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How Audit Fees Impact Earnings Management in Service Companies on the Amman Stock Exchange through Audit Committee Characteristics

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Abstract: The primary objective of this research was to investigate the potential moderating role of audit fees in the relationship between audit committee characteristics and earnings management. Specifically, this study aimed to establish connections between audit committee features, such as committee size, member independence, and financial expertise, and the practice of earnings management. To address these research questions, a convenient sample of 46 service providers listed on the Amman Stock Exchange between 2016 and the subsequent year was employed. Descriptive statistical methods were applied to characterize the variables under investigation, while a multiple regression model was utilized to assess the study's hypotheses. The findings of the study revealed that there was no significant correlation between the size of the audit committee and earnings management. However, a negative correlation was observed between the audit committee's independence and the financial expertise of its members. Importantly, when audit fees were introduced as a moderating variable, the relationships between committee member independence and earnings management, as well as between committee member financial expertise and earnings management, were found to be weakened. These results have potential implications for policymakers and regulators in Jordan. They may offer valuable insights into corporate governance reforms that could assist Jordanian businesses in enhancing their earnings management practices.

Keywords: Amman Stock Exchange; earnings management; audit fee; audit committee characteristic



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1. Introduction

The need for the development of corporate governance procedures to monitor business performance and protect the best interests of stakeholders as well as shareholders stems from a concern about the reliability of the data shown in financial accounts. According to Idris et al. (2018), the lack of trust may be related to the falsification of accounting records in addition to the quest for substantial profit. As a result, corporate governance has put in place a variety of supervision procedures, and such audit committees, as well as third-party auditors, significantly raise the requirements for financial performance. The governance, as well as supervision of financial report creation and evaluation, is commonly regarded as the fundamental duty of a corporation's board of directors. However, this obligation often goes to an auditing committee that is formed by the board. The primary objective of this responsibility is to furnish stakeholders and shareholders with accurate and timely knowledge.

According to the theory of agency, the divergence between corporate management and its shareholders might potentially result in administrators focusing their own interests over those of the stakeholders and shareholders and compromising the general well-being of the company. Opportunistic ways to manage earnings could take place so as to

diminish the quality and utility of earnings reported for investors' evaluation of financial statements as well as subsequent investment choices. Earnings management refers to the practice of deliberately choosing accounting techniques as well as treatments that emphasize managerial interests over accurately representing the actual financial standing of a company. This method of accounting has the potential to destroy investor trust in financial reports as well as obscure important information that shareholders as well as stakeholders ought to be aware of (Daily et al. 2003).

Previous research has demonstrated that both committees of auditors, as well as audit firms, have the ability to successfully minimize cases of earnings manipulation (Idris 2012). Therefore, it is believed that the committee of auditors serves as a crucial oversight device in limiting the method of earnings management. This system's effectiveness is dependent on a number of variables, including the availability of sufficient numbers of autonomous players as well as those who are financially competent (Carcello et al. 2006). Auditing organizations are frequently viewed as an essential means of oversight, facilitating the alignment of shareholders as well as managers' purposes. The combination of factors mentioned has the effect of decreasing the probability of administrative opportunity, which was also noted by Idris et al. (2018).

However, the bulk of these studies heavily depend on data sourced from Anglo-Saxon, as well as Western European nations, hence yielding paradoxical findings. The observed variations can be attributed to disparities in economic, cultural, organizational, as well as legal factors across different nations (Enomoto et al. 2015). The level of shareholder protection and the successful implementation of corporate governance procedures provided by businesses to market participants in developing nations like Jordan might vary noticeably from those in industrialized nations. The presence of these variations may potentially facilitate the practice of the management of earnings, as prior studies have demonstrated an increased capacity for earnings management among Jordanian firms (Al-Mousawi and Al-Thuneibat 2011). With a focus on the committee's declaration of independence, makeup, as well as financial knowledge, the primary objective of this research is to provide information on the effectiveness of committees of auditors in avoiding profit manipulations in a developing nation like Jordan. When comparing Jordan's cost-effective, social to cultural, and institutional circumstances to the bulk of previously studied countries, notable differences are evident. Additionally, previous scholarly investigations have demonstrated that audit firms that provide reduced charges for their products or services are frequently less successful in lessening the technique of earnings management. Niskanen et al. (2011) speculated that Jordan's strong emphasis on ownership could suggest that the nation does not require as many excellent outside audit services. The cost of conducting audits would significantly drop as a result. *Therefore, the objective of the present research is to respond to the following fundamental questions:*

1. *Do Jordanian service-based companies registered on the Amman Stock Exchange's earnings management depend on the audit committee's size?*
2. *Does the administration of profits in Jordanian service businesses listed on the Amman Stock Exchange depend entirely on the independence of audit committee participants?*
3. *Does the management of profits in Jordanian service businesses listed on the Amman Stock Exchange depend on the financial skills of audit committee members?*
4. *Is the correlation between audit committee size as well as earnings management in Jordanian service businesses listed on the Amman Stock Exchange influenced by audit fees as a moderating variable?*
5. *In Jordanian service-oriented companies listed on the Amman Stock Exchange, does the amount of audit fees have an impact on the link among the independence of audit committee members as well as earnings management?*
6. *Is there a link between the financial skills of the members of the audit committee as well as earnings management within Jordanian service businesses listed on the Amman Stock Exchange? Audit fees are a moderating variable.*

This study is organized according to the following structure: the next part centers on the conceptual structure and a literature review of appropriate research that is examined and analyzed. Subsequently, the research technique part will mostly encompass the planning of the study, techniques for gathering and evaluating information, and, subsequently, the evaluation of hypotheses. Subsequently, the outcomes, as well as discussions, will be expounded and, followed, in turn, by primary suggestions.

