The Influence of Audit Committee Chair Characteristics on Financial Reporting Quality

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Abstract: This study examines the extent to which the characteristics of the audit committee chair enhance the quality of financial reports and reduce the possibility for companies to receive a modified audit opinion (MAO) from an external auditor. We apply logistic regression to investigate the influence of Audit Committee Chair (ACC) characteristics on the FRQ (FRQ), for a sample of 460 firm-year observations (service and industrial company listed) on the Amman stock exchange for the years 2017–2020. This study uses the MAO as a proxy for Financial Reporting Quality (FRQ). The results of this study confirmed that the characteristics of the chair of the audit committee have significant and clear impacts on the quality and efficiency of financial reports, which is in line with previous studies that have addressed this topic. The results also indicated that researchers, academics, regulators, and policymakers should not look just at the characteristics of audit committees as a whole, given that audit committee chairs have effects on financial reports. This study presents its contribution through experimental demonstration of the characteristics of the chair of the audit committee and how these affect the financial reports of companies. It also provides a guide for benefits for working to provide a basis for organizational procedures, especially those related to the impact on corporate boards and internal and external auditing.

Keywords: Jordan; auditor; Financial Reporting Quality; Audit Committee Chair; audit committee
independence and the effectiveness of the audit process and ensure that no conflicts of interest may weaken the ability of the external auditors to issue an audit opinion on the financial statements of a company (Al-Baidhani 2016; Turley and Zaman 2007). The ACC has more functions and responsibilities than other members, especially concerning the failure of financial statements (Ashraf et al. 2022; Ghafran and O’Sullivan 2017). Thus, a chair plays a crucial role in focusing on essential issues, such as overseeing the financial report (FR) process, adequate internal controls, and determining the effectiveness of the audit committees (Lutfi et al. 2022c; Furqan et al. 2019; Baatwah et al. 2019a; Wu et al. 2016; Crişan and Fülöp 2014). Most recent studies dealing with the chair of the audit committee and the role they play in supervising the financial report process reflect, to some extent, the role of the person responsible for directing committee members (Ghafran and O’Sullivan 2017; Turley and Zaman 2007).

This role includes ensuring the correctness of the information presented to the committee (Vasile and Mitran 2016), and ensuring an open relationship between audit committees and management and the external and internal auditors at all times (Vasile and Mitran 2016; Al-Baidhani 2016); A chair is also instrumental in setting the agenda for audit committee meetings and focusing on essential agenda items issues like financial reports and internal controls of a company (Furqan et al. 2019; KPMG 2017; Khassawneh 2014). These and other functions that the chair of the audit committee series can directly impact the tasks and duties that the committees perform in the financial report (Alshira’h et al. 2020; Tanyi and Smith 2015; Ghafran and Yasmin 2018).

Given the vital role that the ACC has in supporting and enhancing the ability of the committee to perform its tasks and supervising financial reports in companies, this study will focus on the important characteristics of the chair of the audit committee in the process of increasing the quality of financial reports, thus reducing the likelihood that a company will receive a modified audit opinion (MAO).

Prior research suggests that the ACC plays an essential role in increasing Financial Reporting Quality (FRQ) (Kusnadi et al. 2016; Tanyi and Smith 2015; Haq et al. 2019; Ghafran and Yasmin 2018; Ghafran and O’Sullivan 2017). According to Tanyi and Smith (2015), an audit chair committee with a solid financial background will influence the process of supervising the company’s financial reports and play a key role in monitoring corporate FR (Haq et al. 2019; Carcello et al. 2011), and in reducing information inconsistencies between management and shareholders, which ultimately protects the interests of all shareholders (Haq et al. 2019; Fama and Jensen 1983).

According to agency theory, the ACC is expected to open communication channels between the external and internal auditors and management to help ensure the integrity of a company’s financial statements. Furthermore, the characteristics of the ACC led to the enhancing and improving of the FRQ. Consequently, the qualifications that can be contained in the audit reports issued by the external auditors will be reduced (De Andrés Suárez et al. 2013). Ultimately, the ACC is primarily responsible for enhancing and improving the committee’s work, monitoring and assessing the company’s health, and anticipating problems that are likely to affect stakeholders negatively (Alsyouf et al. 2021; Haq et al. 2019).

