“The impact of audit committee dimensions on financial reporting efficiency of limited partnership companies listed on the Amman Stock exchange”

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THE IMPACT OF AUDIT COMMITTEE DIMENSIONS ON FINANCIAL REPORTING EFFICIENCY OF LIMITED PARTNERSHIP COMPANIES LISTED ON THE AMMAN STOCK EXCHANGE

Abstract

Currently, the Jordanian economy needs more investment due to the growing financial deficit facing the Jordanian state. Therefore, this study came to increase investors' trust in financial reports issued by Jordanian companies to attract more investments. Based on that, this study will investigate the impact of audit committee dimensions on the efficiency of financial reports of limited partnership companies listed on the Amman Stock Exchange. The data were collected from financial reports issued by 52 limited partnership companies for the year 2021. The study used multiple regression to test the hypotheses. Based on the findings, audit committee dimensions explained the variation in financial reports' efficiency which reached 0.629. The audit committee members' size does not significantly affect the financial reports' efficiency. The significance reached 0.287. However, the knowledge of financial management has a significant positive effect on financial report efficiency; the significance reached 0.000 and the effect volume arrived at 0.699. Also, the findings showed that audit committee meetings have a greater effect on financial reporting efficiency than financial management knowledge. The impact was significantly positive, arriving at 0.790, while the significance reached 0.000. The main research conclusion is that limited partnership companies listed on the Amman Stock Exchange adopt corporate governance to achieve control effectiveness of audit committees to increase financial reporting efficiency to achieve more investments.

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JEL Classification G14, G34, M41, M42

INTRODUCTION

A company's audit committee (AC) is an essential part of its governance. Their inclusion and expanded functions in several international corporate governance regulations provide a testament to their considered importance. Following the financial scandals of the past twenty years, the significance of the efficacy of AC has grown. This has resulted in developed countries enacting regulations (like the Sarbanes-Oxley Act in the USA) that address corporate governance issues, including AC. To lessen the likelihood of financial scandals and business failures, both developed and developing nations have seen an increase in the regulation of corporate governance due to the detrimental effects such events have on the national economies of those nations. AC is playing a crucial role in Jordanian companies to reduce failure risk and make control over financial statements to

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ensure financial report efficiency (FRE). According to limited researchers' knowledge, there is a research gap since most previous studies focused on developed capital markets, but Jordan's limited partnership companies did not receive the same attention. The problem of this study showed that stakeholders' interests have been harmed since certain companies still have not complied with information efficiency requirements (Tran et al., 2020).

1. LITERATURE REVIEW AND HYPOTHESES

The importance of AC in Jordan appeared through its legal association with companies listed on the Amman Stock Exchange (ASE). International Financial Reporting Standards (IFRS) have been used by Jordanian listed firms since 1998. They also have to get their financial statements professionally audited by International Standards on Auditing. Several firms, including the Big Four audit firms, are active in the financial statement auditing of Jordanian listed companies. The first mention of AC in Jordanian law dates back to 1998 when listed businesses were required by the Jordan Securities Commission (JSC) instructions (JSC, 1998) to form AC of three non-executive members of the board of directors. These committees, which had to meet at least four times a year, were responsible for talking about the annual and interim financial statements, the work of the internal and external auditors, and compliance with applicable laws and regulations. The JSC published a code of corporate governance for listed firms in 2009. Additional specifics on AC were added in this code (JSC, 2009), such as the requirement that all AC members possess financial knowledge (and that at least one member has financial experience in accounting or finance). According to the rules, AC has to meet with the external auditor independently from the company's management at least once a year and at least four times annually. The AC responsibilities were clarified by the code, but they were not greatly broadened. They still revolved around supervising the financial reporting function, assessing the external auditor's work on financial reporting, and assessing internal controls. In Jordan, unlike the USA, AC lacks the authority to choose, fire, or set the fees of the external audit firm.

