







“Corporate governance and financial reporting quality in Jordanian banking sector: The mediating role of audit quality”

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CORPORATE GOVERNANCE AND FINANCIAL REPORTING QUALITY IN JORDANIAN BANKING SECTOR: THE MEDIATING ROLE OF AUDIT QUALITY

Abstract

This study investigates how corporate governance (CG) shapes financial reporting quality in Jordanian banks and whether audit quality mediates this relationship. Motivated by persistent agency challenges and evolving regulatory expectations in emerging markets, the research examines whether core governance principles – discipline, transparency, independence, accountability, and fairness – translate into more timely, comparable, and understandable reports. A cross-sectional survey of senior executives and board members from 20 banks headquartered in Amman produced 214 valid responses (July–November 2022). Measurement validity and reliability were established, and structural equation modeling was used to test direct and indirect pathways. The results show that CG exerts a strong positive effect on financial reporting quality ($\beta = 0.608$) and that audit quality independently enhances reporting outcomes. Mediation analysis indicates that audit quality functions as a significant partial mediator of the CG-reporting link (indirect $\beta = 0.247$), demonstrating that governance improvements are amplified when supported by competent, independent, and professionally rigorous audits. These findings imply that governance architecture and assurance practices operate as complementary mechanisms: robust boards and effective audit committees create the conditions for high-quality audits, which in turn convert governance intent into decision-useful disclosures. The study provides context-specific evidence from Jordan's banking sector, clarifying the channels through which governance reforms strengthen reporting credibility. Practically, the results endorse reinforcing audit committee independence, resourcing internal controls, and embedding transparent disclosure norms to sustain market confidence and align with international reporting expectations.

Keywords

board structure, financial accountability, transparency, audit quality, financial statement reliability, banking sector

JEL Classification

G21, G28, G34, M41, M42

INTRODUCTION

The banking sector is central to economic growth, operating as a financial intermediary and ensuring efficient resource allocation. Yet, it faces ongoing regulatory and agency challenges, particularly in emerging markets such as Jordan, where evolving governance frameworks and rising regulatory scrutiny have underscored the importance of strong oversight and transparency (E'Leimat et al., 2024; Gomdem et al., 2024). A persistent concern is the agency problem, where conflicts between managers and shareholders threaten the credibility of financial reporting and the pursuit of long-term objectives (Jensen & Meckling, 1976).

In response, Jordanian banks have implemented reforms to strengthen internal controls and enhance authority distribution, with corporate governance (CG) and audit quality at the forefront (Ally, 2024).

Empirical evidence shows that board independence, board size, and effective audit committees are closely linked with improved reporting quality, particularly in emerging-economy banking sectors (Bechihi & Nafti, 2025; Kaawaase et al., 2021). These mechanisms help mitigate agency conflicts and reinforce stakeholder trust through transparency, discipline, and accountability.

Audit quality has emerged as a critical factor, not only enhancing reporting reliability but also mediating the impact of governance on reporting outcomes. Its strength depends on auditor independence, expertise, and the effectiveness of internal audit functions (Nur Rahman, 2024; Tiwari & Maji, 2025). However, this mediating role varies with institutional maturity, regulatory strength, and internal control effectiveness (Mulyani & Sopian, 2025).

In Jordan, recent studies highlight the ongoing need to refine audit committee appointments, improve board independence, and align practices with global standards to strengthen reporting credibility (Eriqat et al., 2025). Despite progress, gaps remain regarding audit quality's mediating role and the long-term effects of governance reforms. This study addresses these gaps by investigating the direct and mediated effects of CG on financial reporting quality in Jordanian banks, offering timely insights for scholars and policymakers.

1. LITERATURE REVIEW

The rapid evolution of global financial markets has heightened the importance of resilient governance frameworks and reliable financial reporting. As firms operate in increasingly interconnected economies, diverse stakeholder expectations demand transparent and credible disclosures. In this context, accuracy in financial reporting has become a strategic necessity for organizational legitimacy and competitiveness, rather than simply a regulatory requirement (Healy & Palepu, 2003). CG, audit quality, and financial reporting quality have thus emerged as interdependent mechanisms shaping market perceptions and influencing investor confidence (Larcker & Richardson, 2004). Together, they are viewed as essential for protecting reputation, mitigating risks, and fostering sustainable value creation, particularly under conditions of intensified oversight and evolving regulatory pressures (Ratnatunga & Vincent, 2011).

The conceptual basis of this triad stems from established governance theories. Agency theory and stakeholder theory provide distinct lenses for analyzing the distribution of authority, alignment of interests, and accountability within firms (Shleifer & Vishny, 1997). Agency theory highlights conflicts between principals and agents, while stakeholder theory broadens the perspective to encompass multiple constitu-

encies with overlapping or competing interests. Within this framework, audit quality serves as a verification mechanism, reinforcing financial reliability through independence, professional skepticism, and compliance with regulatory standards (Bentley et al., 2013). Financial reporting quality, in turn, is anchored in adherence to International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles (GAAP), ensuring transparent communication of economic reality and supporting market stability (Ball, 2006). Recent studies further suggest that IFRS adoption strengthens the relationship between governance and reporting quality, especially in banking systems of emerging economies (Gardi et al., 2023).

Despite extensive literature, the interaction of CG, audit quality, and reporting quality requires closer examination. Evidence indicates that reporting integrity depends on the joint role of internal governance and external auditing in curbing opportunistic behavior and ensuring faithful representation of performance. This review, therefore, synthesizes prior scholarship on governance structures, determinants of audit quality, and reporting mechanisms. By thematically organizing the discussion around theoretical foundations, institutional factors, and reporting attributes, it directly informs the research variables and objectives of this study, leading to the identification of gaps and the development of hypotheses.

1.1. Corporate governance

CG is widely recognized as a system of principles, processes, and structures designed to direct and control organizations with the aims of accountability, transparency, and stakeholder protection. In increasingly complex and diverse regulatory environments, CG mechanisms are not only instruments of compliance but also essential levers for sustainable value creation. The governance framework clarifies the allocation of responsibilities among shareholders, boards, and executives, while providing mechanisms for performance monitoring and control. As such, CG is understood as a dynamic system that aligns organizational outcomes with strategic goals, strengthening both oversight and integrity (Tricker, 2015).

