“Do key audit matter disclosures influence bank profitability and market value? Insights from emerging markets”

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DO KEY AUDIT MATTER DISCLOSURES INFLUENCE BANK PROFITABILITY AND MARKET VALUE? INSIGHTS FROM EMERGING MARKETS

Abstract

This study examines the effect of disclosure of Key Audit Matters (KAM) on accounting and market performance of Jordanian banks listed on the Amman Stock Exchange over the period 2017–2024. The research is relevant because disclosure of audits is at the heart of winning the confidence of investors and corporate governance. The 13-bank panel data are used over the period of eight years, and fixed effects regression with robust clustered standard errors is employed. Two regressions are estimated: accounting performance in the form of return on assets (ROA) and market valuation in the form of Tobin's Q. These results are suggestive of the fact that more disclosure of KAM has been negatively and significantly connected with ROA ($\beta = -0.176$, $p < 0.05$), implying short-term profitability constraints, but positively and significantly connected with Tobin's Q ($\beta = 0.285$, $p < 0.05$), implying greater investor optimism and reduced information asymmetry. These results suggest that although KAM disclosures are not expected to directly improve profitability, they enhance market valuation through enhanced disclosure and governance. The results have policy implications for improving disclosure standards to enhance transparency and stability, and for banks to further work on strengthening the independence and qualifications of audit committees to drive performance improvements.

Keywords auditor disclosure, key audit matters, corporate governance, banks, Jordan

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INTRODUCTION

In recent years, there has been an increased demand for transparency and accountability in financial reporting. The auditors' role, once the gatekeepers of financial integrity, is not limited to providing an opinion on the financial statements, but also offers deeper insights into the risks and judgments in the audit process. Reporting of Key Audit Matters (KAM) mandated under recent international accounting standards is a significant development in this environment. KAM disclosures try and bring out audit areas that involve considerable judgment, intricacies, or risks and give stakeholders further insight into the material matters covered in the audit.

Traditionally, audit reports contained minimal information, primarily that of the auditor's opinion. KAM reporting is intermediate between exhaustive audit procedures and stakeholder communication and can decrease information asymmetry for capital markets. Initial evidence indicates that additional auditor disclosure can be a forerunner of audit quality and can have an effect

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on investor perception and thus on firm performance. While the link between audit quality and corporate performance has been examined extensively, the immediate effect of KAM disclosure on financial performance remains unexplored.

Furthermore, empirical studies focusing on the banking industry at large are particularly rare. This empirical void is surprising, considering guidance for audit firms to reveal more (Mies, 2024; Srisuwan et al., 2024). This study therefore aims at closing such gaps by exploring the impact of KAM disclosures on firm value and financial performance with Jordanian banking industry data. In so doing, it will fill the divide between academic theory and practice and support the achievement of deeper insights into the value that audit disclosures can bring towards making the banking industry more profitable and its pertinent stakeholders trusting it more. Specifically, the study explores the negative effect of KAM statements on bank performance with the aid of two profitability proxies, namely ROA and Tobin's Q.

This study has critical implications for some concerned parties. To auditors, it reveals the necessity of issuing proper and relevant KAMs aligned with international programs of accountability. To policymakers and regulators, this study provides specific recommendations for enhancing disclosure systems in ways that engender confidence and transparency in capital markets. To banks, there is an indication of the strategic importance of audit disclosures as possessing the potential for influencing financial results and helping with sustainable development.

1. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

This research's literature review begins with embarking on theoretical perspectives that capture the dynamic changes on audit disclosures and firm valuation coupled with banking profitability metrics. The development of literature commenced with Spence (1973), who proposed the Signaling Theory by highlighting how KAMs act as authentic indicators of a firm's transparency, escalating confidence among investors (Karasek III & Bryant, 2012). The development of literature proceeded with the introduction of the Agency Theory by Jensen and Meckling in 1976, which revealed the identification of mitigating information asymmetry and agency conflicts as aligning with the use of KAMs as a means of closing the divide between the management and the different stakeholder groups (Jaffar et al., 2023). In a similar dimension, Stakeholder Theory by Freeman (1984) progressed the consideration by highlighting the use of KAM in addressing the different informational demands of different stakeholder groups such as regulators and clients (Kamil et al., 2023).