2. The Theoretical Framework and Previous Studies

Earnings Management and Previous Studies

In the academic literature, many definitions of earning management have been developed. Earnings management was described by [Merchant and Rockness \(2002\)](#) as intentional management actions that affect the financial statements claimed income without producing real economic benefits and may have a negative effect on the long-term prospects of the organization. According to [Akers et al. \(2007\)](#), the term “earnings management” refers to the deliberate actions taken by the management of companies to control or manipulate earnings that are reported through the application of specific accounting techniques. These techniques may involve treating non-recurring expense items as ongoing, deferring or expediting the acknowledgment of particular expenditures or profits, or employing other methods aimed at influencing short-term earnings. According to [Goel \(2016\)](#), the management of earnings refers to a purposeful approach employed by firm management to manipulate business revenues in order to reach an objective that has been established. Earnings management frequently results from the principle–agent challenge, which is the situation where the owner of the company (shareholders) and the representative (management) have competing interests. This is due to the fact that upper management possesses a greater amount of information compared to other parties involved with the company’s affairs. Hence, it is possible for executives to exhibit a preference for their own interests above those of other stakeholders who derive benefits from the accounting records through the manipulation of the information contained in those documents ([Firnanti and Pirezada 2019](#)). Furthermore, managers have the ability to express their freedom by leveraging the adaptability inherent in the principles of accounting to alter the value of reported earnings in accordance with their own objectives. This is due to the fact that earnings are widely regarded as the most crucial as well as flexible metric ([Lo 2008](#); [Ali and Kamardin 2018](#); [Cohen and Zarowin 2010](#); [Ronen and Yaari 2008](#); [Nuryana and Surjandari 2019](#); [Dechow et al. 1995](#); [Dechow et al. 2010](#); [Jones 1991](#); [Kothari et al. 2005](#)).

The occurrence of earnings management has become a prevalent issue encountered by consumers as well as regulatory agencies on a global scale. According to [Ayedh et al. \(2019\)](#), financial statements may be influenced by the opportunities that are available and undertaken by management. Additionally, revenue management strategies are used for a number of reasons by various types of business management throughout the world, which is seen as unethical company behavior as well as resulting in the fair assessment of the statistical information given to stakeholders ([Bala and Kumai 2015](#)). Corporate management may engage in impulsive earnings management as a means to manipulate the integrity and precision of accounting records, with the objective of attaining financial advantages. Consequently, this can potentially deceive stakeholders of financial statements and consequently give rise to emergencies in finances, ultimately resulting in sustained financial ruin.

Scholars in the area of international research have examined the influence that audit committee arrangements have on the application of requirements for excellence in an effort to obtain a better understanding of the manner in which various cultures and nations conduct profit management. For the purpose of providing readers with a thorough grasp of this study’s important findings, this page examines the findings of various research projects. [Bala and Kumai \(2015\)](#) conducted an investigation in their research with the goal of examining how having a monitoring committee might improve the way finance is handled. The research includes 216 publicly traded companies from the Vietnamese

stock market as a sample, spanning the years 2015 to 2018. The results from the investigation they carried out revealed an adverse relationship among the audit committee members' careers and size, as well as between those variables with the number of optional accruals, which act as indications of earnings management. Nevertheless, the study found no statistically significant correlation between the committee members' autonomy, the frequency of committee meetings, as well as the method of earnings management. The goal of [Bala and Kumai \(2015\)](#) study was to provide information on how various audit committee characteristics affect the caliber of accounting reports. These characteristics include the members' financial experience, level of independence, frequency of committee meetings, as well as quantity of committee sessions. Investigations additionally focused on the connections between these elements as well as the widespread implementation of real income administration. This study focuses on the financial data of 90 publicly traded Dutch companies spanning between 2010 through 2019. The results of the investigation demonstrated a statistically significant connection between the attributes of the auditing committee and the actual management of profits. The study findings also imply that audit quality has a substantial impact on the connection between audit committee quality and actual earnings management.

By examining the function of audit committees in reducing the probability of managing earning actions, [Kapkiyai et al. \(2020\)](#) sought to answer this issue. Companies trading on Kenya's Security Exchange in Nairobi had their audited financial reports from 2004 to 2017 reviewed. The research found that the audit committee's efficiency is critical for limiting the use of earnings management tactics. Additionally, the research discovered that the auditing committee's independence, the frequency of its conferences, as well as the presence of financial expertise all had a statistically important negative influence on the earnings management process. According to the survey, businesses should take action to improve the effectiveness of their internal audit committees. This might be accomplished by improving the committee's independence, meeting frequency, and the participation of members with higher levels of financial competence. These measures are suggested in order to reduce earnings management.