In this respect, financial reporting efficiency (FRE) is defined as accurate accounting information that reflects the reality of the financial situation of companies. FRE includes relevance, timeliness, and accuracy (IFRS Foundation, 2018). The importance of FRE is to obtain the trust of stakeholders and attract new investments. Jordanian companies' law showed that the FR must be reported immediately, or before the specified deadline, without delay. Thus, the Jordan Securities Commission confirmed that listed firms must publish and disclose FR to shareholders in timeliness (State Securities Commission of Jordan, 2021). FRE is organized by some accounting organizations and should always be available to the users of the financial information to make their decisions. The usefulness of FRE, when timely and verifiable, will thus positively impact investors' interests (IFRS Foundation, 2018). To obtain FRE, the AC in Jordan shall invite a company's general council to the extraordinary meeting if there appear violations in the financial information. The delaying information will undermine investor trust and will negatively impact the Jordanian economy (Che-Ahmad & Abidin, 2008). FRE it is an important indication for users of financial reports (FR) for investment decision making. FR is vulnerable to misrepresentation, which has a detrimental effect on the stakeholder's interests in Limited Partnership Companies; therefore, companies must regard FRE and provide them to users of financial reports within deadlines (Bhimani & Willcocks, 2014; Hamilah, 2020). Limited partnership companies in Jordan are applying international financial reporting standards (IFRS). This will make companies strive to provide reliable and timely financial statements to the auditor and will also help the auditor to provide FR to stakeholders in a timely manner, making FR more efficient in decision making (Ibadin et al., 2012; Clatworthy & Peel, 2016; Alqaraleh & Nour, 2020; Adebayo & Adebiyi, 2016; Sunarto et al., 2020). The companies in Jordan should pay attention to complying with regulations and commit to FRE rules to attract more investments (Al-Muzaiqer et al., 2016;

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Jaggi & Low, 2000). The main task of the AC is to check and review information to be submitted in FR (Ika & Ghazali, 2011). Therefore, the AC has a significant impact on the FRE (Puasa et al., 2014). AC will make and implement internal policies and reports as required by law (Yadirichukwu & Ebimobowei, 2013). Jordan, like other countries in the Middle East, is always interested in the FRE of companies. For this reason, the Jordanian Companies Law of 1997 clarified the importance of FRE, in addition to clarifying that the AC's responsibility is monitoring the procedures of the limited partnership companies in Jordan and verifying the validity of its procedures toward financial reporting efficiency.

As we know, the independent variable in the current study is the audit committee which includes three dimensions (audit committee size, audit committee meetings, and knowledge of financial management by audit committee members), while the dependent variable is financial reporting efficiency.

Globally, FRE and AC have been studied by several researchers such as Shukeri and Islam (2012) who investigated the impact of AC dimensions on FRE of 491 Malaysian listed businesses in 2011. The study found that only audit committee meetings (ACM) held during the fiscal year had a positive effect on FRE, while the audit committee size (ACS) had a negative effect on the FRE. On the contrary, the study found that the AC members who know financial management (ACKFM) do not affect FRE. Another study examined the effect of AC dimensions on the FRE of 35 listed businesses in Nigeria between 2007 and 2011. The findings showed that ACKFM had a positive impact on the FRE. Also, the results indicated that there is no impact of ACS and ACM on the FRE (Yadirichukwu & Ebimobowei, 2013). In another study by Puasa et al. (2014), from 2004 to 2011, 669 Malaysian listed businesses' financial reports were examined to determine the impact of AC on FRE. The result showed that the FRE was negatively impacted by the ACS, ACM, and ACKFM. In relation to that, a former study examined the effects of AC on the FRE of 92 industrial enterprises listed in Indonesia between 2010 and 2012, This study used OLS to test hypotheses, and the study findings showed that ACKFM does not influence FRE, while ACM has a positive influence on FRE (Alshrife et al. 2016). A recent study also analyzed financial reports to test the effect of AC on FRE in Nigerian listed businesses in the food and beverage industries from 2011 to 2015. The results concluded that ACM did not affect FRE (Akinleye & Aduwo (2019). In particular, a study was conducted in Jordan, which investigated the effect of AC factors on FRE of 172 Jordanian listed firms from 2014 to 2016. The results showed that there is a positive impact of ACM, ACS, and ACKFM on FRE (Alqaraleh & Nour, 2020). Another study investigated the financial reports of 198 manufacturing businesses listed in Saudi Arabia's stock market from 2016 to 2018 by exploring the effect of AC factors on FRE. The study used OLS to test hypotheses. The findings showed that ACS and ACM did not affect FRE (Omer et al., 2020). Not too long ago, another study examined the effect of AC factors on FRE of 48 manufacturing businesses from 2014 to 2019. The results showed that ACM has a positive impact on FRE. Moreover, the results showed that the ACS and ACKFM do not affect FRE (Syofyan et al., 2021). Regarding Jordan, the FRE of limited partnership companies listed on the ASE aims to safeguard shareholders' investments and draw in both domestic and foreign capital. To this end, the audit committee contributed to the development of the financial reporting efficiency, prevented failure and collapse, and boosted investor confidence in FR.