The theoretical foundation of CG is often grounded in agency theory, which highlights how the separation of ownership and control creates agency costs and exacerbates information asymmetry (Jensen & Meckling, 1976). Effective CG mitigates these risks by implementing incentive structures and monitoring mechanisms that enhance managerial discipline. External financial reporting serves as a key tool within this framework, enabling shareholders to evaluate management performance. However, managers may exploit information asymmetries to obscure results, which underscores the need for both internal and external controls to protect minority shareholders (Healy & Wahlen, 1999).

More recent research challenges the universal applicability of agency theory, especially in settings with concentrated state or family ownership. In such contexts, conflicts often take the form of principal-principal disputes, where dominant shareholders or state actors may extract private benefits, thereby weakening reporting quality and governance standards (Ben-Nasr et al., 2012; Borisova et al., 2012). These realities suggest that CG must be adapted to ownership structures, institutional arrangements, and external influences.

Theoretical developments also incorporate resource dependence and stakeholder perspectives. Resource dependence theory views firms

as open systems that rely on external actors for resources, requiring boards to integrate expertise and manage environmental uncertainties (Turnbull, 1997). Stakeholder theory broadens the scope by recognizing claims from employees, customers, regulators, and communities, framing CG as a mechanism for balancing competing interests (Moriarty, 2016). Together, these perspectives position CG as both a structural and social system for mediating diverse stakeholder demands.

Across the literature, five core governance principles consistently emerge – discipline, transparency, independence, accountability, and fairness (Klapper & Love, 2004; Van Essen et al., 2013). Discipline reflects managerial commitment to prudent decision-making, transparency is realized through timely and comprehensive disclosure, independence is assured via autonomous boards and committees, accountability requires directors to justify their actions, and fairness emphasizes equitable treatment of all shareholders.

Empirical evidence shows that specific mechanisms – such as board composition, ownership structure, and audit committee effectiveness – are critical for achieving these principles. Independent, non-executive directors are associated with stronger oversight and higher reporting quality (Kelton & Yang, 2008; Torchia & Calabrò, 2016; Wiseman et al., 2012). Likewise, ownership patterns and effective audit committees significantly shape managerial incentives and strengthen reporting credibility (Alnabsha et al., 2018; Sharma & Kuang, 2014).

Nonetheless, governance practices remain deeply influenced by institutional and cultural settings. In Western economies, CG often emphasizes shareholder primacy, legal enforcement, and board independence (La Porta et al., 1998), while in many Asian and emerging markets, governance is frequently shaped by family ownership, state involvement, or collectivist traditions. These variations highlight the need for context-sensitive empirical research into how global governance principles are interpreted and applied across diverse regulatory and cultural frameworks (Shleifer & Vishny, 1997).

1.2. Financial reporting quality

Financial reporting quality is a cornerstone of corporate transparency and accountability, serving as the primary channel through which organizations communicate performance, strategy, and stewardship to diverse stakeholders. Beyond compliance, high-quality reporting reflects a commitment to transparency, accuracy, and timeliness – qualities essential for building trust and supporting informed decision making (Breuer, 2021). Thus, reporting quality is inseparable from organizational ethics and the strength of internal controls.

Scholars describe financial reporting quality as a subjective, multidimensional construct dependent on faithfully representing economic reality and minimizing distortion or manipulation (Tang et al., 2012). Reliable statements are transparent, comprehensive, and meet the informational needs of investors and regulators (Jonas & Blanchet, 2000). However, measurement remains challenging due to the absence of a universal standard. Researchers often rely on proxies such as accrual quality, discretionary accruals, and earnings management indices, drawing from models like Jones (1991) and Dechow et al. (2012). These proxies reflect the consensus that earnings manipulation undermines comparability and decision usefulness.

Recent work highlights the role of both mandatory and voluntary disclosures in shaping reporting quality. While mandatory disclosures ensure compliance, voluntary disclosures signal proactive governance and a culture of transparency (Tsalavoutas, 2011). Voluntary disclosure is linked to lower information asymmetry and agency costs (Jensen & Meckling, 1976), thereby enhancing investor confidence and market discipline (Healy & Palepu, 2001). Core attributes of timeliness, comparability, and clarity remain fundamental for ensuring that information is usable by a broad audience (Kythreotis & Constantinou, 2016).

Evidence also shows that reporting quality is closely tied to governance and audit structures. Independent boards and strong audit committees reduce earnings management and improve reporting credibility (Roychowdhury et al., 2019). These mechanisms address information gaps,

strengthen accountability, and reinforce stakeholder trust (Johl et al. 2015). Nonetheless, reporting quality varies significantly across institutional, regulatory, and cultural contexts, with emerging markets often facing weak enforcement and limited organizational capacity (Williams & Wilmshurst, 2009).

Comparative studies further confirm that determinants of reporting quality differ across settings. Board independence and foreign ownership often enhance reporting outcomes, while the effects of audit committee independence and board diversity are highly context-dependent (Hasan et al., 2022). In addition, IFRS adoption has been shown to magnify the effect of governance quality on reporting reliability and comparability, particularly in emerging banking sectors (Gardi et al., 2023).

Taken together, the literature affirms that financial reporting quality is not static but emerges from the interaction of governance, auditing, and disclosure practices. Persistent cross-country variability calls for more research into how reporting principles are institutionalized and adapted to diverse contexts. This study contributes by examining how CG influences financial reporting quality, with a particular focus on the mediating role of audit quality in Jordan's banking sector.

1.3. Audit quality

Audit quality is a core pillar linking CG and financial reporting quality, underpinning the credibility, reliability, and transparency of disclosures. Its salience has grown in the aftermath of corporate failures and regulatory lapses, prompting reassessment of assurance practices and higher professional standards across jurisdictions (Johnson et al., 2021).

A defining attribute is auditor independence – in fact and appearance – which enables objective judgement, professional skepticism, and the detection and reporting of material misstatements (Simnett & Trotman, 2018). Safeguards such as audit-partner rotation, limits on client economic dependence, and independent audit-committee oversight help preserve independence; when weak, these safeguards erode audit quality and stakeholder trust.