The study conducted by [Setiawan et al. \(2020\)](#) examined the successful performance of audit committees to decrease the overall incidence of money-management practices within the specific setting of Indonesia. The current investigation aimed to respond to the question, "How do different characteristics of auditing committees—such as the declaration of independence, size, conference frequency, as well as financial knowledge—influence the actual management of earnings." From 2006 to 2010, we implemented data from 393 publicly traded Indonesian companies. The findings of this research point to a correlation between monetary knowledge as well as engagement in revenue administration.

[Idris et al.'s \(2018\)](#) main goal was to study unique empirical discoveries relevant to the foundation of the relationship between the effectiveness of auditing panels and the method of managing profits. The number of personnel in the job of the independent auditor was also investigated by the researchers as a mitigating factor for this connection. This study looked at 64 manufacturing firms trading on the stock market in Amman between 2009 and 2014. This study's primary objective was to develop a rating system for audit committees that takes into account independent declarations of properties, committee size, meeting frequency range, as well as financial knowledge. The results indicate a negative correlation between audit committee efficiency and profit-management practices, which is statistically significant. This study's true findings likewise support the null hypothesis regarding the correlation between the employees of the outside auditor as well as the audit committee's success in limiting earnings management.

This conclusion suggests that legal reforms may drive businesses to adopt strong governance practices to guard against the falsification of financial reports. This study differs from others in that it focuses on the effect of different auditing committee attributes on earnings management. These characteristics include the audit committee's authority, the independence of its staff, and the level of monetary knowledge held by its members.

Additionally, taking into consideration the effect of auditing expenses as an additional representative variable within this relationship, the impact of committee traits on the methodology of income governance was investigated. The following simply sums up the unique features that set the current research apart from earlier ones:

Consideration of Mediating Variables: a limited number of studies have examined the potential impact of controlling or intermediary variables, such as ownership concentration, foreign ownership, a firm's years of existence, as well as other important variables. However, a significant number of previous studies have instead focused on analyzing the causal link involving audit committee features and earnings management. In keeping with the argument made by Singh et al. (2018) on the significance of including moderated or mediating components in the following research, the purpose of the current research is to fill the gap. To the best of the author's knowledge, this study is among the first to investigate the potential moderating role of audit fees in the connection between certain aspects of audit committees as well as the executive management of profits in Jordanian service-based businesses outlined in the Amman Stock Exchange.

Contemporary Timeframe: In comparison to prior studies conducted in the Jordanian setting, the current inquiry covers the period between 2016 through 2020, and this is a very current timeframe. This study's main area of interest is Jordan's public service providers. The current study examines a particular sample made up of Amman Stock Exchange-listed Jordanian public sector companies. This sector of the country's finances has been overlooked despite its importance to Jordan's economy. These findings provide substantial novel insights into the ongoing scholarly discussion about the correlation between audit committee traits along successful financial management. Additionally, by including moderated factors, focusing on a recent timeframe, and researching a field that has not received much attention in the Jordanian context, it solves specific gaps in the literature. The combined impact of these variables helps to clarify the connection between audit committee traits with profitable commercial operations in Jordan's service sector.

3. Research Methodology

3.1. Study Methodology

An analysis of publicly traded Jordanian companies on the stock market in Amman was undertaken. This study specifically concentrates on the service sector, covering a duration of five years between 2016 and 2020. Furthermore, this research paper outlines the theories that will be examined, clarifies the study's variables by drawing on prior research, as well as afterward progresses to the data analysis stage using suitable methods of statistical analysis so that we can test our theories while continuing to complete our study.

3.2. Study Variables

The factor that is dependent in this research is the management of earnings, which is assessed via several phases. In the preliminary phase, the Revised Jonal's model 1995 is used to analyze the financial information of the selected organizations. The study by Dechow et al. (2012) relied on the Jonal's model 1995, which is widely acknowledged as a very effective framework for evaluating earnings management.

Modified Jones Model:

$$NDA_{i,t} = a_1 + a_2[(\Delta RE_{i,t} - \Delta REC_{i,t}/A_{i,t-1})] + a_3(PPE_{i,t}/A_{i,t-1}) + e_{i,t}$$

where:

$NDA_{i,t}$ = Total Accruals for Company i during Period t .

$\Delta RE_{i,t}$ = Change in Revenues for Company i during Period t .

$\Delta REC_{i,t}$ = Change in Receivables for Company i during Period t .

$PPE_{i,t}$ = Total Property, Plant, and Equipment for Company i during Period t .

$A_{i,t-1}$ = Total Assets of Company i at the end of Period t .

$e_{i,t}$ = Random error.

The characteristics of the "Audit Committee" are measured individually as follows:

Size of the Audit Committee: measured by the total number of members of the audit committee (Ngo and Le 2021).

Independence of Audit Committee Members: measured by the ratio of independent members to the total number of members of the audit committee (Nuryana and Surjandari 2019).

Financial Expertise of Audit Committee Members: measured by dividing the number of members with qualifications in accounting, financial management, or financial and banking sciences by the total number of members of the audit committee (Mardessi and Fourati 2020).

Furthermore, the following are the variables:

Audit Fees: this is the natural logarithm of the total fees paid to the auditor (Mardessi and Fourati 2020).

And the control variables are as follows:

Company Size: this refers to the size of assets used in the production of goods and services, which are measured using the natural logarithm of assets (Ngo and Le 2021).