This study investigates a set of characteristics of the ACC (independence, expertise, and change of chair) in Jordanian companies (industrial and service) and how these characteristics (independence, accounting expertise, and changes) can increase the quality and efficiency of financial reporting for businesses (Alsyouf et al. 2022; Lutfi 2022a), and thus reduce the likelihood of receiving a MAO from an external auditor. This study examines how these characteristics (independence, accounting expertise, and change) are essential to the ACC in reducing the likelihood of Jordanian companies receiving a modified opinion from an external auditor, thereby increasing FRQ. In line with expectations, this study acknowledges the relationship between the ACC characteristics (e.g., independence, expertise, and change) and the FRQ.

Most studies dealing with FRQ have shown that financial reports are related to characteristics of audit committees, for example, independence, experience, and diligence. This
adds to the research by assessing the link between ACC characteristics (accounting expertise, independence, and change) and the quality of firms’ financial reporting (Lutfi et al. 2022b). This is achieved by evaluating the role the audit committee’s chair plays on the quality of the financial reporting.

Regardless of the growing interest in the role of audit committees on the quality of financial reports, there is a dearth of research related to the role of the audit committee chair and its relationship to the modified audit opinion. Based on the shortcomings, we can say that the issues related to the modified opinion require a lot of study (Alshirah and Alshirah 2021). In addition, the main motive for this study is the recent focus of the Jordanian government on the need for Jordanian public sharing companies to implement corporate governance rules that will improve the quality and efficiency of financial reports for Jordanian companies (Alshirah et al. 2021a), which in turn will lead to a reduction in the probability that these companies will obtain the modified opinion of the external auditor. The study uses the MAO as a proxy for the quality of FR (e.g., Lutfi 2021; Pucheta-Martinez and Garcia-Meca 2014; Pucheta-Martinez et al. 2016; Farinha and Viana 2009) because the audit opinion is observable (Farinha and Viana 2009). Therefore, the study will provide compelling evidence of higher FRQ. Previous studies on FR have used discretionary accruals as a proxy for FR (Bajra and Čadež 2018; De Vlaminck and Sarens 2015; Kusnadi et al. 2016; Salehi and Shirazi 2016; Salehi et al. 2020; Cohen et al. 2015; Garcia-Blandon et al. 2020). However, (Farinha and Viana 2009) said that discretionary accruals are unobservable and must be estimated using models that can lead to incorrect conclusions due to specification problems.

The next section of this study discusses testable hypotheses and reviews previous studies. Section 3 presents the study methodology, research design, and explains how to choose and measure the sample. Section 4 presents and discusses the results reached in this study, and the last section draws conclusions, offers recommendations for policymakers, addresses limitations, and gives opportunities for future research.

2. Hypotheses Development

This study focuses on the important characteristics of the chair of the audit committee. In particular, the study focuses on independence, expertise, and changes in the ACC. The ACC is considered to be primarily responsible for the committee’s work, and therefore they should be held accountable for any errors that occur in the FR processes. Accordingly, the present study hypotheses mainly focus on a selective ACC characteristic that is expected to increase, and the quality of the corporate financial reporting process, which, in turn, will limit qualifications in audit reports.

2.1. Independence of the ACC

The independence of an ACC can play an essential role in enhancing the quality of financial reports. In particular, the effectiveness and efficiency of the audit committees depend on the presence of a strong and independent chairperson, and he or she enjoys the confidence of the external auditors and management (Karky and AlHdaithat 2019). The Jordanian corporate governance code (2017) indicated that the ACC should not be the chairperson of the board of directors and should also be independent so that objectivity with the board of directors is not weakened when reviewing the results and recommendations made by audit committees. If an ACC occupies multiple positions, this may lead to the concentration of power in one manager and expose him or her to more tasks and duties, which can cause stress. Given the importance of this position, this attribute is mandatory according to the principles of Jordanian governance under recommendation six. An independent chair is needed to have sufficient time to carry out the tasks and issue independent judgments to provide valuable recommendations to the board of directors.

Sierra Garcia et al. (2012), Appuhami and Tashakor (2017), and Hassan et al. (2017) pointed out that the separation between the position of chair of the audit committee and chair of the board of directors in companies would encourage audit committee members to
strengthen monitoring and control activities, which indicates a higher level of safety and scrutiny. This will improve the quality of financial reports. This will eventually help the company to avoid MAO (Alshirah et al. 2021b; Alsyouf 2021; Lutfi 2020; Farinha and Viana 2009; Pucheta-Martinez and Fuentes 2007; Zaid Alkilani et al. 2019). Consequently, the separation of these two positions is crucial for the ACC to devote more time to managing the committee’s affairs, which, in turn, will increase the quality of financial reporting.

