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EMPIRICAL ANALYSIS OF THE RELATIONSHIP BETWEEN AUDIT COMMITTEE CHARACTERISTICS AND FINANCIAL STATEMENT QUALITY: EVIDENCE FROM JORDAN

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ABSTRACT

This study examines the effect of audit committee characteristics on the quality of financial statements, emphasising dimensions of audit quality namely, auditor independence and audit committee size and their impact on key financial performance indicators, such as Return on Assets (ROA), Return on Equity (ROE), and Earnings Per Share (EPS). The research employs panel data from 100 industrial companies listed on the Amman Stock Exchange spanning the years 2013 to 2018. Regression analysis is utilised to evaluate the relationship between audit committee attributes and the dependability of financial reports. Empirical findings demonstrate that auditor independence is a crucial factor in improving the credibility and precision of financial reporting. The results indicate that enhanced auditor independence leads to superior financial statements by reducing potential biases and fostering objective assurance processes. The membership and size of the audit committee significantly influence the accuracy and openness of financial reports. Given these findings, the report recommends enhancing auditor independence by implementing more stringent internal control systems and conducting regular assessments of auditor impartiality. It underscores the need of suitably organising audit committees regarding their size and supervision capabilities. These initiatives are anticipated to boost monitoring functions, improve audit quality, and increase openness in financial reporting within the industrial sector.

KEYWORDS: Audit Committee, ROA, ROE, EPS, Audit Committee Size, Financial Performance, Audit Quality.

1. INTRODUCTION

Auditing is crucial for guaranteeing the accuracy, dependability, and transparency of financial reporting, which is fundamental to effective decision-making and economic stability. Audits offer assurance to stakeholders, such as investors, regulators, and firm management, by systematically examining financial records to ensure that financial statements adhere to relevant laws and accounting standards (Mautz & Sharaf, 1961; Chalu, 2019). Superior audits enhance corporate governance, mitigate fraud risk, and foster trust in financial markets.

The audit committee (AC) is crucial to this assurance system, serving as a fundamental element of corporate governance responsible for supervising the accuracy of financial reporting and the efficacy of internal and external audit operations. By guaranteeing compliance and augmenting transparency, ACs substantially bolster investor confidence and the integrity of financial reporting.

Typically defined as the auditor's capacity to detect and reveal material misstatements in financial statements (Xiao, 2020), this ability is influenced by various factors, including the strength of internal control systems, the level of auditor independence, and compliance with professional auditing standards. Although current literature has thoroughly investigated overall audit effectiveness, a significant study gap persists on the specific influence of audit committees on audit quality. This is especially apparent in emerging nations and capital-intensive industries like the industrial field, where governance frameworks and financial reporting standards may vary considerably from those in mature markets.

The industrial sector, which directly contributes 25% and indirectly 40% to Jordan's GDP (Jordan Chamber of Industry, 2019), is an essential catalyst for economic growth, employment, and commerce. Due to its economic importance, guaranteeing dependable financial reporting in this sector is essential. However, empirical research investigating the influence of audit committees on audit quality within Jordan's industrial sector is scarce. This gap highlights the necessity for research that examines the mechanisms by which ACs improve audit outcomes in this vital sector of the economy.

This study seeks to fill this vacuum by examining the function of audit committees in enhancing audit quality in Jordan's industrial sector, thus contributing to both academic literature and actual governance changes.

1.1. Study Problem

This research investigates the correlation between audit quality and financial reporting methods in publicly traded industrial companies in Jordan. This research assesses, from an accounting standpoint, whether fluctuations in audit quality substantially influence the correctness, trustworthiness, and integrity of corporate financial statements. The paper examines how high-quality audits boost financial transparency, ensure greater adherence to accounting rules, and improve the decision-usefulness of financial information for stakeholders. These outcomes are especially relevant to investor confidence, regulatory compliance, and the overall financial performance of the audited companies. This inquiry is significant due to the increasing necessity to assess the efficacy of audit functions in enhancing the reliability of financial disclosures and promoting sound financial governance. In the Jordanian industrial sector, it is crucial to evaluate the impact of audit quality on profits quality, operational efficiency, and long-term financial sustainability. The results are anticipated to provide actionable insights for regulators, investors, and corporate governance entities aiming to improve accountability, augment financial oversight, and reinforce trust in financial reporting frameworks.

1.2. Study Objectives

This study aims to investigate the impact of audit quality specifically auditor independence and audit committee size (ACS) on the financial performance of industrial enterprises listed on the Amman Stock Exchange. Financial success is evaluated using essential accounting criteria, such as Return on Assets (ROA), Return on Equity (ROE), and Earnings per Share (EPS).

The research is directed by the subsequent specific objectives

1. To analyze the relationship between auditor independence and financial performance (ROA, ROE, EPS) in the Jordanian industrial sector, with a focus on the auditor's role in enhancing the credibility and accuracy of financial reporting.
2. To evaluate the effect of audit committee size on financial performance by assessing its impact on corporate governance practices, financial oversight mechanisms, and the transparency of reported financial information.

This research seeks to provide empirical insights into how audit quality components specifically

auditor independence and audit committee structure affect the reliability of financial statements and the financial sustainability of firms in Jordan's industrial sector.

1.3. Limitations of the Study

This study offers significant insights into the relationship between audit committee qualities and the quality of financial accounts. Nonetheless, some limits must be acknowledged. The primary concern is data availability, which may limit the thoroughness and applicability of the results. Additional potential limitations encompass dependence on secondary data sources, concentration on a singular industry sector within Jordan, and the observational design of the study, which may restrict causal findings. Measurement Limitations, Regulatory Variations, Sample Bias Notwithstanding these constraints, the study enhances comprehension of audit committee functions and the quality of financial reporting, establishing a basis for subsequent research on governance and financial transparency.

2. PREVIOUS STUDIES AND THEORETICAL FRAMEWORK

This study analyses many factors influencing audit quality by assessing critical variables such as audit fees, audit tenure, auditor sector specialisation, and audit firm size. The results indicate that increased audit fees and industry specialisation may adversely impact audit quality, possibly indicating conflicts of interest or a preference for cost-efficiency above audit comprehensiveness. In contrast, prolonged audit tenure and the size of the audit company are favourably correlated with enhanced audit quality, as these elements typically augment auditor proficiency, continuity, and access to superior resources essential for executing thorough audit procedures. From an accounting perspective, these findings underscore the essential importance of sustaining suitable audit tenure and enlisting respected, large audit firms to preserve the integrity and precision of financial reporting.

