIZE + \beta_7 * BIND + \varepsilon \quad (2)$$

where, FRQ_{it} is the underlying fundamental and enhancing qualitative characteristics within the IFRS conceptual framework, such as relevance, faithful representation, understandability, and consistency. *ACFE* is the AC associate with financial expertise, *ACSZ* represents the actual number of AC associates, *ACMT* represents the frequent meetings held during the year, and *ACIND* represents the number of independent AC associates. *FSIZE* represents the firm size. *BOSIZE* and *BIND,* respectively, denote the board size and board independence.

The regression model explores the association between the quality of financial reporting and AC properties. The AC properties are assumed to be statistically significant predictors of financial accountability. Correspondingly, the coefficients β_{1-7} (and correspondingly the hypotheses) are anticipated to be positive and statistically significant for the quality of financial reporting.

Furthermore, the key OLS regression adopted in this study was supplemented with related inferential statistical methods. In particular, we employed the FEM in addition to the REM to determine the most relevant approach, which results in statistical outcomes enhanced with reliability and validity.

FEM

$$y_{it} = \alpha_0 + \beta x_{it} + \mu_i + \varepsilon_{it} \quad (3)$$

REM

$$y_{it} = \alpha_0 + \beta x_{it} + \omega_{it} \quad (4)$$

where,
- y_{it} = financial reporting quality;
- α_0 = the intercept in the OLS regression equation;
- x_{it} = group of explanatory variables;
- μ_i = non-random consequence related to entity;
- ω_{it} = the compound residual term integrates together with cross-sectional besides time-series components. It consists of an individual-specific

effect μ_i and a time-varying error term ε_{it}. This structure considers fixed effects pertaining to each individual in addition to random fluctuations over time;

• ε_{it} = the residual term that is used in regression models.

The study used the Breusch-Pagan-Godfrey, Wald, and Hausman tests as effective techniques. These tests potentially act as an invaluable statistical context for better comprehension of the essential relationships among different levels of the quality of financial reporting and AC attributes. The probable outcomes of the OLS regression model are consequently created separately from the chance factor. Moreover, Bernard (2013) indicated that these important statistical tests, which take into consideration individual heterogeneity and endogeneity, causal relationships, assist in preventing any measurement error, and hence achieve statistical power.

AC effectiveness is proxied and measured based on several productive attributes: *ACFE*, *ACSZ*, *ACMT*, and *ACIND*. Hence, these productive attributes were used as the study's explanatory variables, and they were used in the research model to predict the likelihood of influencing the quality of financial reporting. Furthermore, every single explanatory variable was evaluated and determined based on the size of AC members who had expertise/credentials in accounting or related financial majors. In addition, the model includes independent associates and frequent meetings in the committee.

Given the perceived significance of such influential firms and constructive governance attributes that have the likelihood of association with the quality of financial reporting, namely *FSIZE*, *BOSIZE*, and *BIND*, they were selected as potential control variables to exclude alternative probable explanations (Bernard, 2013). In particular, *FSISE* was denoted as the natural log of the book value of total assets for the study's sample (Shan, 2019). Empirical evidence indicates that *FSIZE* has a strong relationship with firm value, especially the large firms, as they use important strategies, such as economies of scale and reduction of production costs (Boateng et al., 2022; Sani, 2020). Consequently, this research study anticipated a positive link between *FSIZE* and *FRQ*. Furthermore, *BOSIZE* was defined as the total number of associates included on the board of directors (Al-Matari, 2019). From an agency theory perspective, it has been suggested that a smaller *BOSIZE* is more efficient in obtaining a constructive internal monitoring system. Because of this aspect, firms that have a substantial number of *BOSIZE* are anticipated to experience a decline in reliability and applicability of their financial reporting because of high agency costs. As a result, this research study suggests a negative association between *BOSIZE* and the quality of financial reporting. Moreover, *BIND* is denoted as the number of independent directors over board size (Al-Matari, 2019). It is expected that because of the potential effect of knowledge and network of the outside directors, *BIND* should lead to an improvement in the monitoring capabilities and resource provision for boards of directors. Consequently, a positive association was expected between *BIND* and the quality of financial reporting. Subsequently, the following research framework for all related variables was established to observe the impact on the quality of financial reporting (see Figure 1).