Normally, the audit committee chair is expected to provide the appropriate “tone on top” to help instill control direction within the organization. Therefore, they will work to define the responsibilities and set the priorities and the scope of internal auditing process, evaluate the process of quality and employees inside the organization. These functions go beyond the president’s role in preparing the audit committee to face challenges that companies face, such as understanding the risk management and the implications of governance. An ACC determines the schedule of meetings and agendas of audit committees, including issues related to preparing financial reports, as preparing them requires the presence of a person with extensive experience and knowledge of accounting matters (Al-Khasawneh et al. 2013; Beasley et al. 2009).

Several relevant studies have confirmed the need for an independent chair. For example, Oussii and Taktak (2018) pointed out that the chair’s independence is one of the most critical factors leading to an increase in the effectiveness of audit committee oversight of financial reports. (Dobija 2015; Abernathy et al. 2014) indicated that the ACC should be independent because the chair of the audit committee is responsible for the quality and efficiency of the work done. The chair sets the agenda, chairs meetings, and contacts external auditors (Alshira’h et al. 2020; Furqaan et al. 2019; KPMG 2017). A chair affects the quality and efficiency of financial reports in companies, thereby reducing the likelihood of a company receiving an MAO. Therefore, the following hypothesis is posited:

**H1. There is a positive association between the presence of an independent ACC and FRQ.**

### 2.2. ACC Accounting Expertise and FRQ

The primary objective of the corporate audit committees is to provide quality assurance and to ensure the efficiency of financial reports, as well as to supervise the auditing process inside the company (Baatwah et al. 2019b; Beasley et al. 2009). These responsibilities can be fulfilled by independent managers with skill and extensive accounting and financial experience (Bani-Khalid et al. 2022; Bédard and Gendron 2010; Be’dard et al. 2004). Previous studies dealing with the topic of an ACC have indicated that an ACC’s accounting experience contributes to increasing the quality of financial reports (Lutfi 2022b; Baatwah et al. 2019a; Ghafran and O’Sullivan 2017). Therefore, it is expected that a chair with accounting experience will improve the quality and efficiency of the audit process through his or her ability to motivate the external auditors to perform evaluation procedures for a company’s internal control. In addition, a chair of an audit committee with accounting experience can protect external auditors from dismissal after issuing negative and modified opinions (Lisic et al. 2019).

DeFond et al. (2005) indicate that accounting expertise is of immense importance in conducting tasks requiring a high degree of sophistication. According to (Kusnadi et al. 2016), the presence of the accounting experience of an ACC will enhance the supervisory and monitoring role of audit committees in the process of preparing financial statements, which, in turn, will lead to the increased quality of financial reports. This increase is through the participation of the ACC during the audit of the financial statements with the internal and external auditors and management (Haq et al. 2019). In addition, an ACC is the primary person responsible for ensuring that the tasks performed by the audit committee have been accomplished. Therefore, the characteristics of the ACC, such as experience, can influence audit committee effectiveness and their ability to improve the quality of the financial reporting process (Al-Khasawneh et al. 2018; Eyenubo et al. 2017; Furqaan et al. 2019). For example, these functions include making sure that audit committee members fully
and thoroughly study agenda items and that the meetings held by the audit committees operate efficiently. (Abernathy et al. 2014; Norman et al. 2013) pointed out that an ACC with extensive knowledge and financial and accounting experience is associated with lower levels of absolute discretionary accruals and income increased accruals. Likewise, the position of the chair of the audit committee contributes to working towards achieving audit committee objectives, including the production of high-quality financial reports (Eyenubo et al. 2017). An ACC serves as the main link between the audit committee and the board of directors and external and internal auditors and senior management.

Furthermore, according to McNulty et al. (2011), a potent chair will influence strategic decisions, oversight, and resource-related tasks at the board level. An ACC is one of the most critical senior positions in companies, and the strength of this position according to Baatwah et al. (2019b), is boosted by experience and extensive knowledge of accounting and financial matters. Similarly, author research (e.g., Schmidt and Wilkins 2013) suggested that an ACC with advance accounting experience will increase company efficiency in preparing FR in a timely manner. An ACC with accounting experience would lead to a reduction in restatement dark periods. (Baatwah et al. 2019a) indicated that an ACC with accounting experience improves the timing of the FR process. An ACC with experience could increase the quality and efficiency of financial reports, especially in emerging markets. Also, Abernathy et al. (2014) found that the public accounting experience of an ACC was closely related to the timing of financial reports. This led to increased FRQ and ultimately enhanced the reliability of the financial information; in so doing, the prospect of receiving an MAO would be reduced.