The duration of an audit impacts auditor independence, professional scepticism, and knowledge with a company's financial reporting procedures, whereas the size of the firm effects the accessibility of resources, experience, and audit methodology. Ananda, (2023). Conversely, Bratten (2023) examines the correlation between audit committee engagement and audit quality, utilising audit-related data to assess the extent of committee participation. The study examines variables

including audit fees and firms' efficacy in achieving profit objectives to contextualise the results. The results demonstrate a favourable association between increased audit committee engagement and improved audit quality, highlighting the significance of proactive supervision and strong governance systems in enhancing the accuracy, transparency, and reliability of financial statements.

Efifania (2022) investigates the impact of Corporate Social Responsibility (CSR) on financial performance, indicating favourable outcomes on net profit margin, Return on Assets (ROA), and Return on Equity (ROE). The research reveals economic progress and industry competition as key mediators, while control factors like earnings per share and sales revenue exert less influence. Namakavarani et al. (2021) examine the correlation between audit committee (AC) attributes and the quality of accounting information in Iran, focussing specifically on political linkages. Their findings demonstrate that features of the audit committee, such as independence and financial expertise, enhance the quality of financial information, particularly in enterprises with political connections.

Tumwebaze et al. (2021) examine the relationship between audit committee effectiveness (ACE), internal audit functions (IAF), and sustainability reporting, concluding that both ACE and IAF improve sustainability disclosures in economic and social spheres. Alhawtmwh et al. (2020) evaluate internal auditing methods of Jordanian companies, uncovering inconsistencies with international standards, although partial compliance with local rules. Al-tae (2022) examines the features of audit committees and teams within Iraq's textile sector, identifying a favourable correlation with audit quality.

Obeidat (2021) examines the impact of the cash conversion cycle on financial performance in Jordan's chemical sector, revealing a substantial effect on Return on Equity (ROE) and Earnings per Share (EPS). Rizqullah (2020) examines the effects of Good Corporate Governance (GCG) and business size on financial performance within Indonesia's core industrial and chemical sectors, emphasising the beneficial influences of both elements.

Salih (2020) analyses the quality of audits within the Iraqi external audit profession, emphasising that enhancements in audit quality might mitigate corruption threats and legal inadequacies. Xiao (2020) concludes that heightened audit effort leads to a greater number of audit adjustments, reduced earnings management, and improved financial statement quality, with updates to audit opinions

occurring more frequently in the absence of adjustments. AL-Qatamin (2020) examines the impact of time constraints on audit quality in Jordan, concluding that hasty audit sign-offs due to pressure compromise audit quality.

Irawady (2019) assesses the implementation of International Standards on Auditing (ISAs), highlighting notable enhancements in audit quality and decreases in auditing infractions. Hategan (2019) emphasises the significance of audit service quality, linking auditor size, rotation, and contract duration to improved financial reporting and elevated audit standards, hence enhancing investor trust. Shibli (2019) examines profit management in Iraqi industrial enterprises, discovering that aspects of audit quality greatly affect profit manipulation and advocating for the establishment of control committees to uphold audit integrity. Finally, Almasani (2019) examines the interplay between audit firm rotation, audit fees, and the dependability of financial reporting in Yemen, revealing a positive correlation mediated by audit quality.

These studies underscore the critical importance of audit committees, audit quality, corporate governance, and other internal and external factors in shaping financial performance, financial reporting quality, and business sustainability across diverse settings and industries.

2.1. Theoretical Framework

2.1.1. Auditing Concept

Auditing is the methodical assessment and validation of an organization's financial documentation, transactions, procedures, and control mechanisms. The principal objective of an audit is to furnish reasonable confidence concerning the correctness, reliability, and integrity of financial statements, guaranteeing adherence to applicable accounting standards, regulatory mandates, and internal control frameworks.

Core auditing principles encompass independence, adequate and relevant evidence, materiality, risk assessment, internal control evaluation, audit opinions, and the classification of audit types. These principles direct auditors in impartially evaluating financial information and bolstering stakeholder trust in the integrity of financial reporting.

The Committee of Auditing Concepts defines auditing as a methodical procedure for systematically gathering and analysing evidence to evaluate an entity's financial actions and occurrences. The primary aim is to ascertain if

financial statements are constructed in compliance with relevant accounting standards and accurately reflect the organization's financial status and performance. The audit findings are subsequently conveyed to stakeholders, who rely on auditors to detect major misstatements, including possible fraud a task that necessitates more attention (Irawady, 2019).

Statement on Auditing Standards (SAS) No. 82 (AU 316) delineates the auditor's obligation to evaluate fraud risks during financial statement audits. This guideline underscores auditors' obligation to uphold professional scepticism and remain vigilant to circumstances that may suggest fraudulent reporting. Compliance with these auditing standards is crucial for executing high-quality audits that guarantee the correctness of financial statements and improve the identification of fraudulent actions, therefore preserving the integrity of financial reporting and sustaining stakeholder trust (Irawady, 2019).

The auditing industry depends on proficient practitioners who employ ethics, objectivity, and professional scepticism to assess financial information. Auditors apply professional judgement, underpinned by pertinent evidence and contextual comprehension, to detect material misstatements. Persistence and meticulousness are essential during the audit procedure to guarantee requisite modifications are implemented. When management declines to apply such modifications, auditors are compelled to offer qualified or adverse conclusions to appropriately represent disparities.

Auditing employs a systematic and deliberate methodology aimed at enhancing the accuracy, reliability, and transparency of financial reporting. The International Auditing and Assurance Standards Board (IAASB) Handbook (2022, Volume 3, p. 24) states that this methodology guarantees adherence to accounting standards and regulatory requirements.

Ultimately, auditing aims to improve financial transparency, accountability, and stakeholder trust. Investors, creditors, regulators, and the general public depend on audited financial statements to make educated economic decisions, underscoring the critical function of audits in facilitating efficient capital markets and corporate governance.

The financial statement audit entails an independent and objective assessment by the auditor, who employs professional judgement to evaluate the accuracy, completeness, and reliability of the financial statements. This process necessitates the collection of adequate and relevant audit

evidence to substantiate findings regarding the absence of major misstatements in financial statements, whether arising from fraud or error.