Figure 1. Research framework
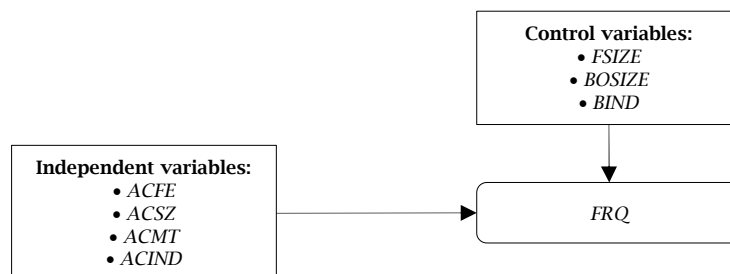
4. RESULTS

This section presents the study results, which were organized into descriptive statistics and correlation matrices among the study's key dependent and explanatory variables. Finally, the outcomes of multiple regressions are provided and discussed along with inferential statistics, including FEM and REM. To eliminate any subjective results related to the main research model, several diagnostic statistical tests were performed to ensure that the essential model's specifications and conditions were accurately fulfilled (Bernard, 2013).

4.1. Descriptive statistics

Table 1 displays the descriptive statistics for the quality of financial reporting along with the explanatory variables. According to the descriptive data, the quality of financial reporting ranges between a least of 0.50 and a most of 0.95. It also reports a mean value of 0.71. Consequently, the results indicate that the *FRQ* by 100 non-financial listed entities was slightly in excess of what was reported in the prior relevant study (Agyei-Mensah, 2022). This finding suggests that the study's sample of listed firms mostly seemed to have complied with the qualitative features identified within the IFRS conceptual framework.

Table 1. Descriptive statistics

Variable	Minimum	Maximum	Mean (SD)
FRQ	0.50	0.95	0.71 (0.11)
ACFE	1	3	1.91 (0.78)
ACSZ	3	6	3.61 (0.82)
ACMT	2	13	5.89 (1.83)
ACIND	0	2	0.54 (0.53)
FSIZE	16.84	28.54	21.66 (1.68)
BOSIZE	4	14	8.11 (1.65)
BIND	0.25	1.00	0.45 (0.13)

The data illustrate that the regular *ACSZ* is clearly greater than three associates. The largest size is six members, while the smallest size is three associates. Overall, the mean is in line with other prior research (Agyei-Mensah, 2022; Bazhair, 2022; Sultana et al., 2015). The results also indicate that the regularity of AC meetings throughout the year was above five meetings on average. This finding indicates that the AC's members held meetings five times a year, even though it is stipulated that meetings should be held two times. In terms of *ACFE*, the study's sample shows that the AC has an average, minimum, and maximum number of members with financial expertise, namely two, one, and three, respectively. This percentage is more than the average demonstrated in related literature (Agyei-Mensah, 2022). In terms of AC independence, the results show that firms have an average of one independent associate at least, while the greatest number of independent associates serving on the committee was two. This value is slightly higher than the average reported in previous studies (Agyei-Mensah, 2022), while it is relatively higher compared to a previous relevant study (Bazhair, 2022). The *FSIZE* shows a value ranging from a minimum of 16.84 to and maximum of 28.54 with a mean value of 21.66. The *BOSIZE* indicates that at least four board members (minimum), a maximum of 14 members, and a mean value of eight members

served on the board. This value is relative compared to the previous relevant study (Bazhair, 2022). Regarding *BIND*, results show that at a minimum, 25% of the board consisted of independent members, while the maximum value was 100% and the mean value of 45%.

4.2. Correlation matrix

Correlation analysis using Pearson's correlation for a dependent *FRQ* and independent *ACFE*, *ACSZ*, *ACMT*, and *ACIND* variables was conducted to detect pairwise univariate associations and identify potential multicollinearity issues (Shrestha, 2020). Pearson's correlation analysis highlights any likelihood of multicollinearity related to the average of the explained variable. In particular, Table 2 illustrates the important positive relationships among the quality of financial reporting and *ACFE*, *ACSZ*, *ACIND*, *FSIZE*, and *BOSIZE*. Nevertheless, the value of the pairwise correlations for the identified variables was within the acceptable range, as it never exceeded the critical value of 0.80, which is more likely to lead to multicollinearity concerns (Hair et al., 2009). Accordingly, the OLS regression model undertaken in this research study was statistically significant for examining the *FRQ*.