Company Growth: This is the extent to which the company's sales increase in the current year compared to the previous year's sales of the same company (Ngo and Le 2021).

Earnings management, along with the attributes of audit committees that impact that process, can be measured below using equations designed to capture the balancing impact of external fees for auditing (Ngo and Le 2021; Okata and Fuad 2017; Oroud 2019; Nuryana and Surjandari 2019; Mardessi and Fourati 2020).

Equation (1) calculates how the audit committee's qualities affect managing profits.

$$EMit = a0 + SIZEit, GRit, ACSit, ACIit, ACEit, \quad (1)$$

Equation (2) calculates the influence of auditing costs as a moderating factor on the link between the individual attributes of the audit committee and earnings management.

$$EMit = a0 + \beta1SIZEit + \beta2GRit + \beta3ACSit + \beta4ACIit + \beta5ACEit + \beta6Fit + \beta7ACS * Fit + \beta8ACI * Fit + \beta9ACE * Fit + \epsilon it \quad (2)$$

Below is the method of measuring the variables addressed in the current study, where scales used in previous studies published in reputable scientific journals were relied upon. These variables were measured using the financial reports of service companies listed on the Amman Stock Exchange.

Earnings Management: is measured through the use of the Modified Jonal's model 1995.

Audit Committee Size: defined as the total number of members of the audit committee.

Audit Committee: independence is the ratio of independent members to the total number of members of the audit committee.

Audit Committee Expertise: measured by dividing the number of members with qualifications in accounting, financial management, or financial and banking sciences by the total number of members of the audit committee.

Firm Size: refers to the size of assets used in the production of goods and services, measured using the natural logarithm of assets.

Firm Growth: the extent of the company's sales increase in the current year compared to the previous year's sales for the same company.

Audit Fees: measured by the natural logarithm of the total fees paid to the auditor (Ngo and Le 2021).

The interaction between audit committee size and audit fees is used to measure the impact of audit fees on the relationship between audit committee size and earnings management.

The interaction between audit committee independence and audit fees is used to measure the impact of audit fees on the relationship between audit committee independence and earnings management.

The interaction between audit committee expertise and audit fees is used to measure the impact of audit fees on the relationship between audit committee expertise and earnings management.

3.3. Research Hypotheses

The primary hypotheses were constructed in their minimal form in line with the problem statement of the study as well as its research questions. The following theories were investigated in the present study:

H01: “Audit Committee” has no statistically significant effect on the company profits in Jordanian service businesses registered on the Amman Stock Exchange.

H02: “Audit Committee” is an independent factor in which participants have no statistically significant effect on the governance of profits in Jordanian companies that are listed on the Amman Stock Exchange.

H03: The financial skill of an “Audit Committee” participant has no statistically significant effect on the management of profits in Jordanian service businesses registered for Amman Exchange.

H04: The relationship between “Audit Committee” strength as well as earnings management in Jordanian service companies listed on the Amman Stock Exchange does not statistically significantly depend on audit fees as a moderating variable.

H05: An “Audit Committee” and the cost of conducting an audit are related; however, expenses for auditing function as a moderating factor for this relationship, as well as profits management for Jordanian service businesses registered on the Amman Stock Exchange, which had no statistically significant effect.

H06: There was no statistically significant impact of audit fees as a moderating factor between “Audit Committee” member financial literacy as well as earnings management in Amman Stock Exchange-listed Jordanian companies.

4. Descriptive Statistics for the Study and Its Variables

Table 1 displays the findings of the descriptive analysis performed on the study’s sample. The proposed dependent, independent, moderating, as well as control variable means, standard deviations, minimums, and maximums are included in the dataset.

Table 1. The descriptive statistics of the study and its variables.

Study Variables	(Mean)	(Std. Deviation)	(Min)	(Max)
Independent Variables				
Audit Committee Size (ACS)	3.20	0.580	3	6
Audit Committee Independence (ACI)	0.46	0.231	0.000	1.000
Audit Committee Expertise (ACE)	0.65	0.235	0.200	0.677
Dependent Variable				
Earnings Management (EM)	0.054	0.061	0.010	0.320
Control Variable				
Audit Fees (F)	5.852	0.302	4.256	9.701
Controlled Variables				
Firm Size (SIZE)	5.213	0.652	3.685	7.642
Firm Growth	0.012	0.183	−0.420	0.973

According to Table 1, the number of representatives of the committee responsible for auditing had an average value of 3.20, with 3 and 6 being among the smallest and highest values, respectively. This study's results imply that the service businesses in the sample show adherence to the standards for corporate governance for Jordanian businesses. These standards require the formation of a committee for auditing with at least three members.

The average score among service firms in Jordan regarding their autonomy of audit committee participants was 0.46, with the lowest score being 0.00. The results of this research suggest that some audit committees violate Jordan's corporate governance laws, which call for a minimum number of three participants on the committee, at least two of which must be independent. It is also important to note that the highest score obtained was one, which implies that specific audit committees include representatives who are both completely involved and independent.