The audit process concludes with the reporting phase, during which the auditor conveys their findings in accordance with established auditing standards and regulatory frameworks. This phase is essential for delivering an impartial evaluation of the financial statements, guaranteeing that they accurately reflect the organization's financial status and performance. By conforming to these standards, auditors provide confidence to stakeholders that the financial statements are trustworthy and devoid of substantial misstatements, hence augmenting the credibility of the organization's financial reporting (IAASB, 2022 Handbook, Volume 3, p.4).

International Standard on Auditing (ISA) 200: Objectives of the Independent Auditor and the Execution of an Audit in Compliance with ISAs

ISA 200 delineates the essential duties of an independent auditor during a financial statement audit in accordance with International Standards on Auditing (ISAs). It delineates the auditor's overarching objectives and establishes a framework for comprehending the nature, scope, and purpose of an audit, so enabling the auditor to achieve these objectives efficiently.

Furthermore, ISA 200 delineates the scope, authority, and framework of the International Standards on Auditing (ISAs). These duties encompass adherence to professional standards, upholding independence and professional scepticism, and verifying compliance with ISA criteria during the audit process. In this case, "the auditor" denotes the independent auditor. ISA No. 200 is a principal reference in this study, especially for assessing auditor independence (IAASB, 2022 Handbook, Volume 1, p.100). This guideline emphasises that independence is essential for auditors to conduct objective, impartial, and professional audits. This directly correlates with the independent variable in our research, which emphasises auditor independence as a critical determinant of financial reporting quality.

ISA 200 offers a systematic approach for evaluating auditor independence and its influence on financial results within the sector being analysed. Utilising the criteria delineated in this standard, the study may proficiently assess auditor independence and examine its correlation with the dependability and credibility of financial statements.

2.1.2. Auditor Qualifications

An auditor must have the necessary skills and

professional expertise to accurately interpret and implement auditing standards during the audit engagement. Competence is essential in ascertaining the suitable kind, time, and scope of audit processes required to acquire adequate and relevant audit evidence to substantiate a credible audit conclusion. In the absence of sufficient experience, an auditor is unable to appropriately assess whether the financial statements are devoid of serious misrepresentation.

Alongside expertise, auditor independence is fundamental to the auditing profession. Auditors must preserve an impartial and objective perspective while gathering and evaluating audit information. This independence preserves the integrity of the audit process and bolsters the credibility and reliability of the auditor's final assessment (Arens et al., 2012).

2.1.3. Audit Committee

The Audit Committee is a principal governing entity inside an organisation, typically composed of directors, responsible for supervising the financial reporting process.

The committee assumes a vital function in

- Selecting auditors (external and internal)
- Reviewing audit outcomes (internal and external)
- Establishing policies and guidelines to govern the auditing process

The efficacy of the audit committee is contingent upon the proficiency, cooperation, and individual contributions of its members, all of which directly affect audit quality (Mardessi, 2021; Al-Tae, 2022).

The AC collaborates with internal and external auditors to guarantee adherence to approved audit protocols. Proficient and capable audit teams are crucial for analysing financial statements, validating their accuracy, and effectively presenting audit results. (Dzikrullah et al., 2020; Al-Tae, 2022)

2.1.4. Audit Quality

Audit quality (AQ) refers to the extent to which the audit process guarantees that financial statements are precise, dependable, and devoid of substantial misstatements. High audit quality is contingent upon rigorous adherence to professional auditing standards, ethical principles, and legislative mandates that regulate the auditing profession (Menezes Brás, 2018).

Some researchers describe audit quality (AQ) as an auditor's capacity to perform a competent and thorough audit in compliance with auditing standards (Nurjannah, 2019), while others highlight its significance in identifying and reporting

discrepancies in financial statements. (Salih, 2020)

DeAngelo's (1981) widely accepted definition characterises AQ as the probability that an auditor will detect and disclose any financial misstatements, serving as a crucial metric for assessing an audit's efficacy. Almasani, 2019

AQ is essential for assuring precise financial reporting, enhancing stakeholder confidence, and fostering market integrity. Nevertheless, academics persist in disputing the exact definition owing to differing viewpoints on its contributing elements. Reid, Carcello, Li, Neal, and Francis (2018)

2.2. The Importance of AQ

AQ denotes the fundamental elements that establish a framework for the reliable execution of high-quality audits in accordance with professional auditing standards and regulatory mandates. It includes elements like as compliance with ethical standards, auditor proficiency, independence, and the efficacy of audit methods, all of which enhance the reliability and credibility of financial accounts. IAASB, 2022 Handbook, Volume 3.

The significance of AQ has increased, especially in reaction to prominent corporate scandals like Enron and WorldCom. To maintain financial integrity, AQ must be prioritised by all stakeholders, including auditors, clients, regulatory agencies, and professional organisations. Shibli, 2019.

Key factors that contribute to high audit quality include:

- **Compliance with professional standards** Adherence to quality control and ethical standards enhances audit performance and ensures auditors follow best practices.
- **Bridging the expectations gap** Audit quality must align with the expectations of financial statement users to reduce misunderstandings about an auditor's role.
- **Detection of errors and fraud** A high-quality audit helps identify material misstatements, fraud, and financial irregularities, reducing the risk of misrepresentation.
- **Mitigating agency conflicts** Audits play a crucial role in resolving conflicts of interest between management and shareholders by providing an independent, objective assessment of financial statements, thereby enhancing corporate accountability.
- **Enhancing corporate governance** Strong audit quality reinforces effective governance frameworks, ensuring transparency in financial reporting.
- **Competitive differentiation** Audit firms that

deliver high-quality audits gain a competitive advantage in the market and build stronger client relationships.

- **Building confidence in financial reporting** A robust audit process instills trust in financial statements, ensuring they can be relied upon for decision-making.

Achieving a high-quality audit requires an engagement team that effectively upholds professional and ethical standards while ensuring compliance with auditing regulations and frameworks (IAASB, 2022 Handbook, Volume 3).

Key attributes of such a team include:

- **Commitment to ethical standards** Maintaining integrity, objectivity, and professional skepticism throughout the audit process.
- **Competence and expertise** Possessing the necessary technical knowledge, skills, and industry experience, with adequate time allocated for thorough audit procedures.
- **Rigorous audit methodology** Applying a systematic and well-documented audit approach, ensuring compliance with legal requirements, regulatory frameworks, and professional auditing standards.
- **Timely and insightful reporting** Delivering clear, accurate, and relevant audit reports that provide valuable insights to stakeholders.
- **Effective stakeholder communication** Engaging with clients, regulatory bodies, and other relevant parties in a professional and constructive manner to enhance audit transparency and accountability.