Determinants of audit quality span individual, organizational, and system levels. At the individual level, technical competence, continuous training, and ethical orientation are fundamental (Ege & Stuber, 2022). Organizationally, ethical culture, strong internal controls, and rigorous application of IAASB/AICPA standards are essential (Mardijuwono & Subianto, 2018). However, formal compliance alone is insufficient, and quality depends on how deeply these principles are embedded in daily practice and reinforced by governance.

Stakeholders also view audit quality differently: external auditors stress technical proficiency and independence; professional bodies emphasize conformity with international best practices; internal auditors and audit committees focus on the usefulness and managerial relevance of audit outputs (Roussy & Brivot, 2016). This plurality supports a multidimensional approach that integrates technical, ethical, and contextual considerations.

Firm characteristics matter as well. Large, reputable firms – especially the “Big Four” – are often associated with higher audit quality due to greater resources and expertise, which is reflected in fee premia (Liu & Xu, 2021). Smaller practices may be closer to local contexts but can face capacity constraints or client pressure, producing heterogeneity in quality.

Ultimately, audit quality is rooted in an ethic of integrity, objectivity, and transparency (Mardijuwono & Subianto, 2018). High-quality audits deter error and fraud, bolster market confidence, and advance CG objectives. Evidence consistently links effective audits to auditor competence, independence, and adherence to professional standards (Bananuka et al., 2018). Thus, audit quality should be viewed both as a technical outcome and as a cultural achievement, where assurance principles are institutionalized within the firm.

1.4. Theoretical framework and hypotheses

The nexus among CG, audit quality, and financial reporting quality has become a dominant paradigm in banking research, especially in emerging markets with evolving institutions and regulatory diversity (Alsmady, 2022; Hopt, 2021; Oehmichen,

2018; Raimo et al., 2020). Rather than operating independently, these constructs form an integrated system in which effective governance and robust audits jointly curb agency conflicts, managerial opportunism, and information asymmetry – a practical necessity amid heightened scrutiny of banks’ reporting obligations (Bratten et al., 2015; Gardi et al., 2023).

Agency theory remains the principal lens for explaining how governance structures shape reporting outcomes. Arrangements such as board independence, specialized audit committees, and the separation of CEO and chair roles align managerial actions with shareholder interests by constraining discretion in financial reporting (Alsmady, 2022; Jensen & Meckling, 1976; Raimo et al., 2020; Shleifer & Vishny, 1997). Across varied banking settings, stronger governance is associated with less earnings management, greater transparency, and more faithful risk representation (Brekumi et al., 2023; El-Charani et al., 2022; Mangala & Singla, 2023). Yet agency theory alone is insufficient to capture the institutional nuance typical of emerging markets.

Complementary perspectives – resource dependence, stewardship, stakeholder, and legitimacy clarify additional channels (Dragomir & Dumitru, 2023; Gangi et al., 2019; Oehmichen, 2018). Resource dependence highlights the value of board expertise and external linkages for securing information and resources that support high-quality reporting. Stewardship theory suggests that empowered, well-structured boards can advance organizational objectives beyond narrow managerial interests. Stakeholder and legitimacy theories widen the focus to regulators, creditors, and civil society, emphasizing transparency, social responsibility, and legitimacy in disclosure practices (Dragomir & Dumitru, 2023; Gangi et al., 2019).

Empirically, CG mechanisms – board independence, audit committee composition and effectiveness, and internal audit quality – are linked to better reporting quality and reduced earnings management in banks across Africa, Asia, and MENA (Bhatia & Gulati, 2021; Brekumi et al., 2023; Correa-Garcia et al., 2020; El-Charani et al., 2022; Fariha et al., 2022; Mangala & Singla, 2023; Nguyen, 2022). Competent and independent inter-

nal auditors further enhance credibility (Abbott et al., 2016; Johl et al., 2013; Madawaki et al., 2022). Still, effects are context-dependent: for example, board independence may weaken under concentrated ownership or political ties, underscoring the need to tailor reforms to institutional realities (El-Chaarani et al., 2022; Fariha et al., 2022).

Audit quality occupies a central position in this framework. It directly improves reporting quality and mediates the influence of governance on reporting outcomes. Auditor expertise, independence, tenure, and affiliation with reputable firms constrain opportunistic accounting and strengthen disclosure integrity (Bratten et al., 2017; El-Dyasty & Elamer, 2020; Gardi et al., 2023). Governance benefits – particularly those stemming from effective audit committees – are often amplified when audit quality is high, making the mediating role of audit quality decisive in banks, especially in emerging markets (Faysal et al., 2020; Mardessi, 2021).

Relationships among governance, audits, and reporting are also bidirectional and context sensitive. While strong governance and high audit quality enhance reporting, credible reporting can trigger governance improvements and attract reputable auditors, creating a reinforcing feedback loop (Ayadi et al., 2019; Ewert & Wagenhofer, 2019; Uddin et al., 2020). Additionally, debate persists over the roles of internal governance and external enforcement. In some settings, internal mechanisms (board and audit committee attributes, internal audit effectiveness, and transparent information environments) substitute for weak oversight (Ewert & Wagenhofer, 2019; Nguyen, 2022). Elsewhere, they complement strong regulation, collectively improving reporting quality and reducing systemic risk (Ayadi et al., 2019; Uddin et al., 2020). This interplay argues for context-aware reform and regulation, particularly where enforcement capacity fluctuates.

Despite advances, notable gaps remain. Further work is needed to clarify the mediating and moderating roles of audit quality in the CG-reporting link and to utilize longitudinal, granular, and cross-country designs that capture institutional, cultural, and regulatory diversity (Dragomir & Dumitru, 2023; Fernández Sánchez et al., 2020;

Oehmichen, 2018). The literature also calls for deeper analysis of contextual factors – family ownership, political connections, and shifting regulatory environments – that may condition the effectiveness of governance and audit interventions (El-Chaarani et al., 2022; Fariha et al., 2022; Tessema, 2020). Evidence remains mixed on whether internal and external mechanisms are complements or substitutes, reinforcing the need for setting-specific research in banking.

Synthesizing these insights, this study examines both direct and indirect effects of CG on financial reporting quality in the banking sector, with a specific focus on the mediating role of audit quality. The integrative framework (Figure 1) posits that CG influences audit quality and reporting quality directly, while audit quality acts as an intermediary that channels and strengthens governance effects on reporting.