The paper aims to verify the impact dimensions of AC (ACS, ACM, ACKFM) on FRE of limited partnership companies listed on the ASE. It will serve as the basis for completing legal regulations for AC in Jordan to increase and support FRE. Based on previous research, this study proposes some hypotheses for the research model.

H1: *The larger the audit committee size, the higher the financial reporting efficiency.*

H2: *The higher the financial management knowledge of audit committee members, the higher the financial reporting efficiency.*

H3: *The more often audit committee meetings are held, the higher the financial reporting efficiency.*

2. DATA, MEASUREMENT, AND METHODS

The study sample covered 52 limited partnership companies listed on the ASE in 2021. Sources of data are 52 financial reports (observations) issued by the auditor and disclosed on the ASE for 2021. Study variables have been defined by previous studies. According to the previous studies, this study adopts the most applicable scale to measure the variables; financial report efficiency has been measured by the total days that passed between the audit report's signed date and its fiscal year-end date (timeliness of financial reports) (Daoud et al., 2014; Alawaqleh, 2020; Alawaqleh, 2021). The first independent variable (size of the audit committee) was measured by using the number of audit committee members. The second variable (audit committee members who have financial management knowledge) was measured by using the number of audit committee members who have experience and knowledge in financial management. In light of that, the third independent variable (meetings of the audit committee) was assessed by using the number of meetings that took place during the fiscal year. The study used quantitative multivariate analysis that has factors having negative and positive explanatory powers, as explained in the testable hypotheses. To investigate the impact of the independent variables, namely, audit committee size, financial management knowledge among audit committee members, and number of audit committee meetings on financial report efficiency, the study gathered and analyzed secondary data extracted from financial reports issued by 52 limited partnership companies for the year of 2021. Multiple regression analysis was used to test the hypotheses. Thus, the study formulated the following model:

$$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \varepsilon, \qquad (1)$$

where Y = financial report efficiency (FRE), $X1$ = audit committee size (ACS), $X2$ = financial management knowledge of audit committee members (ACKFM), $X3$ = audit committee meetings (ACM), and ε = standard error. Bo is the y-intercept, the value of y when X = 0. B1 is the slope or how y changes per unit increase in X1, B2 is the slope or how y changes per unit increase in X2, B3 is the slope or how y changes per unit increase in X3.

3. RESULTS

Table 1 presents the summary descriptive statistics of all limited partnership companies – level variables expressed by financial reports for 2021. The results showed that financial reporting efficiency has a mean of 46.5 days, while the maximum is 63 days, and the minimum is 23 days. The standard deviation of information efficiency in financial reports is low (9.80296). This means the distance between the mean and the individual data points was smaller, which means that the data is less dispersed. This shows that the majority of limited partnership companies ensure information accuracy in financial reporting requirements. Moreover, audit committees as independent variables comply with the requirements of the Law of Jordanian Companies in 1973. The audit committee size has an average of 4.7 members, and it ranges from 3 to 7 members according to requirements of the Law on Jordanian companies. The maximum number of members with financial management knowledge ranges from 1 to 3. Audit committee meetings typically last around 8 times. There is a minimum of 4 and a maximum of 10. It is ensured to adhere to the requirements of the Companies Law. Also, the standard deviation of the independent variables at this comparative and homogeneous level indicates that, although there may be some variation in the variables, regulation is always ensured. Consequently, the descriptive results revealed that the AC dimensions have a relationship with FRE, which means that the increase in ACS, ACM, and ACKFM will increase FRE, and this will comply with the increased investment in Jordan.