Given that management affects the audit function, an ACC with financial and accounting expertise will positively influence it because this experience will add significant value to the audit committee’s work, especially its role in preparing financial reports and internal control. In particular, the knowledge and extensive experience of the chair of an audit committee will increase his or her ability to solve complex accounting problems during the preparation of financial reports. Thus, this will reduce errors and help management to engage significantly in discussions of accounting issues in financial statements with the external auditor. Consequently, these characteristics will significantly affect the equality of the company financial reporting process. Thus, will reduce the qualifications issued by the external auditor.

Therefore, this current study expects that an ACC with some level of accounting and financial experience will improve the efficiency and quality of the financial reporting process in the company. First, an ACC with account experience will lead to the discovery of errors and issues related to FR. Second, an ACC with academic qualifications and accounting experience will improve the audit team’s work, internal audits, and the integrity of senior management, which will ultimately lead to an increase in the quality and efficiency of financial reports before starting the audit process. Thus, the following hypothesis is posited:

**H2. An ACC with accounting expertise will have a positive effect on FRQ.**

### 2.3. ACC Change and FRQ

The ACC serves an essential role by setting the general tone for oversight and supervision of the committee, as the ACC controls the agenda. The role has a significant impact on the work of corporate audit committees. However, few empirical studies have examined the relationship between the chair of the audit committee and the quality of financial reports. Previous research has indicated that the quality of financial reports is affected by the ACC. Baatwah et al. (2019a) found that the ACC could improve the role of audit committees in many aspects, especially those related to the quality of financial reports. The ACC plays an essential role in focusing on essential issues on the agenda, such as corporate financial reports and effective internal controls (Lutfi et al. 2022a; KPMG 2017). Bédard and Gendron (2010) pointed out that the ACC is the main element that determines
the effectiveness of the audit committees. Haq et al. (2019) found that a change in the ACC is positively associated with higher audit fees.

Thus, the chairperson of the audit committee is supposed to possess the power, authority, and credibility in order to ensure that he is able to control the agenda and discussions, and to build relationships with both management and internal and external auditors (Alsmadi et al. 2020b; Bedard and Gendron 2010). Turley and Zaman (2007) found some evidence that the nature of power relationships within the organization can be altered by employing audit committees as an ally, a judge, or a threat to affect governance results. They stated that the impact is connected to the ACCs’ authority and power as well as the committee members (Alrawashdeh et al. 2022; Turley and Zaman 2007). Through interactions between the audit partner and the ACC, Beasley et al. (2009) provided evidence that a large portion of the audit committee’s monitoring operations take place outside of official sessions. For the duration of the year, audit committees regularly meet in private with the auditor to promote candid dialogue and address pressing concerns.

The changing of the chair of the audit committee has not been the subject of much research. According to a study by Leblanc and Gillies (2005) on board of director chairs, capable chairs can inspire directors to pose probing questions and foster an atmosphere where candid conversation about concerns is the norm. According to Krishnan and Visvanathan (2009) and Basioudis (2007), setting the schedule for the committee’s work is the responsibility of the ACC. As a result, any change in the chair of the audit committee could result in a variety of changes to the operations of companies, including a change in the audit’s scope and the company’s interaction with external auditors.

Additionally, a change will be made to the ACC’s function of oversight and supervision through the chair’s interaction with the management team and external and internal auditors, during the audit. In turn, this might make the FR less accurate, leading to greater information gaps between shareholders and managers. An MAO might result from this, which would indicate a lack of or ineffectiveness of internal corporate systems for monitoring the management during the FR process, which would then give rise to issues with FRQ (Hasan et al. 2021; Ibrahim and Ibrahim 2021; Ballesta and García-Meca 2005). Any change in the chair of an audit committee is linked to higher audit fees, according to Haq et al. (2019).

A new ACC would improve an external auditor’s assessment of the underlying risks, according to Haq et al. (2019). In addition, the external auditor will make more efforts, in order to reduce the risk of discovery, which in turn will lead to an increase in audit fees. When the chair of an audit committee changes, the external auditor will have to work with the new leader in this position. This will result in a rise in risk perception in unknown conditions. An external auditor will need to put in additional time and effort during audit work as a result of this adjustment. As a result, when the chair of the audit committee changes, the control environment that the external auditor assesses may also change. As a result, the anticipated risks will change.