Accordingly, the following hypotheses are advanced and empirically tested within the study's framework:

- H1: Corporate governance principles have a positive effect on financial reporting quality.*
- H2: Corporate governance principles have a positive effect on audit quality.*
- H3: Audit quality has a positive effect on financial reporting quality.*
- H4: Audit quality mediates the relationship between corporate governance principles and financial reporting quality.*

The conceptual model illustrated in Figure 1 provides a comprehensive analytical foundation for examining the dynamic interplay among CG, audit quality, and financial reporting quality in banks. In focusing on the banking sector of emerging markets, and drawing on evidence from Africa, Asia, and the MENA region, the study offers timely insights relevant to scholars, practitioners, and policymakers seeking to advance both theoretical understanding and practical governance reforms. Ultimately, the integrative approach of this research contributes to ongoing debates about how internal and external mechanisms – working in

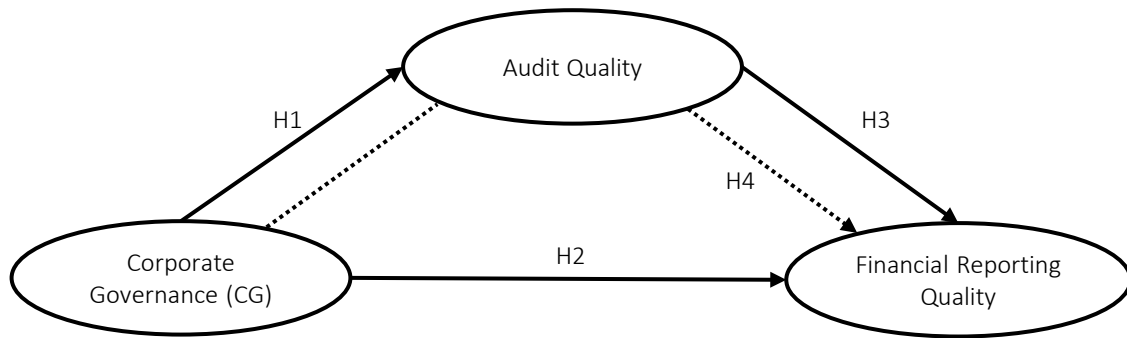


Figure 1. Conceptual framework

tandem or independently – shape the credibility, transparency, and utility of financial reporting in an increasingly complex and regulated financial environment.

2. METHODOLOGY

An empirical cross-sectional approach was adopted to analyze the effect of CG on financial reporting quality, with audit quality considered as a mediating variable. This design was selected to capture a snapshot of the respondents' perceptions of the study constructs within a defined timeframe. The cross-sectional approach is particularly suitable, as it facilitates simultaneous data collection from a large pool of participants, ensuring that results reflect the organizational context at a single point in time. This contrasts with longitudinal methods, which require data over extended periods (Walliman, 2017).

2.1. Population and sample

The study population comprised all banks operating in Jordan's financial sector. Over the past decade, Jordan's financial sector has undergone major reforms, including updates to financial laws and a shift toward digital management. This sector contributes approximately half of the country's capital and employment (Aldomy et al. 2022). The focus of this study on the banking sector is justified by its central role as a facilitator of economic growth and development in the local economy.

The current banking sector in Jordan consists of 20 banks: 4 Islamic banks, 5 foreign banks, and 11 commercial banks listed in the Central Bank of

Jordan (CBJ). This study targeted chief executive officers (CEOs) and board members within these banks, as these individuals possess the requisite expertise and decision-making authority to provide informed insights into the research variables. A purposive sample of 290 CEOs and board members was drawn, with 10-15 questionnaires distributed per bank. A purposive sampling strategy was employed to ensure the participation of individuals with direct knowledge and responsibility for CG, audit quality, and financial reporting quality.

2.2. Data collection and ethical compliance

An online, self-administered questionnaire was developed in Google Forms and distributed by email to the head offices of the 20 commercial banks headquartered in Amman, Jordan. Data were collected over five months (July–November 2022), a period that coincides with the financial reporting cycle and was chosen to enhance the relevance of responses.

The questionnaire was initially developed in English based on existing research instruments and was subsequently translated into Arabic to avoid any comprehension issues among respondents. To ensure the accuracy of the translation, the back-translation method was employed, in which the Arabic version was translated back into English by specialist translators to check for consistency with the original content.

The questionnaire was subdivided into three sections. The first section contained a cover letter explaining the aims of the research and outlining the confidentiality policy adopted by the study to

assure the respondents of the privacy and security of their information. The second section gathered quantifiable demographic information, including gender, level of education, educational background, and years of experience in finance and banking. The third section focused on the core variables of the study, measured using a five-point Likert scale ranging from “strongly disagree” to “strongly agree.”

The independent variable, CG, was measured using 17 items derived from the research conducted by Klapper and Love (2004) and represented a second-order latent construct branching into five first-order latent constructs. Discipline was quantified via four statements, such as *‘The bank’s annual report contains a section dedicated to disclosing the implementation performance of governance.’* Transparency was calculated via three statements, such as *‘The bank continuously discloses sensitive information to the market on schedule.’* Independence was ascertained by four statements, such as *‘I believe that the members of the bank’s board of directors do not dominate sensitive executive decision making.’* Accountability was measured via three statements, such as *‘The bank’s audit committee fully oversees the accountability process on behalf of the shareholders.’* Equity was calculated via three statements, such as *‘The summary of the bank’s general meetings and the necessary information is published to all shareholders.’*

The mediated variable is represented by audit quality and was calculated based on five items derived from the research conducted by Al-ahdal and Hashim (2022). This variable represented a first-order latent construct branching into five observed variables and employed statements such as *‘The bank’s auditors are concerned in following international professional audit procedures and rules.’*

The dependent variable concerned financial reporting and was measured using nine items based on the work of Chen et al. (2018). This variable represents a second-order latent construct that branches into three first-order latent constructs. Timeliness was measured via four statements, such as *‘The Bank provides periodic reports that can be relied upon in evaluating its financial performance.’* Comparability was mea-

sured via three statements, including *‘Users can compare the bank’s financial indicators by referring to the financial reports issued during previous periods.’* Four statements measured understandability, such as *‘The Bank’s reports include the main financial indicators expressed in simple terms.’*

The study protocol was approved by the Institutional Review Board (IRB) to ensure the protection of participants’ rights and compliance with research ethics. Informed consent was obtained from all participants, each of whom was provided with a plain language statement outlining the study’s aims, procedures, and the right to withdraw at any time. All the responses and primary data were encrypted and stored in a password-protected database to ensure confidentiality and anonymity. The collected data have not been previously published or submitted to any other academic work. The research was conducted independently, objectively, and free from any external influence or bias.