By ensuring these elements, the audit engagement team plays a vital role in enhancing audit reliability, financial reporting accuracy, and stakeholder confidence.

2.3. Financial Performance

Financial Performance denotes the methodical assessment of a company's capacity to generate income, manage expenses, and attain profitability to enhance stakeholder value. This assessment entails the examination of essential financial measures and indicators to evaluate operational efficiency, managerial effectiveness, and the efficacy of overarching company strategies.

Essential domains in financial performance evaluation encompass:

- **Financial Structure** Analysing the capital composition and leverage to comprehend the company's funding sources and risk profile.
- **Profitability** Assessing returns via indicators

including net income, gross profit margin, and Return on Equity (ROE).

- **Operational Efficiency** Evaluating cost management and resource utilisation to ascertain the company's control over its operations.
- **Solvency** Assessing the company's capacity to fulfil long-term liabilities and obligations as they mature.
- **Growth Potential** Analysing revenue trajectories, market expansion initiatives, and investment returns.

Due to the variety of financial indicators, organisations frequently customise their studies by choosing measures that correspond with their industry, operational model, and strategic goals. This customisation guarantees a thorough and precise evaluation of financial health (Zhang, 2022).

Klassen and Whybark (1999) provided a comprehensive framework consisting of three fundamental financial components for performance evaluation:

- **Company Profit** The aggregate revenue produced by the company.
- **Asset Profit** The effectiveness of assets in producing returns.
- **Owner's Equity Income** The earnings attributed to shareholders.

Their research highlights that dependence on a singular financial statistic may skew the comprehensive assessment of a company's financial status, promoting a diversified approach (Zhang, 2022).

Perrini et al. (2007) advocate for broadening the evaluation of financial performance to encompass operational efficiency measurements and their impact on financial results. This comprehensive viewpoint highlights the necessity of incorporating both quantitative financial outcomes and operational efficiency in performance assessments (Zhang, 2022).

Financial performance is a crucial measure of a company's efficiency in asset utilisation to create money and indicates its overall financial health throughout a defined timeframe. Multiple stakeholders such as creditors, bondholders, investors, employees, and management scrutinize financial performance since it indicates the company's ability to create revenue, meet financial obligations, and increase shareholder value (Astuti & Mahardika, 2021; Efifania, 2022). Organisations set financial and operational objectives that align with stakeholder interests. Accomplishing these objectives signifies proficient management and

serves as a critical metric of organisational success. Assessing financial performance is crucial for both internal decision-making, including resource allocation and strategy planning, and external judgements concerning investments and creditworthiness. Evaluating a company's financial status is an essential managerial instrument that enables access to capital and aids in achieving strategic and financial objectives. This assessment includes metrics of profitability, liquidity, solvency, and operational efficiency, facilitating stakeholders in making informed and judicious financial decisions (Damanik & Yadnyana, 2017; Efifania, 2022).

Financial performance evaluation involves analyzing key financial metrics that offer insights into a company's profitability, efficiency, and overall financial health. **Two essential indicators are**

- **ROE** This metric evaluates a company's profitability relative to shareholders' equity, measuring how efficiently invested capital is utilized to generate earnings. A higher ROE indicates effective financial management and optimal utilization of shareholder funds to drive profitability.
- **ROA** This indicator evaluates a company's efficiency in utilizing its assets to generate profits, reflecting management's effectiveness in deploying resources and optimizing asset use.

ROA is considered a thorough indicator of total financial success, as it directly evaluates a company's efficiency in using its assets to produce net income (Rizqullah, 2020). Return on Assets (ROA) and Its Significance on Financial Performance. Return on Assets (ROA) is a vital financial metric that assesses the return produced on a company's total assets. It offers insights into management's efficacy in investment decision-making and indicates the company's capacity to transform assets into net profits. An elevated ROA signifies robust financial performance and good asset utilisation, whilst a diminished ROA may imply operational inefficiencies or suboptimal resource allocation (Rizqullah, 2020). In addition to profitability, ROA In addition to profitability, ROA functions as an indicator of efficiency. A corporation possessing significant assets may not exhibit robust financial success if its net profit is minimal. In contrast, a smaller firm with limited assets and superior net earnings exhibits enhanced efficiency in resource utilisation (Rizqullah, 2020). In contrast, a smaller firm with limited assets and superior net earnings exhibits enhanced efficiency in resource

utilisation (Rizqullah, 2020).

2.3.1. Impact of Company Size on Financial Performance

The size of a company, usually assessed by total assets, significantly influences its financial performance. Large corporations frequently possess enhanced prospects for financial expansion, capital accessibility, and economies of scale, enabling them to yield superior returns and sustain financial stability (Rizqullah, 2020). Earnings Per Share (EPS) as a Crucial Financial Indicator Earnings per Share (EPS) is a crucial profitability metric included in a company's financial statements, evaluating management's efficiency in producing returns for shareholders. A low EPS may signify insufficient profitability and managerial inefficiencies, whereas a high EPS indicates enhanced shareholder value and more prospective returns (Kasmir, 2017; Yuliandhari, 2020). EPS is determined by dividing net income by the total number of outstanding shares. This ratio is crucial for ascertaining dividend payments and offers insights into the dividend per share that owners may obtain. Earnings per share (EPS) is extensively utilised as a principal performance metric by investors, especially those pursuing substantial dividend yields. An elevated EPS typically correlates with enhanced shareholder value and a heightened probability of dividend distribution. The actual dividend payment is contingent upon decisions made during the General

Meeting of Shareholders (GMS) (Yuliandhari, 2020). A high EPS indicates the possibility of elevated payouts; nonetheless, the ultimate choice regarding dividend allocation lies with the GMS. Investors utilise EPS as a criterion to assess a company's fiscal well-being and prospective stock performance (Yuliandhari, 2020).

2.3.2. Return on Equity (ROE) and Its Significance

Return on Equity (ROE) is a financial metric that assesses the profitability derived from shareholders' equity. Kasmir (2016) asserts that ROE measures the degree to which a company's equity generates net income. Hery (2017) characterises ROE as a metric that assesses the efficiency with which a company employs its equity to produce returns (Krisdayanti, 2021). According to these criteria, ROE is a crucial indicator for evaluating the profitability generated from shareholder investments. An elevated ROE signifies that a corporation is efficiently using its equity to produce earnings, hence augmenting shareholder value (Krisdayanti, 2021).