These theories providing the foundation for future works on data-driven audit, sustainability accounting, and digital trust that apply big data and analytics advances for exploring how proper and relevant KAMs enable superior decision-making for stakeholders and align KAM disclosures with global accountability standards (Singh et al., 2019). For instance, Miles (2017) conducted a systematic review of 593 diverse stakeholder theories with a model across multi-contextual applications for a comprehensive discussion on classification stakeholder theory definition implications. In a similar vein, Loew and Mollenhauer (2019) conducted an in-depth examination on the most relevant issues that auditors have been dealing with in European Banks and bank-based dependencies and their ramifications on KAM by testing influential variables for KAM, such as audit firm, earnings manipulation, and bank size. Moreover, Alzuod et al. (2025) and Abeysinghe (2020) applied the Stakeholder Agency Theory approach for a discussion on the use of thinking and integrated reporting for long-term value creation and sustainability for the business. Moreover, users of financial reports obtain more relevant information and receive vital signals on the standards setters and the regulatory bodies, as put forth by Alqam et al. (2021).

By comparison, Elmarzouky et al. (2022) explored if the disclosure of the KAMs through indepen-

dent auditors would decrease bankruptcy of business and information asymmetry between shareholders and firm managers. They concluded that the KAMs are ineffective in disclosing bankruptcy risk. Similarly, Alduneibat (2024) suggested the negative relationships between the level of KAM and disclosed profitability by exploring the factors affecting the level of KAM disclosure of 108 companies in Jordan. The results of the study revealed that accounts receivable and provisions represent the highest level of KAMs reporting ratio. This result is supported by Suttipun and Swatdikun (2021), who found a significant and negative influence of words counted as KAMs reporting on financial performance in Thai listed companies. The study recommended the need for more concentration on KAM disclosure in Jordan in preparing financial statements. In line with Alshdaifat et al. (2025), they indicate that the inefficiency for auditors to identify some forms of earnings management exists since managers are capable of managing earnings through other avenues than those included in KAMs, for instance, abnormal production costs or cash flows, especially during times of increased uncertainty like the pandemic from COVID-19.

Further, Rahaman et al. (2023) concluded that highly delimited companies disclose a superior number of KAMs, while environmentally subtle firms delivered a greater detail of the issues presented as KAMs, with no influence of audit fees and auditor on KAMs disclosure. Besides, auditor disclosures enhance the transparency and accountability of financial statements by addressing the information asymmetry between management, stakeholders, and auditors. KAMs principally affect the banking sector performance, where financial complexity and regulatory oversight are high, as found by Mahd and Idris (2024).

Despite the significant transparency and credibility influence of financial disclosures, including KAM as the benchmark in assessing the efficiency and profitability of banking institutions' indicators, limited studies have investigated the relationship between KAM reporting and a bank's performance indicators. For instance, Wei et al. (2023) explored the impact of the KAM standard on the performance of Chinese commercial banks. The results show that the disclosure of KAMs significantly improved the level of loan impairment provision. On the other hand, Bulama et al. (2024) and Ahmad (2024), through their research on the effect of audit matters and IFRS adoption on deposit money in Nigerian banks, found that adopting IFRS does not improve the performance of banks' deposit money, while KAM significantly reduced it. Moreover, Metawee et al. (2024) investigated whether the disclosure of KAMs in the audit report impacts debt cost in 125 Saudi 125 firms. They found KAM disclosure reduced the cost of debt by enhancing talkative value and releasing lenders' doubts about the firm. Further, Singh et al. (2019), McGuigan et al. (2021), and Roszak and Boissin (2024) established a predictive model for audit fraud detection based on principal agency theory to offer insights about the reduction of manual involvement and handling time in audit operations. Together, the studies show that there remains a significant gap in the literature regarding the specific impact of KAMS on bank profitability indicators such as Return on Assets (ROA), as the progress of empirical KAM research is relatively new (Velte & Issa, 2019; Mansour et al., 2023). Although past studies considered KAM's role for increased audit transparency and diminished information asymmetry (Barghathi et al., 2021; Lin, 2023; Rahaman et al., 2023; Ali et al., 2024; Ahmad, 2024), they have considered primarily their qualitative aspects, e.g., enhanced stakeholder confidence or audit quality, without estimating properly their role for empirical profitability of banks. Here, this study fulfills the gap of KAM's role for banks' profitability based on the consensus of the theoretical viewpoints, e.g., Signaling, Agency, and Stakeholder theories listed in Table 1, in an attempt to examine empirical results of KAM disclosures on banks' performance indicators such as ROA (Pointer & Khoi, 2019; Choiriyah et al., 2020).