The investigation results from Table 2 confirm that financial reporting efficiency is negatively correlated with audit committee size. The result means that the decrease in ACS will increase FRE. But if ACS increases, FRE will decrease. Furthermore, the results showed that FRE positively correlates with audit com meetings and financial management knowledge. This result reveals that if the ACM and ACKFM increase, the FRE will increase, but if the ACM and ACKFM decrease, the FRE will decrease. According to Hair et al. (2019), the relationship between independent variables is less than 0.90, which means there is no multicollinearity among them. The maximum correla-

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Table 1. Descriptive statistics of firms' variables

Source: Analytical data from SPSS.

Symbol	Variables	N	Min	Max	Mean		Std. Deviation
CAS	Audit committee members	52	3.00	7.00	4.7115	.16325	1.17718
CAKFM	Knowledge of financial management by audit committee members	52	1.00	3.00	1.5192	.08895	.64140
CAM	Audit committee meetings	52	4.00	10.00	8.1154	.18351	1.32330
FRE	Financial reporting efficiency	52	23.00	63.00	46.5000	1.35943	9.80296

Note: The total number of observations is 52.

tion was between audit committee meetings and audit committee size, which reached 0.31. The decreased multicollinearity among independent variables refers to the regression model acceptable to test the study's hypotheses.

Table 2. Correlation matrix

Source: Analytical data from SPSS.

Variables	FRE	ACS	ACKFM	ACM
FRE	1			
ACS	–.133–	1		
ACKFM	.048	–.109–	1	–
ACM	.050	.311*	–.141–	1

Note: * Correlation is significant at the 0.05 level (2-tailed). a. Listwise N = 52.

Table 3 shows that the study's findings more effectively reflect the significance of the greater correlation between financial reporting efficiency and the independent variables of the audit committee, an adjusted R square is made in the study (Hair et al., 2019). The R Square reached .629. By doing so, audit committee variables can now be used to explain for .629 of the variation in financial reporting efficiency. The outcome demonstrates that the data were accurate and confirmed the statistical significance. In reality, the R Square in this study refers that the independent variables (ACS, ACM, and ACKFM) contributing to the impact on FRE for .629. This means there are other variables not considered in this study that will contribute for .371, impact on FRE. Therefore, this study recommends future studies to explore other variables on FRE to cover .371.

Table 3. Model summary

Source: Analytical data from SPSS.

Mode	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.711a	.629	–.532-	9.95665

Note: a. Predictors: (Constant), ACM, ACKFM, ACS. b. Dependent Variable: FRE.

Besides that, the significant value is 0.018, as shown in Table 4, so the model guarantees that the data are accurate. The significant value refers to the regression model acceptable to test the hypotheses.

Table 4. ANOVA

Source: Analytical data from SPSS.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	142.527	3	47.509	2.479	.018a
	Residual	4758.473	48	99.135		
	Total	4901.000	51			

Note: a. Predictors: (Constant), ACM, ACKFM, ACS. b. Dependent Variable: FRE.

According to Table 5, the study performs multiple regressions based on independent variables (audit committee) which represent audit committee meetings, audit committee size, and financial management knowledge to assess their effect on financial reporting efficiency. The findings showed that the audit committee size was insignificant, which reached .287 and did not affect the dependent variable (financial reports efficiency). On the other hand, the independent variable of financial management knowledge has a significantly positive effect on financial reporting efficiency, which reached .699, and the significance is 0.000. Also, the findings showed that the audit committee meetings have a significantly positive effect on financial reporting efficiency, which reached .790, and the significance is 0.000. As noted, audit committee meetings, out of those variables, have a greater effect on information efficiency in financial reports than doe's financial management knowledge. Nevertheless, according to the legitimate theory, the audit committee plays a crucial role in the efficiency of the information in financial reports. The findings reject hypothesis *H1* regarding the size of the audit committee. This conclusion conflicts with findings from earlier studies, specifically those that found this aspect to have a negative impact on the informational effectiveness of financial reports (Shukeri & Islam, 2012; Puasa et al., 2014).

The results of the hypotheses test appear as follows:

H1: The larger the audit committee size, the higher the financial reporting efficiency.