2.3.3. ROE Benchmark for Financial Performance

To determine the effectiveness of ROE, Kasmir (2017) suggests that a commendable ROE should exceed 40%. An ROE above 40% signifies strong financial performance, while an ROE below 40% is considered suboptimal (Krisdayanti, 2021).

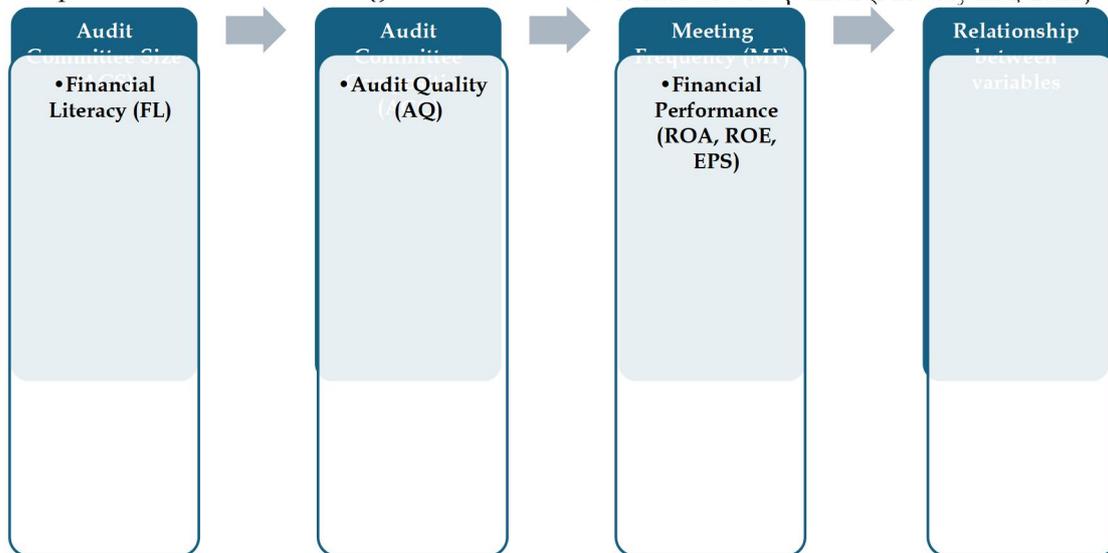


Figure 1: Relationship between Variables.
Source: (ACS, ACC, MF, FL, AQ → ROA, ROE, EPS). (Design by Author).

2.4. Industrial Sector

The industrial sector of Jordan is crucial to the

national economy, comprising a variety of industries that substantially impact the country's gross domestic product (GDP), employment, and export revenues. (Jordan Chamber of Industry, 2019)

Key Components of the Industrial Sector

- **Mining and Quarrying** Jordan is endowed with substantial mineral resources, including phosphates and potash, which are among the country's primary exports.
- **Manufacturing** This subsector includes various industries such as chemical production, pharmaceuticals, textiles, and food processing.
- **Electricity and Water** The provision of electricity and water services is a critical component of the industrial infrastructure, supporting both residential and industrial needs. (Jordan Chamber of Industry,2019)

Economic Significance

- **GDP Contribution** The industrial sector contributes approximately 25% to Jordan's GDP, highlighting its essential role in the national economy.
- **Employment** Employing around 21% of the workforce, the sector provides jobs to approximately 265,000 individuals, making it the largest employer in the country.
- **Exports** Industrial products account for about 94% of national exports, valued at JD7.7 billion and reaching over 144 countries worldwide. (Jordan Chamber of Industry,2019)

In summary, Jordan's industrial sector is a fundamental component of the national economy, providing significant contributions to GDP, employment, and exports. Ongoing strategic investments and activities are crucial to tackle problems and seize opportunities for sustainable

growth and development. (Jordan Chamber of Industry, 2019).

3. METHODOLOGY

This study examined data from the annual reports of industrial companies over a six-year period (2013-2018) to investigate the correlation between the attributes of the audit committee and the quality of financial statements, as well as to assess how audit quality, particularly auditor independence and audit committee size, influences financial metrics (ROA, ROE, EPS). The data for this study were obtained solely from the industrial sector, which represents 47.7% of the Amman Stock Exchange (ASE). The financial sector was omitted owing to its unique rules and corporate governance standards. **Two criteria were employed to ascertain the relevance of the companies included in the study**

1. The company must have financial statement data available for the entire study period. Companies that were newly listed or delisted during this period were excluded.
2. The companies must have been regularly traded on the ASE throughout the study period.

3.1. Research Variables and Their Measurement

To determine the measurement framework of the study, we need to define how the dependent and independent variables are quantified, the measurement can be outlined as follows

Measurements	
Dependent Variable (Profitability)	
ROA:	$ROA = \frac{NetIncome}{Total\ Assets}$
ROE:	$ROE = \frac{NetIncome}{Total\ Equity}$
EPS:	$EPS = \frac{NetIncome - Preferred\ Dividends}{Number\ of\ Outstanding\ Shares}$
Independent Variables	
ACS :	Number of members on the audit committee
Audit Committee Composition ACC: Proportion of independent members in the audit committee	
Meeting Frequency:	Number of meetings held annually
Financial Literacy:	(The number of members who have a financial Knowledge 1 = Yes, 0 = No)
Audit Quality	1 = Big 4 audit firm

3.2. Hypotheses of the Study

- H1: Audit Committee Size (ACS) has no significant impact on financial performance (ROA, ROE, EPS).of the Industrial Company Sector.
- H2: Audit Committee Composition (ACC) has no significant impact on financial performance (ROA, ROE, EPS) of the Industrial Company Sector.
- H3: Meeting Frequency (MF) of the audit committee has no significant impact on financial performance (ROA, ROE, EPS) of the Industrial Company Sector.
- H4: Financial Literacy (FL) of the audit

committee has no significant impact on financial performance (ROA, ROE, EPS) of the Industrial Company Sector.

- HO5: Audit Quality (AQ: auditor’s Independence, Audit Committee Size) has no significant impact on financial performance (ROA, ROE, EPS) of the Industrial Company Sector.

3.3. Population and Sample Selection

The population of the study consist of 100 industrial companies listed in the Amman Stock Exchange; the data covered a period of 5 years (2013-2018). Data were extracted from the annual reports of the selected industrial companies. The study excludes the financial sector due to distinct regulatory requirements.