Table 2. Pearson's correlation analysis

Variable	FRQ	ACFE	ACSZ	ACMT	ACIND	FSIZE	BOSIZE	BIND
FRQ	1.00							
ACFE	0.79**	1.00						
ACSZ	0.48**	0.41**	1.00					
ACMT	-0.08	-0.09*	-0.11*	1.00				
ACIND	0.32**	0.21**	0.10*	0.02	1.00			
FSIZE	0.30**	0.31**	0.34**	-0.03	0.11*	1.00		
BOSIZE	0.25**	0.26**	0.22**	-0.01	0.05	0.49**	1.00	
BIND	-0.07	-0.06	-0.13**	0.07	-0.07	-0.19**	-0.28**	1.00

*Note: Significance at 1%** and 5%* (two-tailed).*

4.3. Diagnostic tests and model specification

To assess model adequacy and potential multicollinearity, we first conducted variance inflation factor (VIF) and tolerance tests (see Table A.1 in the Appendix). All VIF values were well below the critical threshold of 10, with the highest at 1.445 and the lowest tolerance at 0.692. This implies the absence of multicollinearity concerns (Elliott & Woodward, 2020). Furthermore, several diagnostic tests were conducted to assess the model's assumptions and determine the appropriate panel specification. The Breusch-Pagan-Godfrey test resulted in a p-value of 0.6581, suggesting homoscedasticity and supporting the use of linear model assumptions.

Table 3. Breusch-Pagan-Godfrey test result

Chi-squared	Prob. Chi-squared
7	0.6581

However, the Wald test indicated heteroscedasticity, with a p-value of 0.0000, leading to the rejection of the null hypothesis (H_0) of homoscedasticity. This finding suggests that a simple OLS model may not be suitable due to potential heteroscedasticity in the data.

Table 4. Wald test result

Chi-squared	Prob. Chi-squared
5	0.0000

Significantly, the Hausman test yielded a Chi-squared p-value of 0.0001, leading to the rejection of H_0 that differences between the REM and FEM are random.

Table 5. Hausman test result

Chi-squared	Prob. Chi-squared
7	0.0001

This result confirms the FEM as the more appropriate specification. This is because it accounts for unobserved heterogeneity that is probably correlated with the explanatory variables (see Tables A.2 and A.3 in the Appendix). Thus, the FEM was adopted as the preferred model for the analysis.

5. DISCUSSION

Table 5 illustrates all types of relationships and associations among all related variables. Considering the R-squared value, the outcome shows that 57.3% of the variance in the level of *FRQ* may have been hypothetically caused by variances in the independent variables. The reliability of the model was supplementary and promoted by specific reference to the significant F-value. It is 144.66 (p-value = 0.000).

Table 6. Multi regression outcomes

Model	β	Std. error	t	p-value
Constant	0.391	0.043	9.063	0.000
ACFE	0.098	0.004	22.611	0.000
ACSZ	0.024	0.004	6.052	0.000
ACMT	0.000	0.002	-0.114	0.909
ACIND	0.035	0.006	6.180	0.000
FSIZE	0.001	0.002	0.294	0.769
BOSIZE	0.002	0.002	0.736	0.462
BIND	0.011	0.023	0.457	0.648
R-squared	0.573	Durbin-Watson stat.		0.99
Adjusted R-squared	0.568	F-statistic		144.66
Std. error of regression	0.065	Prob. (F-statistic)		0.000

At the outset, the OLS regression showed a significantly positive association between *ACFE* and *FRQ* at the 0.05 level (p-value = 0.000). Interpreting this result, the *ACFE* coefficient demonstrates that the presence of an AC member with financial expertise contributes almost 10% to the overall *FRQ*. Thus, each individual member appointed to the AC will contribute almost a 10% increase in the *FRQ*. Accordingly, we supported and hence accepted *H1*. These findings agree with the results from a study by Agyei-Mensah (2022), Alqatamin and Alqatamin (2024), Amanamah (2024), Alshammari (2024), Bazhair (2022), and Mardessi (2022). Remarkably, *ACFE* reveals positive and statistically significant linkages across the OLS regression, FEM, and REM. The most important point in this situation is that the empirical outcome supports the theoretical perspective suggested within agency and resource dependency theories. Thus, it supports the existence of financial expertise in mitigating agency costs along with information asymmetry via ensuring relevant and faithful representation, along with consistent and understandable financial statements.