The results of the descriptive analysis that was performed on the study sample regarding the financial backgrounds of the audit committee members showed that some Jordanian service businesses have audit committee members who have academic backgrounds in finance and accounting, banking, insurance, as well as business management. The average value of financial experience for an audit committee member remained at 0.65, with a standard deviation of 0.235. The highest recorded amount for financial experience was 0.677, while the lowest recorded value was 0.200. According to this study's findings, firms in the services sector listed on the Amman Stock Exchange in Jordan followed the business management regulations in effect there. These guidelines state that the audit committee should be made up of at least one financial expert. For the dependent variable, earnings management was found to have a median value of 0.054 when measured against the most recent iteration of the Jones Model (as shown in Table 1). This finding aligns with the research conducted by [Ali and Kamardin \(2018\)](#), wherein the average worth of earnings management was roughly 0.056. The research sample firms had a management of earnings standard deviation of 0.061, with the maximum and lowest values of 0.010 and 0.320, accordingly.

With respect to the moderating variable examined in this study, namely audit fees, the findings reveal that auditing companies receive an average of roughly 3.258 in fees for audits from the customers they serve. The highest observed value was 9.701, while the lowest recorded value was 4.256.

In conclusion, the average values, given the control variables of firm size and its growth rate, were determined to be 5.213 as well as 0.012, correspondingly. The observed standard deviations for the variables were 0.652 as well as 0.183, respectively. These values suggest that there were variances in both the number and rate of growth of the enterprises included in the study's sample. The most modest company in the research's sample had a natural logarithm of overall assets equal to 3.685, whereas the greatest company achieved a numerical logarithm of entire assets of 7.642. Furthermore, it is worth noting that the smallest business within the study sample experienced a negative growth rate of -0.420 in total sales, while the largest company exhibited an increase in sales of 0.973.

4.1. Linear Interaction and Autocorrelation Test of Independent Variables

Testing the Linear Interaction and Autocorrelation

The accuracy of the linear model is contingent upon the assumptions of independence across all the independent variables. If the aforementioned requirement is not satisfied, it is possible that the generic linear framework may not be appropriate for broad implementation and is not considered reliable for the process of estimation. In order to conduct the linear connection test, the researcher used the Collinearity Analysis tool to calculate the Variable Variance Inflationary (VIF) coefficient. The goal of this analysis was to determine whether the current study model was subject to interdependence issues. A problem was considered to exist if the resulting value exceeded four ([Gujarati 2004](#)). Furthermore, the autocorrelation test examines the lack of autocorrelation inside the study's model. The Durbin-Watson test was utilized to address the issue that arose when there was a cor-

relation between neighboring values of variables, which might impact the precision of the model by producing spurious impacts as a result of this correlation. The findings of the linear interaction, as well as autocorrelation test results for the research variables, are displayed in Table 2.

Table 2. Results of the linear interaction test and the self-correlation of the study's variables.

Study Variables	VIF	
	Model (1)	Model (2)
Independent Variables		
Audit Committee Size (ACS)	1.062	2.322
Audit Committee Independence (ACI)	1.105	2.604
Audit Committee Expertise (ACE)	1.089	2.780
Control Variable		
Audit Fees (F)	-	1.371
Controlled Variables		
Firm Size (SIZE)	1.080	1.261
Firm Growth	1.120	1.215
Durbin–Watson Test	2.065	2.093

Table 2 shows that the independent variables all had VIFs that were less than four, which indicates that they are statistically significant. The measured correlation between the variables in the issue cannot be considered statistically significant; however, when showing a minimal degree of connection, it may be stated that there is no reason to believe a linear association among the variables under discussion. This observation suggests the appropriateness of the chosen research framework for analyzing the effects on the variable being studied. The research table demonstrates that the factors under consideration are not correlated with one another. This is indicated by a Durbin–Watson coefficient value of 2.065, which closely aligns with the anticipated value of two (Gujarati 2004).

4.2. Testing Study Hypotheses Using Multiple Linear Regression

Assessing Independent Variables' Impact

The multiple econometric approach was used to evaluate the proposed results of this investigation. Using this approach was essential to figure out how different independent factors influenced the dependent variable that was being studied. The research utilized Fisher's F-test to assess the capacity of the variables that were independent to account for the variability observed in the variable that was the dependent one, as represented through the adjusted R square. Furthermore, the research took into consideration the inclusion of control variables, like company size as well as development rate, along with the adjusted variables of audit fees, in order to evaluate their respective associations with the variable that was dependent. Table 3 represents the outcomes of the three hypotheses' regression analyses, which explore the influence of the variables independent on the dependent one.

Table 3: Based on these data, it seems that the audit committee's general framework-expressed features possess a statistically significant effect on the profit management of service-oriented enterprises trading on the Amman Stock Exchange in Jordan. The attained result was smaller than the conventional threshold of 5% (Sig. = 0.000), indicating statistical significance. The results of the hypothesis testing can be seen in Table 3.

Table 3. Results of the multiple linear regression analysis for the first three hypotheses.