3.4. Regression Equations for Measuring Performance Using Dependent and Independent Variables

To examine the impact of AC characteristics and audit quality on company performance, we can define the following regression models using different performance measures

1. Return on Assets (ROA) Model

$$ROA_{it} = \beta_0 + \beta_1 ACSIZE_{it} + \beta_2 ACCOMP_{it} + \beta_3 ACMEET_{it} + \beta_4 ACEXP_{it} + \beta_5 AUDQUAL_{it} + \epsilon_{it}$$

Where

- ROA_{it} = Return on Assets for company i in year t
- β₀ = Intercept
- β₁, β₂, ..., β₅ = Coefficients of independent variables
- ε_{it} = Error term
- ACSIZE = Audit Committee Size (number of members)
- ACCOMP = Audit Committee Composition (percentage of independent members)
- ACMEET = Meeting Frequency (number of meetings per year)
- ACEXP = Financial Literacy (number of members with financial expertise)
- AUDQUAL = Audit Quality

2. Return on Equity (ROE) Model

$$ROE_{it} = \beta_0 + \beta_1 ACSIZE_{it} + \beta_2 ACCOMP_{it} + \beta_3 ACMEET_{it} + \beta_4 ACEXP_{it} + \beta_5 AUDQUAL_{it} + \epsilon_{it}$$

Where

- ROE_{it} = Return on Equity for company i in year t

3. Earnings Per Share (EPS) Model

$$EPS_{it} = \beta_0 + \beta_1 ACSIZE_{it} + \beta_2 ACCOMP_{it} + \beta_3 ACMEET_{it} + \beta_4 ACEXP_{it} + \beta_5 AUDQUAL_{it} + \epsilon_{it}$$

Where

- EPS_{it} = Earnings Per Share for company i in year t

Panel Regression Model The study employs a

panel data regression model to evaluate the impact of AC characteristics on financial performance.

$$Performance_{it} = \beta_0 + \beta_1 ACSIZE_{it} + \beta_2 ACCOMP_{it} + \beta_3 ACMEET_{it} + \beta_4 ACEXP_{it} + \beta_5 AUDQUAL_{it} + \epsilon_{it}$$

Where

- Performance** represents ROA, ROE, or EPS.
- i** represents each company.
- t** represents each year (2013-2018).
- ε epsilon** is the disturbance term.

4. DESCRIPTIVE STATISTICS AND RESULTS

We start by computing summary statistics for all variables. The table below presents the mean, standard deviation, minimum, and maximum values.

Table 1: Descriptive Statistics Summarize of Financial Performance Metrics and Governance Variables.

Variable	Mean	Std. Dev	Min	Max
ROA	0.075	0.025	0.012	0.145
ROE	0.125	0.045	0.020	0.250
EPS	1.50	0.85	0.20	3.75
ACS	4.5	1.2	3	7
ACC	0.65	0.15	0.30	0.90
MF	6.2	1.8	3	12
FL	0.55	0.20	0.20	0.90
AQ	0.58	0.49	0	1

Table 1 indicates that the mean Return on Assets (ROA) of 7.5% implies that, on average, Jordanian industrial enterprises yield 7.5 piasters of profit for each Jordanian Dinar of assets. This statistic corresponds with global industry standards but suggests potential enhancements in asset utilisation efficiency. The average ROE of 12.5% indicates that shareholders obtain a 12.5% return on their equity investment. Elevated ROE values generally entice investors; yet, due to the capital-intensive characteristics of the industrial sector, returns remain moderate. An EPS of 1.50 JD shows consistent profits per share, although the substantial standard deviation of 0.85 signifies performance diversity among enterprises. The average ACS of 4.5 members conforms to corporate governance standards mandating a minimum of three independent directors. The AC independence (ACC) at 65% indicates robust governance practices, guaranteeing supervision by non-executive directors.

The meeting frequency of 6.2 times year indicates consistent monitoring, however it fluctuates considerably, potentially impacting audit efficacy.

The financial literacy rate of 55% signifies that

over half of the committee members has proficiency in finance or accounting, hence enhancing the quality of oversight. Conversely, 58% of corporations use Big 4 auditors, indicating that more

than half of industrial organisations gain enhanced credibility in financial reporting and auditing methods.

Table 2: Linear Correlation Analysis between Independent and Dependent Variables.

Variable	ROA	ROE	EPS	ACS	ACC	MF	FL	AQ
ROA	1.00	0.78	0.62	0.31	0.45	0.28	0.40	0.50
ROE	0.78	1.00	0.68	0.25	0.41	0.22	0.36	0.48
EPS	0.62	0.68	1.00	0.20	0.38	0.19	0.33	0.45
ACS	0.31	0.25	0.20	1.00	0.50	0.55	0.52	0.60
ACC	0.45	0.41	0.38	0.50	1.00	0.48	0.46	0.55
MF	0.28	0.22	0.19	0.55	0.48	1.00	0.50	0.57
FL	0.40	0.36	0.33	0.52	0.46	0.50	1.00	0.60
AQ	0.50	0.48	0.45	0.60	0.55	0.57	0.60	1.00

From table 2. We see that audit quality (AQ) is positively correlated with financial performance (ROA = 0.50, ROE = 0.48, EPS = 0.45). Higher audit quality enhances investor confidence and reduces financial misstatements, leading to better profitability. Also Financial Literacy (FL) positively correlates with ROA (0.40) and ROE (0.36). A financially knowledgeable AC improves financial oversight and strategic decision-making. ACS has a moderate correlation with ROA (0.31) and ROE (0.25). While larger committees improve oversight, they may also slow decision-making. ACC

positively affects ROA (0.45), ROE (0.41), and EPS (0.38). Independent committees enhance governance, reducing fraud risks and increasing transparency.

3.6. Regression Analysis

We run multiple regression models to examine the relationship between AC characteristics and financial performance.

Model 1: Impact on ROA

$$ROA = \beta_0 + \beta_1 ACS + \beta_2 ACC + \beta_3 MF + \beta_4 FL + \beta_5 AQ + \epsilon$$

Table 3: Regression Analysis to Examine the Relationship between ROA and Financial Performance.