For each unit increase in the independent variable, audit committee size, there is an expected decrease of –1.346 (refer to Table 5) in the dependent variable; the financial reporting efficiency. The direction of this relationship is negative. An examination of the t-values ($t = -1.077$, $p > 0.05$) shows that audit committee size does not contribute to the improvement of the financial reporting efficiency. This also suggests that the audit committee size is not significant to the financial reports' efficiency; hence, the finding failed to reject the null hypothesis.

H2: The higher the financial management knowledge of audit committee members, the higher the financial reporting efficiency.

Referring to Table 5, the coefficient of audit committee members' knowledge of financial management = .699, significant at the level 000.0. For each unit increase of the independent variable; audit committee members have financial management knowledge, and there is an expected increase of 0.699 in the dependent variable; the financial reports efficiency. The sign is positive. In other words, for each increment of one unit in audit committee members have knowledge of financial management; one predicts a 0.699 increment in the financial reporting efficiency. An examination of the t-values ($t = 2.318$, $p < 0.01$) shows that audit committee members' knowledge of financial management contributes to improving the financial reports' efficiency. This suggests that audit committee members' knowledge of financial management is significant to the financial reporting efficiency. Thus, the finding allows us to reject the null hypothesis.

H3: The more often audit committee meetings are held, the higher the financial reporting efficiency.

Referring to Table 5, the coefficient of audit committee meetings = .790, significant at the 0.05 level. For each unit change of the independent variable, audit committee meetings, there is an expected change of 0.790 in the dependent variable, the financial reporting efficiency. The sign is positive. In other words, for each increment of one unit in audit committee meetings, one predicts a 0.790 increment in the financial reporting efficiency. An examination of the t-values ($t = 2.708$, $p < 0.05$) shows that audit committee meetings contribute to improved financial reporting efficiency. This suggests that audit committee meetings are significant to financial reporting efficiency, and thus allow us to reject the null hypothesis.

Based on the results of the study, the regression model will be as follows:

$$FRE = \beta 0 + \beta 1 - 1.346 + \beta 2.699 + \beta 3.790 + \varepsilon. \quad (2)$$

4. DISCUSSION

This section summarizes the key findings, shows how they align with certain financial report efficiency concepts, and contrasts them with earlier research findings. The main results derived from Table 5 verify that a relevant selection of audit

Table 5. Coefficients

Source: Analytical data from SPSS.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	45.367	10.359		4.380	.000		
	ACS	–1.346	1.249	–.162	–1.077	.287	.899	1.113
	ACKFM	.699	2.201	. 406	2.318	.000	.975	1.025
	ACM	.790	1.116	.517	2.708	.000	.891	1.122

Note: a. Dependent Variable: FRE.