This study significantly contributes to previous literature by integrating KAM disclosure theoretical models and empirical evidence for the Jordanian Banking sector setting. The development of hypotheses for this study is drawn from an exhaustive meticulous approach towards

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Table 1. Research theory foundation

Theory	Instigator	Purpose of adopting
Signaling Theory	Spence (1973)	To emphasize significant risks or critical points of judgment, KAMs perform as a credible signal of the bank's transparency and auditor diligence
Agency Theory	Jensen and Meckling (1976)	To define how KAM affects ROA by reducing information asymmetry and agency conflicts between managers and stakeholders
Stakeholder Theory	Freeman (1984)	To identify the importance of KAM in addressing the informational needs of diverse stakeholders

KAM disclosures. This integration is unique due to the interlinking of theoretical facets and practical applications in Jordan as a developing country in an effort towards deriving useful insights for auditors, regulators, and banking firm decision-makers on the financial performance contribution from KAMs. The following hypotheses have been taken for this study:

H1: Key audit matter disclosures negatively affect firm performance (ROA) in the Jordanian bank sector.

H2: Key audit matter disclosures positively affect firm value in the Jordanian bank sector.

2. METHODOLOGY

This study examines the impact of auditor disclosures on the financial performance of Jordanian banks listed on the Amman Stock Exchange (ASE) from 2017 to 2024. The sample consists of 104 bank-year observations. Financial data were extracted from Thomson Reuters Eikon, while governance-related data were manually collected from banks' annual reports published on their official websites. This two-fold approach was used to ensure data reliability and comprehensiveness.

The selected time period (between the years 2017 and 2024) coincides with the first implementation phase of Key Audit Matters (KAM) disclosure in Jordan and, therefore, offers an adequate arena for examining its initial impact on bank performance. Although more updated information up to the year 2024 is accessible, the study clearly focuses on this eight-year period to avoid the confound caused by major exogenous events occurring subsequently. In particular, the period since the year 2024 has witnessed substantial improvement in the Jordanian banks' financial performance, triggered primarily by a series of macroeconomic stabilizing policies, post-pandemic normalization, and expansionary monetary and fiscal policy. Including such information would be a way of erasing the specific impact of KAM disclosures by overlaying exogenous effects not related to audit reporting practice. Financial performance is the dependent variable measured using two financial indicators. Return on Assets (ROA) is a bank's profitability relative to its total assets, calculated by dividing net income by total assets. Tobin's Q is market-based business performance calculated by dividing the sum of market value of equity and total debt by the book value of total assets. Both indicators are in line with previous research (Ali Mustafa et al., 2024; Saleh et al., 2024; Ab Aziz et al., 2025; Atieh Ali et al., 2023; Shubita, 2024). The main independent variable in this study is Key Audit Matters (KAM) disclosures, measured as the total number of KAM disclosed in the audit report, which is congruent with previous literature (Alharasis, 2025).