A total of 225 questionnaires were returned; after excluding 11 incomplete responses, 214 valid responses were analyzed, yielding a response rate of 73.79%, which is considered robust for organizational research (Eichhorn, 2024). Table 1 summarizes the respondents’ demographic profiles.

Table 1. Demographic analysis of the respondents (N = 214)

Valuable	Items	n	%
Sex	Male	185	86.4
	Female	29	13.6
Qualification	Bachelor’s degree	132	61.7
	Master’s degree	59	27.6
	Ph.D.	23	10.7
Specialization	Finance	195	91.1
	Other	19	8.9
Years of experience	5 years or less	15	7
	6-10 years	31	14.5
	11-15 years	55	25.7
	More than 15 years	113	52.8

The use of SEM for statistical analysis was justified by its capacity to test complex relationships among latent constructs and evaluate the mediating role of audit quality, which would not be feasible using traditional linear regression methods (J. Wang & X. Wang, 2019).

3. RESULT

This section presents the empirical results derived from the survey data, highlighting the relationships between CG, audit quality, and financial reporting quality.

3.1. Evaluating reliability and validity

Ensuring the reliability and validity of the measurement model is foundational in SEM, particularly when investigating multidimensional constructs such as CG, audit quality, and financial reporting quality. Measurement reliability ensures that each construct is assessed consistently across indicators, whereas validity ensures that each construct accurately captures the theoretical concept it is intended to measure. This rigorous approach enhances the credibility of the findings and allows for more robust

hypothesis testing in subsequent stages of the analysis.

Convergent validity was assessed by examining the factor loading rates for all indicators associated with their respective latent constructs and calculating the average variance extracted (AVE) for each construct. In line with Cheah et al. (2018), factor loadings above 0.50 indicate that the indicators are strongly associated with their underlying construct. In this study, all factor loadings ranged from 0.675 to 0.854, demonstrating satisfactory convergence. The AVE values, which quantify the amount of variance captured by a construct relative to the variance due to measurement error, also surpassed the commonly accepted threshold of 0.50 (Rimkeviciene et al., 2017), indicating that, on average, each construct explains more than half of the variance in its indicators.

Table 2. Measurement model evaluation

Constructs	Items	Factor loading	AVE	MSV	√AVE	C.R.
Discipline	DIS1	0.735	0.567	0.441	0.753	0.839
	DIS2	0.822				
	DIS3	0.761				
	DIS4	0.687				
Transparency	TRA1	0.730	0.603	0.438	0.776	0.820
	TRA2	0.785				
	TRA3	0.812				
Independency	IND1	0.692	0.534	0.387	0.731	0.821
	IND2	0.713				
	IND3	0.776				
	IND4	0.739				
Accountability	ACC1	0.854	0.656	0.492	0.810	0.851
	ACC2	0.792				
	ACC3	0.781				
Fairness	FAI1	0.755	0.569	0.460	0.754	0.798
	FAI2	0.738				
	FAI3	0.769				
Audit Quality	AUQ1	0.731	0.577	0.472	0.760	0.872
	AUQ2	0.794				
	AUQ3	0.826				
	AUQ4	0.681				
	AUQ5	0.759				
Timeliness	TIM1	0.715	0.585	0.476	0.765	0.809
	TIM2	0.788				
	TIM3	0.790				
Comparability	COM1	0.675	0.587	0.455	0.766	0.808
	COM2	0.846				
	COM3	0.767				
Understandability	UND1	0.702	0.522	0.406	0.723	0.766
	UND2	0.744				
	UND3	0.721				

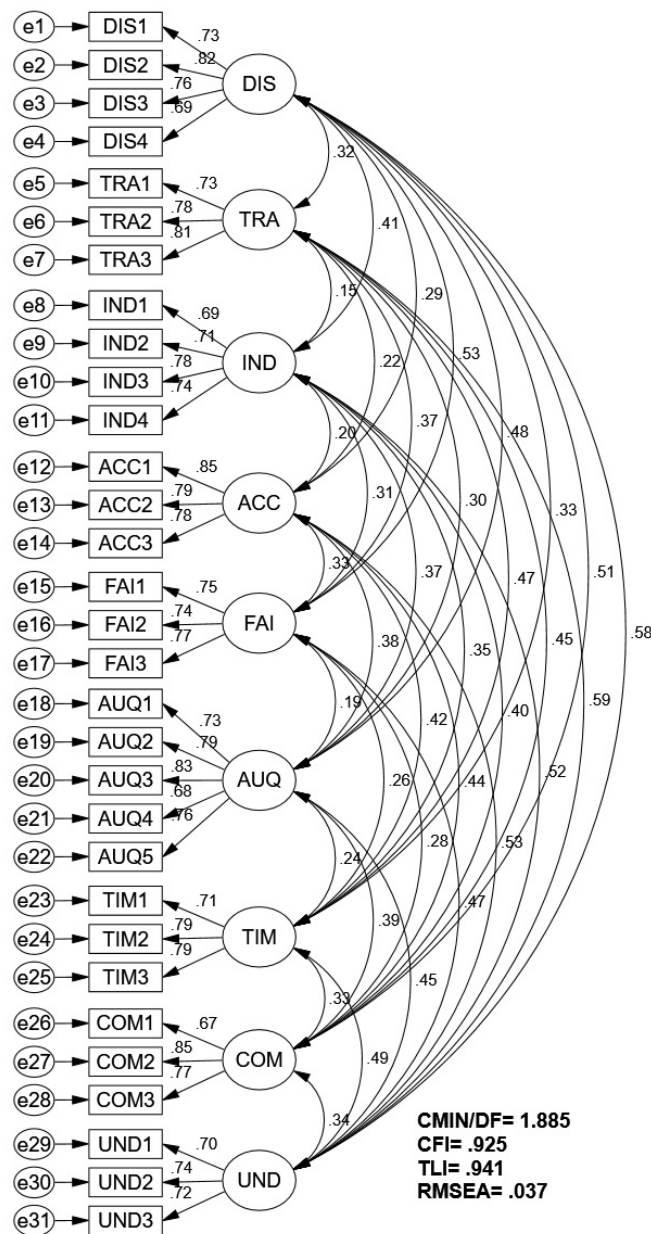


Figure 2. Result of confirmatory factor analysis

Discriminant validity was established using two procedures. First, the AVE for each construct was compared with the maximum-shared variance (MSV) between that construct and other constructs in the model. Discriminant validity is confirmed when AVE exceeds MSV, suggesting that each construct shares more variance with its own indicators than with any other construct. Second, the square root of the AVE for each construct was compared with the correlation coefficients between constructs. Discriminant validity is indicated when the square root of the AVE is greater than the corresponding interconstruct correla-

tions (Yusoff et al., 2020). The results demonstrated that all the constructs in this study met both criteria, indicating that the latent constructs were conceptually distinct.