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committee variables at the level of limited partnership companies are associated with changes in the efficiency of financial reports. Specifically, results from the baseline model in Table 5 align with the findings of much previous research. At the same time, the results are different from other former research results. This study argues that for the limited partnership companies' stability in the sample, the "increasing financial report efficiency" decision is primarily driven by increased audit committee dimensions. The study found that audit committees in limited partnership companies comply with the requirements of the Jordanian Companies Law 1997. In addition, this study confirms that the size of the audit committee is negatively connected with financial reporting efficiency, but audit committee meetings and financial management knowledge are positively correlated. This outcome agrees with studies by Nguyen (2020) and Alawaqleh (2020) that demonstrated implementing IFRS improves the quality of accounting information and validates financial reporting transparency, both will help the Jordanian financial market operate more efficiently. Since many studies showed that audit committees at the international level enhance the level of financial reports, many researchers support and advocate the relationship between audit committees and financial reporting efficiency (Callao & Lainez, 2007). On the other hand, Ndifon and Patrick (2014) found that the internal audit and the financial performance of Cross River State College of Education do not significantly correlate. According to the current study, the size of the audit committee was insignificant, reaching .287, and was not associated with the dependent variable (financial reporting efficiency). On the contrary, a study by Tran et al. (2022) showed that the size of audit committee negatively affects the quality of financial reports. In contrast, financial management knowledge contributes significantly to financial report efficiency; this result was confirmed by Tran et al. (2022), who found a positive significant impact of financial management knowledge on financial reporting efficiency. In line with that, the result of the current study showed that audit committee meetings positively and significantly improved financial reporting efficiency. Still, Tran et al. (2022) found an insignificant impact of audit committee meetings on financial reporting efficiency. As a result, the audit committee strengthens the financials and improves the earnings and financial condition of limited partnership firms in Jordan. The audit committee's size, meetings, and knowledge are all crucial components. Numerous prior studies have shown the significance of these elements, demonstrating that the larger the audit committee's size, meetings, and knowledge, the more effectively financial reports are produced. This outcome will raise investment in Jordan and boost foreign direct investment. It could also favorably impact the unemployment rate and help Jordan's capital market achieve optimal integration. The study arrived at these results because it used data collected from financial reports, in addition to using multiple regression to test hypotheses. After all, AC consists of three dimensions measured as continuous variables and one dependent variable measured as continuous variables. The results of this study complied with numerous previous studies' results. In reality, the commitment of Jordanian managers of limited partnership companies to the quality of AC will contribute to developing a strong regulatory environment, which will increase financial reporting efficiency. The commitment of limited partnership companies to the Jordanian current laws will help to ensure information transparency and raise the quality standards of information provided to stakeholders. The study also recommended limited partnership companies' managers commit to the legal authority in conducting business and compliance with the legal standards linked to financial reporting efficiency. Also, acquiescence with legal requirements must be maintained at all times during the business operations. AC should check compliance reflected in the goals and strategies of limited partnership companies. In addition, FRE will help limited partnership companies attract financial resources by attracting investors; this will contribute to the growth of the Jordanian economy. The financial reporting efficiency increase will increase the national and foreign investments in Jordan and improve the Jordanian economy. According to statistics, the average knowledge of financial management of audit committees is 1.5, and some partnership limited companies have a maximum of 3 audit committee knowledge. A greater understanding of financial management knowledge by audit committee members will lead to greater monitoring and controlling operations to ensure timely information reporting and increase financial reports efficiency.

Raising the number of audit committee meetings will help AC members to increase control work on financial information and reporting deadlines in limited partnership companies. To ensure stakeholders' satisfaction, managers need to maintain enough efficiency in their financial reports (Ika & Ghazali, 2011; Suadiye, 2019). Financial reports should be well organized when it comes to their information deadlines since companies are committed to providing timely information to all stakeholders (Bhimani & Willcocks, 2014; Hamilah, 2020). Moreover, policymakers in Jordan should perform some issues to improve oversight over the information in financial reports. There are sharp penalties for the retard in accounting information disclosure for AC. The delay of financial information will impact the legal environment in limited partnership companies in Jordan when AC does not comply with control work on financial reporting efficiency.

CONCLUSION

The current results achieved the purpose of the study that examined the impact of audit committee dimensions on the financial reporting efficiency of limited partnership companies listed on the Amman Stock Exchange. Therefore, in this paper, audit committee factors have been empirically examined for the efficacy of limited partnership companies' financial reports. The study has shown that financial report efficiency is required and desirable. Also, the results show that the two independent variables of the model, two factors – financial management knowledge and audit committee meetings – positively affect financial reporting efficiency. On the contrary, the study found there is no relationship between audit committee size and financial reporting efficiency. The result also showed that audit committee meetings are more effective than financial management knowledge on financial reporting efficiency. The study pays attention to more audit committees for more financial reports efficiency to increase investment in limited partnership companies, in the sense that audit committees can support decision makers in building their investments. The higher the audit committee, the higher the financial reporting efficiency. This gives investors the ability to enter the Jordan market whenever they want. Consequently, the risk factor has been reduced to invest in limited partnership companies, where financial reporting efficiency provides wider investment opportunities and supports the Jordanian economy. Finally, this paper showed scientific contributions to expanding existing knowledge about the importance of audit committees in financial reporting efficiency. This study conducted in Jordan has contributed to the extension of knowledge to limited partnership companies, and decision makers can make more meaningful and accurate decisions when based on efficient and accurate financial reports.

AUTHOR CONTRIBUTIONS

Conceptualization: Qasim Ahmad Alawaqle, Mahmoud Aleqab, Ruba Bsoul, Saqer Al-Tahat.
Data curation: Qasim Ahmad Alawaqleh, And Mahmoud Aleqab.
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