An ACC plays a crucial role in overseeing corporate FR, as mentioned by Carcello et al. (2011). Therefore, it is likely that changes in audit fees will coincide with changes in the ACC. One idea is that the selection of a new ACC might influence the auditor’s evaluation of inherent risk, resulting in increased efforts to lower detection risk and, thus, higher audit fees. Alternatively, the audit fees can also increase if a new ACC demands a higher level of assurance. On the other hand, there can be a call for audit price reductions if the new ACC feels that the audit fees are “excessive.” Ultimately, the change of an ACC is an empirical question if the appointment of a new ACC leads to higher or lower FRQ. Hence, the research question is posited in the form of a null hypothesis:

**H3.** An ACC change will have a positive effect on FRQ.
3. Research Design and Methodology

3.1. Sample Selection

This study includes all 115 industrial and service companies listed on the Amman Stock Exchange from 2017 to 2020. This period was selected based on the recommendation of the World Bank: Accounting and Auditing (2005) to investigate mechanisms that enhance FRQ. The industrial and service sector is vital for economic development. Consequently, understanding MAO in these sectors is crucial for raising the quality of FR. We omit all financial firms, due to their unique regulatory settings and reporting practices to other corporations, primarily insurance and banking institutions. This period was chosen because the information related to the chair of the audit committee is available in the annual reports of companies and can be obtained easily.

3.2. Research Methodology

This section describes the research methodology designed to assess the main hypotheses of this study developed in the previous section.

3.2.1. Dependent Variable: FRQ

In line with many studies that dealt with the issue of quality of financial reports (e.g., Pucheta-Martínez et al. 2016; Pucheta-Martínez and García-Meca 2014; Farinha and Viana 2009; Zaid Alkilani et al. 2019), this study used an MAO as a proxy for the quality of the financial reports.

3.2.2. Independent Variables: ACC Characteristics

Data were collected manually from annual reports of the sample firms. Independent variables are ACC independence, ACC expertise (accounting and non-accounting), and ACC change.

3.2.3. Control Variables

The present study uses control variables that previous studies have utilized that can affect FRQ: leverage, loss, firm size, audit report lag and prior audit opinion. Table 1 presents the details of the variables, including independent and control variables and Table 2 reports the descriptive statistics for the present study variables.


Table 1. Variables and Their Measurement.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Code</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACC independence</td>
<td>ACCIND</td>
<td>Dummy variable, 1 if the ACC is independent, 0 if otherwise.</td>
</tr>
<tr>
<td>ACC with accounting expertise</td>
<td>ACCAE</td>
<td>Dummy variable, 1 if the ACC is an accounting expert, 0 if otherwise.</td>
</tr>
<tr>
<td>ACC with no accounting expertise</td>
<td>ACCNAE</td>
<td>Dummy variable, 1 if the ACC is a non-accounting expert, 0 otherwise.</td>
</tr>
<tr>
<td>ACC change</td>
<td>ACCC</td>
<td>Dummy variable, 1 if there was a change in the ACC, 0 otherwise.</td>
</tr>
<tr>
<td>Big 4</td>
<td>Big4</td>
<td>Dummy variable, 1 if audited by Price water house Coopers, KPMG, Deloitte or Ernst and Young (2011); 0 otherwise.</td>
</tr>
<tr>
<td>Firm size</td>
<td>FSIZE</td>
<td>Log of total assets</td>
</tr>
<tr>
<td>Leverage</td>
<td>LEV</td>
<td>Total liabilities divided by the total assets</td>
</tr>
<tr>
<td>Net income</td>
<td>Loss</td>
<td>1 if company has a LOSS before extraordinary items, 0 otherwise.</td>
</tr>
<tr>
<td>Audit report lag</td>
<td>ARL</td>
<td>Represents the number of days elapsing between the end of the fiscal year and the completion of the auditing process for the current year for each company (the audit report date). Reported in natural log</td>
</tr>
<tr>
<td>Prior year opinion</td>
<td>PYO</td>
<td>A dummy variable, taking the value of 1 if the company had a MAO in the prior year audit, 0 otherwise</td>
</tr>
</tbody>
</table>

Table 2. Descriptive Statistics.