Model (1)	Sig.t	T	Coefficients
Audit Committee Size (ACS)	0.62	1.159	0.071
Audit Committee Independence (ACI)	0.003	−3.21	−1.052
Audit Committee Expertise (ACE)	0.011	−3.140	−0.849
Firm Size (SIZE)	0.723	−0.55	−0.051
Firm Growth	0.000	3.215	0.460
Sig. = 0.000		F = 18.154	
(Adjusted R ² = 0.374)			

According to Hypothesis 1, statistical evidence suggests that there is no relationship between the number of members of the auditing committee and the leadership level of competitiveness in Jordanian service businesses listed on the Amman Stock Exchange. The results of Table 3 show a *p*-value (Sig. = 0.620) that is higher than the 0.05 threshold for statistical significance. It culminates in rejecting the null hypothesis while bolstering the notion of innocence. This suggests the possibility that there is possibly no statistically significant relationship between the size of the audit committee and the rate at which companies' earnings are managed to explain the drop in Jordanian service firms registered on the Amman Stock Exchange. Therefore, it is clear that the proportions of an audit committee have no effect on the methods of profit management. This study contradicts the conclusions of previous research that found an association between the size of audit committees and improved financial management, like those of [Carcello et al. \(2006\)](#) and [Sun et al. \(2014\)](#). This study's findings are at odds with those of studies conducted in Indonesia and Australia by [Setiawan et al. \(2020\)](#) as well as [Baxter and Cotter \(2009\)](#), respectively, both of which found no statistically significant relationship between audit committee membership and earnings management practices. The findings from this study suggest no relationship between the profits management strategy and the composition of a particular audit committee.

Hypothesis 2. The argument that an audit committee member's independence had no statistically important impact on how profits are managed for Jordanian service businesses listed on the Amman Stock Exchange seems unsupported. Prior studies have emphasized the auditing committee's function in monitoring management, emphasizing the significance of member independence in order to enhance the efficacy of the committee's composition. By adding an advisory board of independent auditors, the information gap between shareholders and management is filled, enhancing the transparency and accuracy of the company's information. An empirically supported statistically significant link between independence among the members of audit committees as well as managing earnings in service businesses in Jordan is supported by the data reported in Table 3. The amount of significance achieved (Sig. = 0.003) was less than the 5% standard deviation. The conclusion of this analysis leads to both acceptance of the alternative theory and rejection of the null theory as valid. This suggests that the lack of revenue administration within Jordanian service organizations may be linked to the equivalent of independence shown by the audit committee members. This indicates that familiarity with accounting and finance is essential for audit committee members to thoroughly examine and evaluate financial data. Their ability to perform a larger oversight duty is enhanced, and the prevalence of exploitative methods of earnings management is reduced. These aforementioned findings support an idea of agency, an analytical framework that suggests that the autonomous status of audit committee members serves as a dependable control mechanism that reduces the likelihood of dishonest financial statement manipulation, improves business management techniques and protects the interests of shareholders.

Hypothesis 3. In service-oriented Jordanian enterprises listed on the Amman Stock Exchange, it is not true that the accounting expertise of the committee of auditing members

has no statistically significant influence on the leadership team's profitability. Findings related to Hypothesis 3 indicate a statistically significant relationship between a committee of auditing members' financial expertise as well as the standard method of earnings management in Jordanian service firms. The level of significance (Sig. = 0.011) was below the conventional threshold of 5%. As a result of the above findings, both the null hypothesis and the alternative hypothesis were rejected, suggesting that the financial competence of a committee member on an audit can potentially have a statistically important impact regarding the management of profit declines among Jordanian service companies. It is said that in order for members of the audit committee to perform their duties effectively, they must have a thorough understanding of financial and accounting principles. Members of the auditing committee who possess this information are more likely to detect and thwart attempts to artificially inflate financial results. Consistent with previous research, this study found a connection between audit committee members' monetary knowledge and earnings management techniques. It was determined that the company size was not a statistically significant determinant of profit management in service-based businesses in Jordan. This conclusion is supported by a statistically significant value (Sig. = 0.723) with a *p*-value greater than the conventional threshold of 5%. On the other hand, the research discovered that among Jordanian service businesses, there was actually a statistically significant correlation between business growth rates as well as earnings management. This was demonstrated by a *p*-value (Sig. = 0.000) below the 5% permitted level.

The present study aims to examine how auditing costs, as a standard variable, impact relationships between the unique traits that constitute an "audit committee" as well as revenues of executives at Jordanian service businesses listed on the stock market in Amman. Factors like firm size and growth rate were used as controls in the investigation. Table 3 displays the results of the analysis of multiple linear regression performed on the second group of hypotheses. The purpose of these hypotheses was to examine how average inspection costs interact with other variables in the model. Table 3 displays the statistically significant nature of the entire model's effect on the link between the features of the audit committee examined in this research and the supervisory control of profits in Jordanian service businesses listed on the stock exchange in Amman, as previously indicated. Audit costs have a modest effect that is accounted for in this approach. The significance level (Sig. = 0.000), at a value lower than 5%, also lends credence to this finding.

Regarding hypothesis testing, Table 4 presents the following results:

Table 4. Results of the multiple regression analysis with the moderator variable for the second group of three hypotheses.

Model (2)	Sig.t	T	Coefficients
Audit Committee Size (ACS)	0.703	1.369	0.195
Audit Fees (F) * Audit Committee Size (ACS)	0.832	−2.017	−0.529
Audit Committee Independence (ACI)	0.008	−2.756	−1.012
Audit Fees (F) * Audit Committee Independence (ACI)	0.010	−2.986	−1.298
Audit Committee Expertise (ACE)	0.015	−2.752	−0.725
Audit Fees (F) * Audit Committee Expertise (ACE)	0.026	2.805	0.781
Audit Fees (F)	0.002	−3.568	−1.085
Firm Size (SIZE)	0.690	−1.520	−0.094
Firm Growth	0.005	4.094	0.637
Sig. = 0.000		F = 15.716	
(Adjusted R ² = 0.394)			

*: Interaction.