Regarding the *ACSZ*, although the regression results statistically suggest a strong positive correlation with *FRQ* at the 0.05 level (p-value = 0.000), it notably yielded inconsistent p-values across the OLS regression, FEM, and REM. In particular, OLS regression and REM show statistically positive relationships at the 0.05 level (p-value = 0.000), while FEM has an insignificant relationship at the 0.05 level. Based on the diagnostic test, the lack of significance under FEM leads us to conclude that there is no robust evidence supporting the presence of a significant relationship between AC size and FRQ (Appendix, Table A.2). Accordingly, *H2* was not supported and was, thus, rejected. Our empirical results failed to support the outcomes of the literature (Agyei-Mensah, 2022; Alqatamin & Alqatamin, 2024; Dakhlallh et al., 2020; Hasnan et al., 2022; Musallam, 2020; Rifai & Siregar, 2021). In contrast, it is in line with the recent empirical outcomes that show the lack of relationship between *ACSZ* and the quality of financial reporting (Al Lawati & Kuruppu, 2023; Alshammari, 2024; Bazhair, 2022; Hasan et al., 2022). Accordingly, our empirical outcomes based on our selective sample do not support the projections of resource dependency theory regarding the *ACSZ*.

In terms of *ACMT*, the regression result indicates an insignificant statistical relationship between the *ACMT* and the *FRQ*. Accordingly, *H3* was not supported and was, hence, rejected. This finding is not in line with and does not support the prior research outcome (Alqatamin & Alqatamin, 2024; Hasnan et al., 2022; Musallam, 2020). In contrast, it is consistent with previous research by Agyei-Mensah (2022), Al Lawati and Kuruppu (2023),

Alshammari (2024), Bazhair (2022), and Hasan et al. (2022). Based on the empirical result, the CMA might consider improving the CG code to foster the functional role of the AC within the Saudi context. This, in turn, might result in improving the quality of financial reporting and the reputation of the Saudi capital market.

In terms of *ACIND*, the OLS regression shows a significantly positive association between *ACIND* and *FRQ* at the 0.05 level (p-value = 0.000). That is, the *ACIND* coefficient demonstrates that the presence of every independent AC member contributes almost 2.5% to the total quality of financial reporting. We accordingly supported and hence accepted *H4*. The empirical findings fail to align with the findings from previous studies by Agyei-Mensah (2022), Bazhair (2022), Dakhlallh et al. (2020), Ha (2022), Musallam (2020), and Rifai and Siregar (2021). Remarkably, *ACIND* shows positive and statistically significant associations across the OLS regression and inferential statistical strategies, FEM, and REM. Furthermore, the empirical outcome emphasises the theoretical perspective implied in agency and resource dependency views. Thus, it supports the existence of independent members as they can provide an objective and impartial evaluation of the financial reports. Of particular relevance, these findings are in line with international evidence conducted in the European Union (EU), Asian countries, the Middle East, and South Africa, suggesting that AC independence and financial expertise are globally recognized drivers of FRQ (Alqatamin & Alqatamin, 2024; Al Lawati & Kuruppu, 2023; Amanamah, 2024; Mardessi, 2022). While the CMA has already included provisions related to AC composition, the findings of this study suggest that refining specific criteria could further improve FRQ. This evaluation, in turn, ensures that the financial statements and reports are presented in relevant and faithful manners and that they have consistent and understandable information.