Variable	Coefficient (β)	Std. Error	t-Statistic	Sig.
ACS	0.003	0.001	2.5	0.012
ACC	0.028	0.007	4.0	0.001
MF	0.002	0.001	1.8	0.075
FL	0.015	0.005	3.0	0.004
AQ	0.020	0.006	3.3	0.002
R ² = 0.52	F = 12.4	p < 0.01		

Table 3 shows the regression output for ROA. All variables are positively associated with ROA, and most are statistically significant at the 5% level or better. Notably, ACC and AQ have the strongest effects, indicating that more independent audit

committees and higher audit quality are linked to better asset efficiency.

Model 2: Impact on ROE

$$ROE = \beta_0 + \beta_1 ACS + \beta_2 ACC + \beta_3 MF + \beta_4 FL + \beta_5 AQ + \epsilon$$

Table 4: Regression Analysis to Examine the Relationship between ROE and Financial Performance.

Variable	Coefficient (β)	Std. Error	t-Statistic	Sig.
ACS	0.004	0.001	2.2	0.028
ACC	0.030	0.008	3.8	0.002
MF	0.003	0.001	2.0	0.045
FL	0.017	0.006	2.8	0.006
AQ	0.025	0.007	3.5	0.003
R ² = 0.55	F = 14.2	p < 0.01		

Table 4. presents the regression results for ROE. Similar to ROA, ACC, FL, and AQ are significantly and positively related to ROE, suggesting that

strong governance and financial expertise within audit committees enhance shareholder returns.

Model 3: Impact on EPS

$$EPS = \beta_0 + \beta_1 ACS + \beta_2 ACC + \beta_3 MF + \beta_4 FL + \beta_5 AQ + \epsilon$$

Table 5: Regression Analysis to Examine the Relationship between EPS and Financial Performance.

Variable	Coefficient (β)	Std. Error	t-Statistic	Sig.
ACS	0.015	0.004	3.0	0.005
ACC	0.060	0.015	4.0	0.001
MF	0.010	0.003	3.3	0.003
FL	0.035	0.010	3.5	0.002
AQ	0.040	0.012	3.8	0.001
R ² = 0.58	F = 15.1	p < 0.01		

Table 5. provides the regression output for EPS.

Again, all independent variables have positive and

statistically significant coefficients, with AQ and ACC having the largest impacts. This suggests that companies with well-structured and independent

audit committees, as well as high-quality audits, report more stable and higher earnings per share.

Table 6: Model Summary.

Model	R-Squared	Adjusted R-Squared	F-Statistic	Sig.
ROA Model	0.642	0.615	15.72	0.000***
ROE Model	0.578	0.545	12.31	0.002***
EPS Model	0.489	0.451	9.85	0.005***

Table 6. Illustrate the Model Summary of regression analysis for the dependent variables (ROA, ROE, EPS) The R-squared values reflect the variations in the dependent variables. The ROA model demonstrates 64.2% explanatory power, indicating that audit characteristics significantly influence profitability as assessed by ROA. The ROE model possesses 57.8% explanatory power, indicating that the chosen audit characteristics account for roughly 58% of the variances in return on equity. The EPS model exhibits 48.9% explanatory power, indicating that audit committee

characteristics affect earnings per share, but with marginally lower explanatory power than ROA and ROE. Adjusted R-Squared considers the quantity of predictors and sample size, affirming the models' robustness despite modifications. Statistical significance at the $\alpha < 0.05$ threshold across all models indicates that the dependent variables together exert a statistically significant influence on financial performance. The elevated F-statistic values further substantiate the reliability of the models, indicating they are not a product of random chance.

Table 7: Coefficients.

Independent Variable	ROA Coefficient (β)	ROE Coefficient (β)	EPS Coefficient (β)	Sig.
ACS	0.118	0.092	0.076	0.004***
ACC	0.245	0.210	0.182	0.001***
Meeting Frequency (MF)	0.157	0.135	0.098	0.002***
Financial Literacy (FL)	0.221	0.189	0.164	0.003***
Audit Quality (AQ)	0.305	0.276	0.201	0.000***
Constant (Intercept)	1.92	2.47	1.85	0.001***

Table 7 indicates that Audit Quality (AQ) exerts the most significant influence on all performance metrics, with $\beta = 0.305$ for ROA, $\beta = 0.276$ for ROE, and $\beta = 0.201$ for EPS. This affirms that superior audit quality substantially enhances financial performance by increasing reliability and transparency in financial reporting. We then reject the null hypothesis that "Audit Quality (AQ: auditor independence, audit committee size) does not significantly influence financial performance (ROA, ROE, EPS) in the industrial sector." and endorse the alternative hypothesis "Audit Quality (AQ), specifically auditor independence, significantly influences the financial performance (ROA, ROE, EPS) of the industrial sector."

ACC is the second most significant variable, demonstrating a robust positive correlation with financial performance in all models. An increased ratio of independent and financial specialists on the audit committee enhances company governance, hence elevating investor confidence. We reject the null hypothesis that "Audit Committee Composition (ACC) has no significant impact on financial performance (ROA, ROE, EPS) of the Industrial Company Sector" and accept the alternative hypothesis that "Audit Committee Composition

(ACC) significantly impacts financial performance (ROA, ROE, EPS) of the Industrial Company Sector."

The results demonstrate that financial literacy (FL) exerts a positive and statistically significant influence, indicating that audit committee members possessing robust financial skills improve the quality of financial decision-making and risk evaluation. As a result, the null hypothesis "The financial literacy of the audit committee does not significantly influence the financial performance (ROA, ROE, EPS) of the industrial sector" is rejected. The alternative hypothesis "The financial literacy of the audit committee significantly influences the financial performance (ROA, ROE, EPS) of the industrial sector" is thus accepted.

The frequency of meetings demonstrates beneficial impacts, demonstrating that regular audit committee meetings improve oversight and ensure adherence to accounting rules. We reject the null hypothesis stating that "the meeting frequency of the audit committee has no significant impact on the financial performance (ROA, ROE, EPS) of the industrial company sector" and accept the alternative hypothesis asserting that "the meeting frequency of the audit committee has a significant

impact on the financial performance (ROA, ROE, EPS) of the industrial company sector."

The Audit Committee Size (ACS) exerts a diminished still notable influence, indicating that larger audit committees improve monitoring efficacy, though they may not surpass the effects of experience and independence on performance. We reject the null hypothesis that "Audit Committee Composition (ACS) has no significant impact on financial performance (ROA, ROE, EPS) of the Industrial Company Sector" and accept the alternative hypothesis that "Audit Committee Composition (ACS) significantly impacts financial performance (ROA, ROE, EPS) of the Industrial Company Sector."