Hypothesis 4. The research concluded that among service-oriented Jordanian firms listed on the Amman Stock Exchange, there is actually no statistically significant rela-

relationship between the average cost of an audit, the size of the audit committee, and the management of profits. Table 4 highlights the findings from an analysis of how audit fees, as a mean variable, affect the correlation between audit committee size and profit management in Jordanian service firms. By any measure of significance (Sig.= 0.832), it is more than 5%. This indicates that even if the presence of fees for audits is an average variable, there is no statistically significant relationship between the size of a particular auditing panel and the practice of controlling profits in enterprises traded within the Amman Stock Exchange. When the overall number of audit committee members was considered, no negative correlation was identified between the number of members and the efficiency with which profits were managed, even when controlling for audit fees as a single average variable. Larger auditing committees, which may have difficulty communicating and deciding, may be at fault for this outcome. This is particularly evident in the context of Jordanian service firms, as the sample used in this study included audit committees with a significant number of members above five. Consequently, these above-mentioned challenges have a tendency to interfere with the audit committee's capacity to effectively oversee earnings management practices as well as the formulation of financial statements. Additionally, they may hinder the committee's ability to assess the role, duties, and performance of external auditors, thereby potentially granting greater discretion to managers in the manipulation of corporate earnings (Drogalas et al. 2021).

Hypothesis 5. The analysis of costs, the size of the audit committee, and the management of profits were not found to have any statistically significant relationship in service-oriented Jordanian enterprises listed on the Amman Stock Exchange. Table 4 presents the results of an examination of the effect of audit costs as a mean variable on the correlation between the number of audit committee members, the overall number of members, and the management of profitability in Jordanian service organizations. This was more than 5%, as required by the statistical significance level (Sig.= 0.832). This indicates that the number of participants on the auditing panel is not statistically related to the practice that oversees profits in companies listed inside the Amman Stock Exchange, even though the existence of audit charges is an average variable. When audit fees were treated as a mean variable, the research also found no statistically significant negative association between the aggregate number of members of the audit committee and earnings management. Larger auditing committees may have difficulty coordinating and making decisions, which might explain the results. Prior research has suggested that accounting firms that charge lesser fees may exhibit reduced efficacy in identifying instances of earnings manipulation inside audited corporations. The lower risk of litigation, as well as penalties for audit firms that are not compliant, coupled with the presence of monetary ties, as well as interpersonal connections among auditors as well as their clients, can potentially impact the selection of auditors. This influence is particularly notable in emerging economies such as the Middle East, where factors such as concentrated ownership, weak legal enforcement, and limited investor protection are prevalent (Abdullatif and Al-Khadash 2010).

Hypothesis 6 suggests that there is not a statistically important impact of audit fees as an average variable on the association among the accounting expertise of the audit committee's members and the management of earnings in service businesses based in Jordan that have been listed on the Amman Stock Exchange.

The results of the evaluation of Hypothesis 3 (H06) showed a statistically significant correlation among audit fees as an average variable, as well as the relationship between the members of the audit committee's understanding of finance and earnings management in Jordanian service companies. This association's significance level (Sig. = 0.026) was judged to be less than the 5% approved cutoff. As a consequence, the null hypothesis was disproved, and the alternative hypothesis was accepted. This finding shows that audit fees, as an average variable, have a statistically important effect on the relationship between the financial expertise of audit committee members and the management of earnings within Jordanian service businesses, which are listed on the Amman Stock Exchange.

According to the results shown in Table 4, there is a statistically significant positive association between auditing costs and the financial knowledge of audit committee members. This implies that when audit fees are considered as an average variable, the impact of financial knowledge for the committee members on profit management decreases.

A possible reason for this outcome could be ascribed to the presence of certain factors in corporations operating inside emerging economies such as Jordan. These factors include ownership concentration, lenient penalties placed on auditors who fail to comply with regulations, and a reduced risk of lawsuits. This phenomenon may prompt these companies to engage external auditors who offer lower fees for their services as well as being generally less successful in mitigating earnings management practices in audited firms, primarily due to the presence of weaker sanctions as well as reduced lawsuit challenges in economies that are developing in comparison to organizations in more developed nations with a dispersed ownership structure (Niskanen et al. 2011; Siam et al. 2018).

5. Findings

This study investigates the influence of various independent variables on profit management, as determined by the Jones Model, within Jordanian service companies listed on the Amman Stock Exchange. Specifically, this study examines the characteristics of "Audit Committees", including the scope of the committees, the independence of participants, and members' financial knowledge. Additionally, audit costs are introduced as a moderating factor to further explore the connection between these independent variables and profit management. The research utilizes a sample of service-oriented organizations spanning the financial timeframe from 2016 to 2020. Contrary to expectations, this study found that, among the Jordanian service companies under consideration, the number of audit committee members does not have a statistically significant impact on profit management. This result aligns with a previous study conducted by Setiawan et al. (2020), suggesting that the size of the audit committee and the quality of earnings management are unrelated factors.