The reliability of the constructs was evaluated using composite reliability (CR) and McDonald’s omega coefficients for the first-order latent constructs. CR values above 0.70 are considered indicative of good internal consistency (Padilla & Divers, 2016). In this study, the CR values ranged from 0.766 to 0.872, and McDonald’s omega coefficients confirmed this high degree of reliability,

demonstrating that the indicators within each construct are mutually consistent and reliable in capturing the intended concept.

The comprehensive results for the measurement model are summarized in Table 2, which presents the factor loading rates, AVE, MSV, the square root of AVE, and CR for each construct. All results met or exceeded the recommended thresholds, establishing the soundness of the measurement model.

Further assessment was conducted using a confirmatory factor analysis to examine the overall fit of the measurement model. Figure 2 demonstrates that the model fit indices fell well within the recommended thresholds: the chi-square index (CMIN/DF) was 1.885, the comparative fit index (CFI) was 0.925, the Tucker-Lewis index (TLI) was 0.941, and the root mean square error of approximation (RMSEA) was below 0.08. These results confirm the construct validity and robustness of the measurement model (Antunes et al., 2017).

3.2. Descriptive results

Descriptive analysis is a critical first step in understanding the profile of the sample and the general tendencies of the observed indicators before proceeding to hypothesis testing within the structural model. In SEM-based research, such statistics provide a foundational context, allowing for the assessment of central tendency, dispersion, and interrelationships between the main constructs, which is especially important in studies relying on perceptual data from organizational respondents.

Means were used as indicators of central tendency, reflecting the overall assessment of each research

construct by respondents. Standard deviations capture the degree of variability in responses, indicating whether opinions are relatively homogeneous or diverse. Pearson's correlation coefficients were calculated to assess the strength and direction of the linear relationships between the research constructs and to check for multicollinearity, which could affect the validity of subsequent multivariate analyses.

Table 3 presents the full results for the means, standard deviations, and inter-construct correlations across all nine first-order indicators included in the model: five related to CG (discipline, transparency, independence, accountability, and fairness), audit quality, and three related to financial reporting quality (timeliness, comparability, and understandability).

The results indicate that among the CG indicators, accountability exhibited the highest mean ($M = 3.62$, $SD = 0.871$), suggesting that respondents perceived strong oversight and responsibility principles within their institutions. Transparency ($M = 3.57$, $SD = 0.822$) and independence ($M = 3.51$, $SD = 0.803$) also had relatively high mean values, reflecting positive assessments of openness and board independence. Fairness ($M = 3.45$, $SD = 0.792$) and discipline ($M = 3.34$, $SD = 0.725$) were somewhat lower, but still above the midpoint, indicating moderate endorsement of these governance practices.

Overall, audit quality was perceived favorably, with a high mean value ($M = 3.69$, $SD = 0.903$), indicating that respondents generally regarded the audit function in their banks as effective and reliable. For the financial reporting quality indicators, understandability had the highest mean ($M = 3.75$,

Table 3. Means, standard deviations, and correlation coefficients

Constructs	M	SD	1	2	3	4	5	6	7	8	9
1. Discipline	3.34	0.725	1	–	–	–	–	–	–	–	–
2. Transparency	3.57	0.822	0.454	1	–	–	–	–	–	–	–
3. Independency	3.51	0.803	0.502	0.439	1	–	–	–	–	–	–
4. Accountability	3.62	0.871	0.471	0.512	0.508	1	–	–	–	–	–
5. Fairness	3.45	0.792	0.446	0.536	0.455	0.492	1	–	–	–	–
6. Audit Quality	3.69	0.903	0.662	0.631	0.589	0.604	0.635	1	–	–	–
7. Timeliness	3.59	0.811	0.630	0.662	0.671	0.592	0.580	0.638	1	–	–
8. Comparability	3.71	0.913	0.531	0.577	0.603	0.664	0.642	0.613	0.625	1	–
9. Understandability	3.75	0.953	0.652	0.607	0.682	0.644	0.610	0.652	0.627	0.670	1

Note: All correlation coefficients have a significance level less than 0.05.

SD = 0.953), followed by comparability (M = 3.71, SD = 0.913), and timeliness (M = 3.59, SD = 0.811). This suggests that, in the eyes of respondents, the financial statements produced by banks are generally clear, comparable across periods, and timely in their disclosure.

The correlation matrix demonstrates moderate and statistically significant associations between most constructs, with coefficients between CG indicators and audit quality ranging from 0.589 to 0.662. The correlations between CG indicators and financial reporting quality constructs range from 0.531 to 0.671, whereas the associations between audit quality and financial reporting quality constructs range from 0.613 to 0.670. Importantly, all intercorrelations among the CG indicators were below the threshold of 0.80, indicating that multicollinearity was not a concern for this dataset (Hair et al., 2019).

This detailed descriptive profile establishes a robust empirical context for hypothesis testing, confirming that the constructs exhibit meaningful variation and interrelationships consistent with theoretical expectations.

3.3. Hypotheses examining

The overall fit of the structural equation model was assessed using a combination of widely accepted indices to ensure that the hypothesized relationships between CG, audit quality, and financial reporting quality were adequately represented by the data. The ratio of chi-square to degrees of freedom (CMIN/DF) was 1.521, indicating an excellent model fit, well below the conventional threshold of 3.0. Both the CFI and the Tucker-Lewis index (TLI) demonstrated high values of 0.938 and 0.946, respectively, exceeding the recommended minimum of 0.90 for robust model adequacy. RMSEA was calculated to be 0.029, which is substantially below the generally accepted cutoff of 0.08. Collectively, these fit statistics confirm that the structural model provides a rigorous and reliable basis for evaluating the hypothesized relationships between the study's central constructs.