<table>
<thead>
<tr>
<th></th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>MAO</td>
<td>0</td>
<td>1</td>
<td>0.33</td>
<td>0.470</td>
</tr>
<tr>
<td>ACC IND</td>
<td>0</td>
<td>1</td>
<td>0.65</td>
<td>0.477</td>
</tr>
<tr>
<td>ACC Change</td>
<td>0</td>
<td>1</td>
<td>0.57</td>
<td>0.496</td>
</tr>
<tr>
<td>AC chair accounting</td>
<td>0</td>
<td>1</td>
<td>0.27</td>
<td>0.443</td>
</tr>
<tr>
<td>LOSS</td>
<td>0</td>
<td>1</td>
<td>0.43</td>
<td>0.495</td>
</tr>
<tr>
<td>LEV</td>
<td>0.000</td>
<td>43.047</td>
<td>0.624</td>
<td>3.151</td>
</tr>
<tr>
<td>Big4</td>
<td>0</td>
<td>1</td>
<td>0.77</td>
<td>0.424</td>
</tr>
<tr>
<td>LN TOTAL ASSETS</td>
<td>5.768</td>
<td>14.378</td>
<td>10.177</td>
<td>1.476</td>
</tr>
<tr>
<td>PYO</td>
<td>0</td>
<td>1</td>
<td>0.20</td>
<td>0.399</td>
</tr>
</tbody>
</table>

3.2.4. Descriptive Statistics

As shown in the Table 2, the mean value for MAO was around 0.33. More importantly, the descriptive statistics in relation to the ACC characteristics are also reported in the table above. The table shows that 27% of ACCs are accounting experts while and 71% are nonaccounting experts; this result is inconsistent to the mean of 0.72%, as reported by Ghafran and O'Sullivan (2017).

In addition to ACCs characteristics, the proportion of independent nonexecutive directors from the board of directors. The analysis shows that 65% of board members are independent. This result, is significantly greater when compared with the median (mean) 0.483 (0.43) of an audit report lag,

In this kind of investigation, correlations are intriguing because they reveal both the univariate relationship between the modified audit report and the explanatory variables as well as strong correlations between the independent variables. The modified audit report is significantly adversely linked with both ACC accounting expertise and nonaccounting expertise, as seen in Column “1” of Table 3. Similar to this, there is a strong negative correlation between the modified audit report and the independence of the ACC. Never-
theless, a positive correlation between the altered audit report and the change in the ACC was reported, whereas the audit committee’s chair may be replaced by a corporation for a variety of reasons unrelated to any issues with the audit or the financial statements. As an illustration, the chair of the audit committee may be replaced owing to retirement, as part of a regular rotation, or because the person may no longer be qualified or available to serve in that role.

Table 3. Correlations.

<table>
<thead>
<tr>
<th></th>
<th>MAO</th>
<th>ACC IND</th>
<th>ACC Change</th>
<th>ACC Accounting</th>
<th>ACC Nonaccounting</th>
<th>LOSS</th>
<th>LEV</th>
<th>BIG4</th>
<th>LNTOTAL ASSETS</th>
<th>ARLLN</th>
<th>PYO</th>
</tr>
</thead>
<tbody>
<tr>
<td>MAO</td>
<td>1</td>
<td>0.151 **</td>
<td>0.081</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td>0.053</td>
<td>0.053</td>
<td>0.053</td>
<td>0.053</td>
<td>0.003</td>
</tr>
<tr>
<td>ACC IND</td>
<td>-0.021</td>
<td>1</td>
<td>0.002</td>
<td>0.002</td>
<td>0.002</td>
<td>0.002</td>
<td>0.002</td>
<td>0.002</td>
<td>0.002</td>
<td>0.002</td>
<td>0.002</td>
</tr>
<tr>
<td>ACC Change</td>
<td>0.101 **</td>
<td>-0.07</td>
<td>1</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td>0.053</td>
<td>0.053</td>
<td>0.053</td>
<td>0.053</td>
<td>0.053</td>
</tr>
<tr>
<td>ACC Accounting</td>
<td>0.101 **</td>
<td>-0.028</td>
<td>0.073</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td>0.053</td>
<td>0.053</td>
<td>0.053</td>
<td>0.053</td>
<td>0.053</td>
</tr>
<tr>
<td>ACC Nonaccounting</td>
<td>0.078</td>
<td>0.009 *</td>
<td>0.009 *</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td>0.053</td>
<td>0.053</td>
<td>0.053</td>
<td>0.053</td>
<td>0.053</td>
</tr>
<tr>
<td>LOSS</td>
<td>0.369 **</td>
<td>-0.028</td>
<td>0.073</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td>0.053</td>
<td>0.053</td>
<td>0.053</td>
<td>0.053</td>
<td>0.053</td>
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<tr>
<td>LEV</td>
<td>0.056</td>
<td>0.020</td>
<td>0.055</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td>0.053</td>
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<tr>
<td>BIG4</td>
<td>0.049</td>
<td>-0.105 *</td>
<td>-0.096</td>
<td>-0.096</td>
<td>-0.133 **</td>
<td>0.139 **</td>
<td>1</td>
<td>0.139 **</td>
<td>0.139 **</td>
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</tr>
<tr>
<td>LNTOTAL ASSETS</td>
<td>-0.120</td>
<td>0.051</td>
<td>-0.105 *</td>
<td>-0.096</td>
<td>-0.133 **</td>
<td>0.139 **</td>
<td>0.139 **</td>
<td>1</td>
<td>0.139 **</td>
<td>0.139 **</td>
<td>0.139 **</td>
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<tr>
<td>ARLLN</td>
<td>0.109 **</td>
<td>-0.055</td>
<td>-0.054</td>
<td>-0.054</td>
<td>0.195 **</td>
<td>0.032</td>
<td>0.053</td>
<td>0.053</td>
<td>0.053</td>
<td>0.053</td>
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<tr>
<td>PYO</td>
<td>0.305 **</td>
<td>0.076</td>
<td>0.081</td>
<td>-0.096</td>
<td>0.05</td>
<td>0.155 **</td>
<td>-0.047</td>
<td>-0.047</td>
<td>-0.047</td>
<td>-0.047</td>
<td>-0.047</td>
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</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed), * Correlation is significant at the 0.05 level (2-tailed).