This article delves into the nuanced influence of "Audit Committee" characteristics on profit management strategies within in-house service enterprises in Jordan. Notably, the level of independence among audit committee members was observed to have a measurable and beneficial effect on the control of profits. The presence of a committee member who is independent of management is shown to mitigate the information gap between shareholders and management, aligning with the perspective of Sierra García et al. (2012). According to this view, companies are less likely to engage in revenue management when an independent auditor is part of the committee. Contrastingly, our study reveals a counterintuitive finding regarding the impact of financial competence within the audit committee. Specifically, the presence of a member with financial expertise is associated with a detrimental effect on earnings management strategies within service-based enterprises in Jordan. This empirical evidence supports the hypothesis that audit committees are more effective in deterring management from exaggerating earnings when at least one member possesses adequate financial expertise. This finding resonates with the recommendations outlined in the Jordanian Business Administration Guide (Abubakar et al. 2021), advocating for the inclusion of at least one financially competent member in audit committees to oversee and control reporting and accounting operations.

This article presents a comprehensive analysis of the relationship between audit committee size and profit management strategies in service-oriented enterprises in Jordan. Contrary to expectations, our study reveals that the total number of audit committee members does not exhibit a statistically significant link to the common strategy for controlling profits when auditing expenses are introduced as a moderating variable. This finding emphasizes the importance of considering moderating factors in understanding the intricate dynamics between audit committee size and earnings oversights. Importantly, our results suggest a correlation between the size of the audit committee and the effectiveness of earnings oversight. However, it is crucial to note that the moderating effect of audit fees diminishes the statistical significance of this association. Challenges such as ineffective

communication, decision-making hurdles, and constraints faced by larger audit committees may contribute to difficulties in regulating earnings management practices and evaluating the roles and responsibilities of external auditors, as indicated by [Drogalas et al. \(2021\)](#). Furthermore, the inclusion of auditing costs as a moderating variable in our study reveals a statistically significant influence on the correlation between the financial knowledge of “Audit Committee” members and the profit management practices of Jordanian service businesses. This underscores the importance of considering not only the size of audit committees but also the associated expenses and financial expertise while comprehensively understanding their impact on profit management strategies.

6. Discussion and Conclusions, Implications, Limitations, and Further Studies

This section synthesizes the key findings of the study, explores their implications, acknowledges their limitations, and proposes avenues for further research. This study’s results indicate that the relationship between audit committee independence and earnings management diminishes when audit fees are introduced as moderators. Effective audit committee monitoring, as suggested by [Drogalas et al. \(2021\)](#), is associated with lower audit fees, potentially due to the improved detection of earnings management practices. Additionally, this study identifies a statistically insignificant link between business size and earnings management but underscores the statistically significant impact of organizational growth on profit administration.

Implications

Drawing on this study’s outcomes, several important recommendations emerge for corporate governance and financial reporting practices in Jordanian public joint-stock companies:

Legislation and Regulatory Compliance: corporate governance legislation is enacted for publicly listed joint-stock companies, coupled with strict adherence to regulatory guidelines, to establish a framework for transparent and ethical business practices.

Board of Directors Involvement: encourage proactive involvement of boards of directors to enhance the effectiveness of audit committees and ensure the overall quality of financial reports.

Audit Committee Roles and Definitions: clarify and define the roles of audit committees in Jordanian public corporations to increase their effectiveness in monitoring profit management practices.

Enhanced Disclosure: urge Amman Stock Exchange-listed Jordanian public joint-stock companies to provide precise and consistent information about their audit committees in financial statements, promoting transparency in corporate governance.

Strengthening Auditors’ Roles: equip independent auditors with enhanced capabilities to detect and resist profit-manipulation techniques, coupled with stricter sanctions for companies engaging in such practices.

Collaboration between Audit Committees and External Auditors: foster collaboration and communication between audit committees and external auditors for the more effective oversight of financial reporting.

Consequences for Earnings Manipulation: implement consequences for businesses engaging in earnings manipulation to act as a deterrent and discourage unethical financial practices.

Limitations and Further Studies

While providing valuable insights into profit management in Jordanian service-based enterprises, this study acknowledges limitations and suggests areas for further investigation as follows:

Broader Context: expand the study into different sectors and geographical regions for a more comprehensive understanding of the factors influencing profit management.

Influence of Additional Factors: investigate the impact of corporate culture, organizational structure, and corporate strategy on profit management.

Audit Committee and Corporate Governance: explore the multifaceted role of the audit committee in broader aspects of corporate governance, including risk management and corporate social responsibility.

Implications for Other Countries and Industries: discuss the potential implications of findings for diverse countries and industries, contributing to a nuanced understanding of profit management practices.

Conclusions

In conclusion, this study highlights the significance of robust corporate governance, clear audit committee roles, and active board involvement in improving financial reporting quality and deterring profit manipulation. The proposed recommendations and avenues for further research aim to foster transparency, accountability, and ethical business practices in Jordan's public joint-stock companies. Continued research in this area is crucial, considering various unknown variables and circumstances to gain a deeper understanding of the corporate governance mechanisms' effectiveness in curbing profit manipulation. This study underscores the pivotal role played by audit committees and external audits, paving the way for more in-depth analyses and valuable insights into enhancing corporate governance practices.

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