Turning first to the direct effects, the analysis reveals that CG has a strong and statistically significant positive impact on financial reporting quality. The standardized coefficient for this relationship was $\beta = 0.608$ (unstandardized B = 0.712,

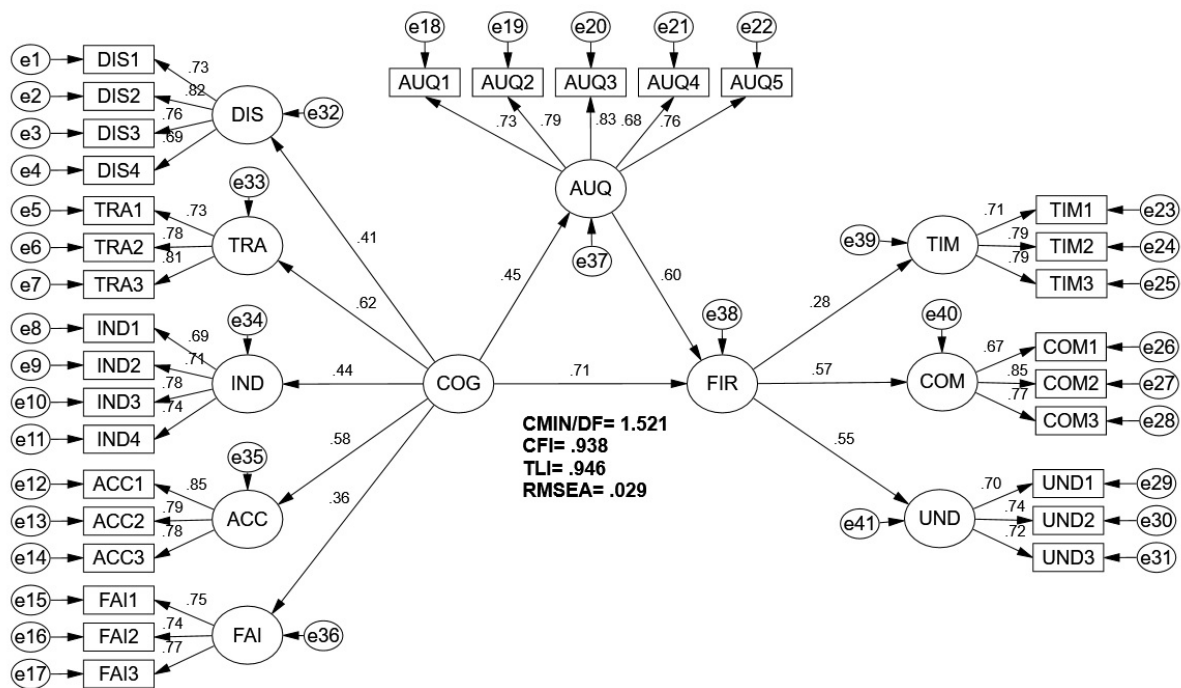


Figure 3. Result of structural equation modeling

Table 4. Structural equation modeling coefficients

Hypothesis	Path	Direct Effect			Indirect Effect			Total Effect		
		B	S.E.	β	B	S.E.	β	β	T	P
H1	CG → FRQ	0.712	0.042	0.608	–	–	–	0.608	16.952	0.000
H2	CG → AQ	0.455	0.038	0.433	–	–	–	0.433	11.974	0.000
H3	AQ → FRQ	0.603	0.040	0.571	–	–	–	0.571	15.075	0.000
H4	CG → AQ → FIR	0.712	0.042	0.608	0.331	0.025	0.247	0.855	23.810	0.000

Note: CG: corporate governance, FRQ: financial reporting quality, AQ: audit quality, significance level ≤ 0.05 .

S.E. = 0.042, $t = 16.952$, $p < 0.001$), indicating that improvements across the five governance indicators – discipline, transparency, independence, accountability, and fairness – are closely associated with enhanced quality of financial reporting in the Jordanian banking sector. The magnitude of this effect underscores the substantial role of governance structures in reinforcing the clarity, reliability, and comparability of financial disclosures. Given that, the means of these governance indicators are already moderate to high (as reported in Table 3), these results suggest that further advances in governance practices can yield meaningful gains in reporting outcomes.

In addition to its direct impact on reporting, CG has a significant and positive direct effect on audit quality. The standardized coefficient for this path was $\beta = 0.433$ ($B = 0.455$, S.E. = 0.038, $t = 11.974$, $p < 0.001$). This finding reinforces the notion that robust governance frameworks, anchored in independent oversight, clear accountability, and transparent processes, provide the organizational conditions necessary for effective and high-quality audit practices. The observed coefficient, which lies in the moderate-to-strong range, highlights the critical but not exclusive role of governance in shaping the audit function. Although other contextual or regulatory factors may also influence audit quality, governance remains a key driver in this sector.

Furthermore, the analysis provides clear evidence of the importance of audit quality as a determinant of financial reporting quality. The direct effect of audit quality on financial reporting quality is both statistically and substantively significant ($\beta = 0.571$, $B = 0.603$, S.E. = 0.040, $t = 15.075$, $p < 0.001$). This result illustrates that when the audit function is robust, characterized by adherence to professional standards, independence, and systematic review, there is a corresponding increase in the quality and credibility of banks' financial

reporting. The high mean value of audit quality observed in the sample further corroborates the strength of this relationship and reflects the sector's commitment to maintaining rigorous audit procedures.

Beyond the direct effects, the mediation analysis revealed a more nuanced dynamic: Audit quality acts as a significant partial mediator in the relationship between CG and financial reporting quality. The indirect effect of CG on financial reporting quality through audit quality was estimated to be $\beta = 0.247$ ($B = 0.331$, S.E. = 0.025, $t = 23.810$, $p < 0.001$), and the combined total effect (direct and indirect) reached $\beta = 0.855$. This pattern of partial mediation clarifies that, while strong governance independently advances reporting quality, its impact is amplified through its positive influence on audit quality. Thus, the findings illustrate the synergistic interplay between governance and auditing in shaping financial reporting quality.