It is also clear from Table 3 that the ACC variable, which represents the independence of the ACC, has a statistically significant and adverse relationship with the MAO. This suggests that businesses who fully complied with the governance recommendations regarding the characteristics of the audit committee are less likely to receive any modification in the auditing process. The Big 4 firms’ audits and leverage appear to have a positive association with the modified audit report, according to the regression results for other factors. However, the modified audit report has a positive correlation with firm size, loss, audit report lag, and the prior audit report, except that the amended audit report and firm size have a negative correlation.

4. Discussion

Regression Results

The collected data of the present study were analyzed using multivariate logistic regression to examine the impact of the hypothesized variables on the MAO. Table 4 presents the results of the linear regression analysis. As a result, the study employed a robust regression analysis, with an R2 of 0.284 for the model.
Table 4. Findings of the linear regression analysis.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficient</th>
<th>t</th>
<th>Sig.</th>
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<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
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<td>(Constant)</td>
<td>−0.312</td>
<td>0.260</td>
<td>−1.199</td>
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<td>−0.002</td>
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<td>−0.002</td>
</tr>
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<td>ACC Change</td>
<td>−0.114</td>
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<td>0.120</td>
</tr>
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<td></td>
<td>AC chair accounting</td>
<td>0.274</td>
<td>0.118</td>
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<td>AC chair nonaccounting</td>
<td>0.176</td>
<td>0.114</td>
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<tr>
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<td>LOSS</td>
<td>0.250</td>
<td>0.041</td>
<td>0.263</td>
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<tr>
<td></td>
<td>LEV</td>
<td>0.001</td>
<td>0.006</td>
<td>0.003</td>
</tr>
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<td></td>
<td>Big4</td>
<td>0.111</td>
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<td>0.100</td>
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<td>LN TOTAL ASSETS</td>
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<tr>
<td></td>
<td>ARL LN</td>
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<td>0.049</td>
<td>0.067</td>
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<tr>
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<td>PYO</td>
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<td>R²</td>
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<td></td>
<td>0.485</td>
</tr>
<tr>
<td>Chi-Square</td>
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<td></td>
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<tr>
<td>Cox &amp;snell R²</td>
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<td></td>
<td>0.205</td>
<td></td>
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<tr>
<td>Nagelkerke R²</td>
<td></td>
<td></td>
<td>0.296</td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: MAO.

The results of the logistic regression analysis used in this study reveal that the ACC independence percentage is negative but not statistically significant, even at the level of 10%. Evidently, this finding shows that the chair of an independent audit committee has no bearing on the effectiveness of monitoring activities or the oversight of the FR process, which, in turn, has no bearing on the likelihood that Jordanian public listed companies will receive an unMAO.

In order to prevent Jordanian businesses from obtaining the modified opinion report, which is issued by the external auditor. And then reach the conclusion that the first hypothesis is rejected. This result is consistent with the result of Ghafran and O’Sullivan (2017), who concluded that the independence of the ACC man is not important with the delay in financial reports.

The results indicate a statistically significant, negative association with MAO does exist between an ACC change and a modified audit report. The prior role of the new ACC is also found to positively affect FR. This indicates that the importance of the chairman of the audit committee is greater and more important when the chairman of the audit committee is a member of the board of directors of the company. This suggests that the increase in ACC change means a better exchange of skill and knowledge that can be shared among audit committee members and provide support in monitoring the FR process. This result is consistent with Haq et al. (2019), who found a positive and insignificant relation between ACC change and audit fees.