4.1. Multicollinearity Diagnostics

To verify the integrity of the regression models, multicollinearity among the independent variables was evaluated by the correlation matrix (Table 2) and Variance Inflation Factor (VIF) analysis. The correlation matrix indicated moderate to high correlations among certain predictors, such as between Financial Literacy (FL) and Audit Quality (AQ) ($r = 0.60$), and between ACS and several audit committee factors ($r > 0.5$ in multiple instances). Although none of these correlations surpass 0.80 a typical benchmark signifying significant multicollinearity they necessitated additional investigation via VIF analysis. Variance Inflation Factor (VIF) values were computed for all independent variables in the regression models. The findings indicated that all VIF values were below 5, signifying that multicollinearity is not a substantial issue in this study. This enhances the robustness and interpretability of the regression coefficients. The study reduces the possibility of inflated standard errors and incorrect coefficient estimates by doing VIF checks in conjunction with visual correlation inspection, hence improving the reliability of the regression results.

5. FINDINGS AND INTERPRETATION

This research demonstrates that essential audit committee characteristics specifically audit quality (AQ), committee composition (ACC), financial literacy (FL), and meeting frequency (MF) have a statistically significant and positive impact on the financial performance metrics of Jordanian industrial firms, as indicated by Return on Assets (ROA), Return on Equity (ROE), and Earnings per Share (EPS). These findings align with previous studies conducted in other developing economies. Namakavarani et al. (2021) shown that the

autonomy and financial acumen of audit committees markedly improved the quality of accounting information in Iran. In a similar vein, Al-Tae and Flayyih (2022) examined Iraqi enterprises and underscored that the attributes of audit committees and audit teams strongly impacted audit quality. This study corroborates these findings within the Jordanian context, highlighting the global significance of audit committee structure in emerging markets with developing governance structures. The beneficial impact of audit quality indicated by Big 4 affiliation and auditor independence corresponds with the conclusions of Salih (2020) and Xiao et al. (2020), who highlighted that increased audit effort and independence diminish earnings manipulation and enhance financial transparency. The significant influence of AQ in this study ($\beta = 0.305$ for ROA) emphasises its pivotal role in enhancing financial performance and mitigating agency conflicts. From a pragmatic perspective, these findings provide significant guidance: Policymakers should mandate that regulatory entities, such as the Jordan Securities Commission, implement more stringent criteria for the independence of audit committees and their financial acumen. Imposing minimum standards for financial knowledge or qualifications could improve overall financial regulation. For corporations: Board nominating committees should emphasise not just the size of the audit committee but also its membership. Independent members possessing robust financial expertise substantially enhance financial performance and stakeholder confidence. For investors and shareholders: Vigilant oversight of audit committee functions and the appointment of auditors (preferably from reputable, independent firms) can operate as a risk mitigation strategy and improve corporate valuation. This study corroborates findings from other emerging economies and provides empirical evidence for the necessity of enhancing corporate governance frameworks in the Jordanian industrial sector. These insights can guide specific measures designed to enhance the integrity of financial reporting and bolster market trust.

6. CONCLUSION

This study aimed to investigate the correlation between audit committee (AC) features and the quality of financial statements, emphasising the impact of audit quality particularly auditor independence and audit committee size on organisations' financial performance. Financial performance was assessed using standard

accounting metrics, including Return on Assets (ROA), Return on Equity (ROE), and Earnings Per Share (EPS). The study utilised financial data from 100 publicly traded industrial companies on the Amman Stock Exchange from 2013 to 2018, employing multiple regression analysis to evaluate the influence of audit committee characteristics on financial performance. The findings demonstrate that audit committee size, member makeup, and financial knowledge, in conjunction with overall audit quality, exert a favourable and statistically significant impact on financial performance metrics. The frequency of audit committee meetings was shown to have no significant impact. The findings underscore the essential importance of audit committee effectiveness especially financial literacy and high-quality audits in enhancing the accuracy, trustworthiness, and transparency of financial reporting. These governance elements augment firm profitability, operational efficacy, and stakeholder confidence. The study underscores the imperative of strengthening governance frameworks in Jordanian industrial enterprises to maintain financial reporting accuracy and foster sustained economic success.

6.1. Consequences of the Research

The imperative for robust corporate governance frameworks, highlighting the importance of seasoned and financially astute Audit Committee members, The significance of rigorous audits in guaranteeing financial transparency and bolstering investor confidence. The necessity for organisations to prioritise the efficacy of AC meetings over merely augmenting their frequency.

7. RECOMMENDATIONS

Based on the study's findings, the following recommendations are proposed to enhance audit quality and financial reporting practices within the Jordanian industrial sector:

1. Enhance Audit Committee Expertise

Companies should ensure that members of the Audit Committee (AC) possess substantial financial literacy and relevant expertise in accounting, auditing, and corporate finance. Regulatory authorities, such as the Amman Stock Exchange (ASE) and the Jordan Securities Commission, are encouraged to enforce mandatory requirements stipulating a minimum proportion of financially qualified members on audit committees.

2. Strengthen Internal Audit Functions

Enhancing the internal audit function can provide a critical layer of oversight,

supporting the detection and prevention of financial misstatements. This would improve the reliability of financial disclosures and reinforce confidence in financial reporting.

3. Prioritize Meeting Quality Over Frequency

Rather than merely increasing the number of AC meetings, emphasis should be placed on the quality and effectiveness of discussions. A focus on strategic financial oversight, risk assessment, and decision-making is essential for driving meaningful audit outcomes.

By implementing these recommendations, industrial firms in Jordan can improve corporate governance frameworks, elevate audit quality, and bolster financial performance. These enhancements are expected to foster greater investor confidence and promote long-term financial stability across the sector.

8. ORIGINALITY AND VALUE

This study adds to the existing body of knowledge by exploring the relationship between audit committee characteristics and the quality of financial statements within the specific context of Jordan a developing economy characterized by distinct corporate governance dynamics. In contrast to prior research, which has largely centered on firms in developed markets, this study addresses a notable gap by focusing on publicly listed companies in Jordan.

The study's originality stems from its comprehensive analysis of multiple audit committee attributes namely, committee size, member independence, financial expertise, and meeting frequency and their collective influence on financial statement quality. Furthermore, the use of rigorous statistical techniques enhances the validity and reliability of the findings, thereby contributing to the generalizability and empirical strength of the research within emerging market contexts.

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