Collectively, the structural model corroborates the theorized links among corporate governance (CG), audit quality (AQ), and financial reporting quality (FRQ) in Jordanian banks. The pattern of significant direct and mediated paths indicates that governance mechanisms and audit processes work in tandem to enhance reporting outcomes, reinforcing organizational transparency and accountability and providing a sound basis for interpretation.

The hypothesis-specific results are as follows. In the case of Hypothesis 1 (H1), predicting the positive influence of CG on FRQ, the structural estimates validate a significant positive relation; therefore, H1 is supported. Hypothesis 2 (H2), anticipating the positive effect of CG on AQ, likewise shows a significant positive path; thus, H2 is supported. For Hypothesis 3 (H3), proposing that AQ improves FRQ, the association is positive and statistically significant; hence, H3 is supported.

Finally, Hypothesis 4 (H4), positing that AQ mediates the CG–FRQ link, is supported as a partial mediation: the indirect effect is significant while the direct CG→FRQ path remains significant, indicating that AQ transmits part—but not all—of the influence of CG on FRQ.

4. DISCUSSION

This study provides empirical evidence that CG enhances financial reporting quality both directly and indirectly through audit quality. The pattern of results aligns with agency theory and resource dependence theory, and it yields actionable implications for policymakers and regulators in transitional economies such as Jordan. Descriptive statistics are consistent with Al-Haddad and Whittington's (2019) observation of growing recognition of governance principles across MENA institutions, while our findings portray a comparatively optimistic Jordanian context in which such awareness can strengthen disclosure, oversight, and managerial-stakeholder alignment.

Structurally, the SEM estimates indicate a significant positive effect of CG on financial reporting quality ($\beta = 0.608$, $p < .001$). This supports the proposition that governance practices – discipline, transparency, and accountability – mitigate agency problems and improve the integrity of disclosed information, echoing prior evidence that effective governance curbs managerial opportunism and improves disclosure accuracy (Barakat et al., 2020; Roychowdhury et al., 2019). Practically, banks with stronger governance are better positioned to deliver financial statements that are timely, understandable, and comparable, meeting the needs of investors, regulators, and other users.

Beyond this direct pathway, CG is positively associated with audit quality ($\beta = 0.433$, $p < .001$), reinforcing conclusions by Sarhan et al. (2019) and Alahdal and Hashim (2022) that governance struc-

tures – especially independent audit committees – bolster auditor autonomy and effectiveness. Survey responses in our setting similarly emphasize auditor independence and professionalism, suggesting that Jordanian governance frameworks provide the oversight and resources necessary for high-quality audits.

Audit quality itself is strongly linked to reporting quality ($\beta = 0.571$, $p < .001$), affirming the role of rigorous audits in validating the accuracy of disclosures and ensuring compliance with standards. Consistent with Dwekat et al. (2018), audit quality acts as a safeguard against misreporting and manipulation. Importantly, it also partially mediates the CG-reporting relationship: the indirect effect ($\beta = 0.247$) represents approximately 28.9% of the total effect, indicating that governance achieves part of its influence through strengthened audit processes.

The mediation has theoretical significance. CG provides the structural foundation for accountability, but audit quality operationalizes that foundation, transforming governance intent into decision-useful information. In line with Almaqtari et al. (2020), our results position audit quality as the transmission channel through which governance improvements are realized in reported outcomes. Where banks support auditor independence, invest in internal controls, and maintain open communication between auditors and management, audits are more likely to detect discrepancies and align reported figures with underlying economic reality.

Collectively, these findings underscore a coherent mechanism: robust CG enhances audit quality, which in turn elevates reporting quality, while CG also contributes directly to better reporting. For regulators and bank boards, the results advocate reinforcing audit committee independence, resourcing internal control systems, and embedding transparency and accountability norms to sustain reporting credibility in emerging market settings.

CONCLUSION

This study examined the mediating role of audit quality in the relationship between CG and financial reporting quality within Jordanian banks, addressing a gap in how internal oversight mechanisms shape reporting outcomes in emerging-market contexts. Situated in Jordan's institutional setting – where external enforcement is uneven – the analysis contributes to debates on organizational transparency and the effectiveness of internal controls.

Structural equation modelling indicates that robust CG exerts a substantial direct influence on reporting quality, while audit quality operates as a critical partial mediator that amplifies this effect. Operationalized through professional competence, independence, and adherence to international standards, audit quality validates the informational value of disclosures and functions as an enforcement channel translating governance intent into reliable outcomes. Mediation results show that nearly one-third of CG's total effect on reporting is realized indirectly via audit quality, underscoring their intertwined roles in safeguarding reporting integrity and empirically disentangling how governance architecture and audit assurance complement one another in an emerging banking sector.

The findings carry theoretical and practical implications. Governance structures alone are necessary but not sufficient for credible reporting unless embedded within a culture that prioritizes audit independence and rigor. In the Jordanian setting – where regulatory enforcement evolves and external discipline may be limited – institutionalizing high audit quality is indispensable for realizing the benefits of governance reforms. Rather than assuming that frameworks transplanted from mature markets will yield parallel outcomes, the evidence highlights the enabling function of internal audit practices in converting formal oversight into substantive reporting improvements. Given banking's centrality to financial stability and public trust, strong CG-audit quality-reporting linkages have wider economic and societal relevance for emerging economies.

The study's contributions should be considered alongside several limitations. First, the exclusive focus on Jordanian banks constrains external validity; distinct ownership structures, regulation, and market dynamics may limit generalizability to other sectors or jurisdictions. Second, reliance on cross-sectional, self-reported data raises concerns about perceptual bias and precludes causal inference or tracking reforms over time. Third, despite advanced modelling of latent constructs and mediation, unobserved contextual factors or changing regulatory interventions may moderate the observed relationships.

Future research should prioritize comparative designs across financial subsectors and regions to test boundary conditions of the mediation effect; longitudinal approaches to capture the temporal dynamics of governance and audit interventions; and analyses of digital transformation – e.g., real-time auditing, data analytics, and integrated ESG disclosures – and their interaction with traditional practices. Finally, extending the CG-audit quality-reporting framework to non-financial disclosures, including sustainability reporting, would enrich theory and align with evolving regulatory and stakeholder expectations.

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