The second hypothesis was supported by the results, which also provided evidence that the ACC’s accounting expertise was linked to the company’s ability to obtain an MAO with significance. The results also revealed a positive relationship between FR and the ACC’s accounting expertise (Alshira’h 2019; Al-smadi et al. 2018). This is because the ACC has accounting knowledge, which improves the audit committee’s ability to ensure that the external auditor’s work is fully completed and to comprehend and resolve conflicts between corporate management and the auditors, decreasing the likelihood that the company will receive a modified audit report. The results confirm the crucial functions
of the ACC, as demonstrated in other research (Abernathy et al. 2014; Alsmadi et al. 2020a; Baatwah et al. 2019a; Mohamad et al. 2021; Schmidt and Wilkins 2013).

5. Conclusions

A recent study found that the role of the ACC is very similar to that of a person in charge of managing a team of people. This is consistent with how many accounting bodies view the ACC, who is accountable for monitoring and evaluating the company’s health and foreseeing problems that could have a detrimental impact on the interests of all stakeholders. Therefore, the goal of this study is to determine whether the change in the ACC and the independent, accounting, and non-accounting expertise have any effect on FR and the reduction of modified audit reports for Jordanian enterprises, as a measure of the quality of businesses’ external financial reporting. Applying a logistic regression, we analyze the sample data of 460 observations linked to 115 non-financial companies that are listed on the Amman Stock Exchange the over period 2017–2020.

In the current research, numerous significant results arise. Based on the study model linking to an independent variable, the audit committee chair is statistically significant, negative association with MAO does exist between an ACC change and modified audit report. This, in turn may indicate the importance of changing the chair of the audit committee in Jordanian companies, and their role in the process of controlling financial matters, as well as ensuring the validity of the presentation of financial reports, which in turn works to limit Jordanian companies’ access to the modified opinion issued by external auditors. Therefore, the results indicated that changing the chair of the audit committee is one of the most important determinants of the modified audit opinion in Jordanian companies as demonstrated in previous research (Alsmadi et al. 2020a; Mahadeo et al. 2012; Yasser et al. 2017; Schmidt and Wilkins 2013).

However, the results also indicated the insignificant relationship between the independence of the chair of the audit committees in Jordanian companies and the possibility of obtaining the modified opinion issued by the external auditor, and this means that the independence of the chair of the audit committee may not be enough to work to protect the interests of the related parties. The reason for this may be due to the fact that the independence of the chair of audit committees in Jordanian companies may not have enough time to carry out their main duties such as monitoring the quality and efficiency of financial reports, due to their preoccupation with conducting the managerial function. Thus, we can say that the lack of importance for the independence of the chair of audit committees in Jordanian companies will reduce their effectiveness in carrying out their basic duties with regard to their duties and control the quality and efficiency of financial reports. In the end, this will not affect the chances of Jordanian companies obtaining an unmodified opinion issued by the external auditor.

Moreover, while it is expected that the accounting experience of the chair of the audit committees in Jordanian companies will play an important role in reducing their companies’ access to the modified opinion, the study revealed a somewhat controversial trend between the accounting experiences that the chair of the audit committee possesses. The study showed an important impact of the accounting experience of the head of audit committees in Jordanian companies, but the trend is positive. As such, it may reflect some of the concerns that the lack of accounting experience and knowledge of the Chairman of the Audit Committee is an important corporate governance mechanism, and that it may not necessarily be able to perform its oversight role in financial reporting processes, and in addition, it cannot use more knowledge Accounting matters related to the preparation of financial reports in order to solve corporate problems related to financial matters, and support the control function of audit committees.

The focus of the study is the 115 industrial and service listed companies on the Amman Stock Exchange from 2017 to 2020. The selection of this period was based on the recommendation by the ROSC (2005) to explore the mechanism that improves FRQs. The industrial and service sector is critical for economics improvement. Subsequently, understanding
MAO in these sectors is crucial for raising the quality of FR. The present study findings serve to pave the way for future studies in the same line of research to expand the existing academic enquiry beyond the service and industrial sector and explore the importance of such characteristics for other sectors such as banks and financial sectors. Additionally, this study should be replicated in future by expanding the sample used in this study to cover a longer period of time, where this will likely make it worthwhile to evaluate the generalisability of the study’s results. Moreover, in order to fully comprehend the audit opinion modifications in the Jordanian environment, it may also be beneficial to include non-listed firms in the sample for the research of corporate governance and an MAO.


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Conflicts of Interest: The authors declare no conflict of interest.

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