With respect to other control variables, even though the empirical result demonstrates a positive association among the quality of financial reporting along with *FSIZE*, *BOSIZE*, and *BIND*, these associations are statistically insignificant. Consequently, the research outcomes are not inconsistent with previous literature (Al-Matari, 2019; Boateng et al., 2022; Sani, 2020; Shan, 2019). The absence of statistically significant associations among the *FRQ* and *FSIZE*, *BOSIZE*, and *BIND* results could suggest that these firms may have special considerations in strengthening the AC.

6. CONCLUSION

This study examined the influence of AC compositions on the FRQ. We examined and evaluated 100 listed entities from non-financial

industries in the Saudi market, constituting almost 500 observations over five five-year periods starting from 2019 to 2023. The examination was done by means of various statistical models and relevant diagnostic tests to foster the fundamental regression consequences. Examining AC compositions is vital for recognizing factors that influence the quality of financial reports. Precisely, we concentrated on the most important AC qualities, for instance, audit committee financial expertise, audit committee independence, audit committee meeting, audit committee prior experience, in addition to audit committee size. Furthermore, this study implements such significant theoretical views, e.g., agency theory and resource dependency theory, involved in hypothesis development. The regression outcomes, along with related statistical methods, demonstrate that AC financial expertise and independence have statistically positive and strong relations with FRQ. This positive and significant result shows the apparent significance of these qualities in fostering the reliability and relevance of financial reporting.

This study makes sound contributions to existing accounting literature. Furthermore, interested stakeholders such as regulatory authorities, potential and current investors, and lenders may find it useful to examine these timely findings regarding the factors affecting the quality of financial reports within the Saudi capital market. It is important to acknowledge the limitations of this research, as it is done using Saudi non-financial listed corporate entities. Accordingly, future research may focus on the other institutional setting, especially within emerging economies, to potentially promote the generalizability of these findings to different country contexts. Consequently, future research may employ different research methodologies and methods, such as content analyses and field research, to expand our understanding of the AC compositions and their effect on the FRQ. Even if this research suggests valuable perceptions on the qualitative dimension for the quality of financial information, future research can be undertaken to examine quantitative determinants for the quality of financial information.

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APPENDIX

Table A.1. Multicollinearity tests

Model	Tolerance	VIF
ACFE	0.756	1.323
ACSZ	0.767	1.303
ACMT	0.978	1.022
ACIND	0.949	1.054
FSIZE	0.692	1.445
BOSIZE	0.711	1.406
BIND	0.905	1.106

Table A.2. Fixed effects model

Variable	Coefficient	Std. error	t-statistic	Prob.
ACFE	0.079693	0.004467	17.83886	0.0000
ACSZ	0.003335	0.006646	0.515968	0.6062
ACMET	0.001547	0.002359	0.655710	0.5124
ACIND	0.021782	0.004121	5.286107	0.0000
FSIZE	0.026385	0.009865	2.674742	0.0078
BOSIZE	0.000725	0.002540	0.285380	0.7755
BIND	-0.005244	0.028114	-0.186536	0.8521
C	-0.045679	0.213550	-0.213901	0.8307
R-squared	0.795677	Mean dependent var	0.715100	
Adjusted R-squared	0.767538	SD dependent var	0.114031	
Std. error of regression	0.041502	Akaike info criterion	-3.338959	
Sum squared resid	0.676902	Schwarz criterion	-2437033	
Log likelihood	941.7398	Hannan-Quinn criterion	-2985045	
F-statistic	31.83141	Durbin-Watson stat	1.696510	
Prob. (F-statistic)	0.000000			

Table A.3. Random effects model

Variable	Coefficient	Std. error	t-statistic	Prob.
ACFE	0.086450	0.004022	21.49184	0.0000
ACSZ	0.014952	0.004856	3.078822	0.0022
ACMT	0.000523	0.001875	0.278709	0.7806
ACIND	0.023351	0.004006	5.828571	0.0000
FSIZE	0.005887	0.003250	1.811350	0.0707
BOSIZE	0.001537	0.002187	0.702608	0.4826
BIND	0.002262	0.024203	0.093454	0.9256
C	0.338802	0.068197	4.967953	0.0000
R-squared	0.555602	Mean dependent var	0.252672	
Adjusted R-squared	0.549280	Std. dependent var	0.063299	
Std. error of regression	0.042497	Durbin-Watson stat	1.320468	