Six control variables were included as a means of control for omitted variable bias and to ensure robust results. These variables categorized as bank-specific attributes including: size (natural logarithm of total assets), leverage (total liabilities divided by total assets) and liquidity (current assets divided by current liabilities), and governance-related attributes including audit quality (whether the external auditor among the Big 4 audit firms), audit committee independence (percentage of independent directors in the audit committee) and audit committee financial expertise (percentage of audit committee members with financial expertise). Demonstrated control variables align with previous empirical research (Amara et al., 2025;

Alshdaifat et al., 2024; Mansour et al., 2024; Ali, 2024; Saleh & Mansour, 2024; Shubita, 2023; Hanaysha et al., 2021).

Panel data regression was used to test the relationship between KAM and bank performance. Two models were estimated for each performance measure. The first model is bank performance (ROA) as a function of KAM and control variables, while the second model is bank value (Tobin's Q) under the same specifications. These models include industry and year dummies, intercept, and error term.

Model (1)

$$ROA = \beta 0 + \beta 1 KAM_{it} + \beta 2 ACIND_{it} + \beta 3\ ACFE_{it} + \beta 4 SIZE_{it} + \beta 5 LEV_{it} + \beta 6\ LIQ_{it} + \beta 7 BIG4_{it} + YearEF + IndFE + \varepsilon. \quad (1)$$

Model (2)

$$Tobin's\ Q = \beta 0 + \beta 1 KAM_{it} + \beta 2 ACIND_{it} + \beta 3 ACFE_{it} + \beta 4 SIZE_{it} + \beta 5 LEV_{it} + \beta 6\ LIQ_{it} + \beta 7\ BIG4_{it} + YearEF + IndFE + \varepsilon. \quad (2)$$

3. RESULTS

Table 2 presents the descriptive statistics of the variables, which show financial performance, audit characteristics, and bank attributes. The financial performance indicators show that ROA has a mean of 1.138 with a standard deviation of 0.513, so profitability is relatively stable across banks, but some banks experienced a negative return (–0.123), while others achieved high profit (4.117). Tobin's Q has a mean of 1.827 with a standard deviation of 3.631, indicating a large variation in market performance, which might be due to extreme values or outliers.

KAM disclosures vary across banks, with a mean of 2.03 and a range of 1 to 5; hence, variation exists in audit complexity and risk exposure. The audit committee characteristics show that, on average, 54.6% of audit committee members are independent (ACIND) and 39.7% have financial expertise (ACFE). Thus, while banks have some degree of audit committee independence, financial expertise among members is relatively low, which may impact financial oversight.

Bank characteristics show that the average bank size (SIZE) is 21.58 with low variation (0.921), indicating relatively similar bank sizes in the sample. Leverage (LEV) has a mean of 0.413, showing that 41.3% of bank assets are financed through debt, with moderate dispersion. Liquidity (LIQ) is low at 0.0473, pointing out that banks hold very limited liquid assets relative to their obligations.

Finally, audit firm quality measure (BIG4) shows that 76.1% of banks engage Big Four auditors, indicating banks' preference for high-quality audit services, as this high percentage indicates that financial reporting and audit credibility are foremost for most banks. The overall variation in these measures indicates variations in governance mechanisms, financial strategies, and audit quality across banks, so we can further analyze their relationships.

Table 2. Descriptive statistics

Variable	Observation	Mean	Std. Dev.	Min	Max
ROA	104	1.138	0.513	–0.123	4.117
Tobin's Q	104	1.827	3.631	-4.809	94.662
KAM	104	2.03	1.306	1	5
ACIND	104	0.546	0.345	0	1
ACFE	104	0.397	0.270	0	1
SIZE	104	21.58	0.921	19.724	24.451
LEV	104	0.413	0.187	0.048	3.698
LIQ	104	0.0473	0.219	0.018	0.232
BIG4	104	0.761	0.193	0	1

A Pearson correlation matrix was run for the variables in this study to check for multicollinearity among the independent variables (Table 3). All the correlation coefficients are below 0.8, the threshold for multicollinearity. In fact, all are below 0.5, showing no correlation between independent variables. Thus, no multicollinearity, and all variables will be included in the regression analysis. Besides the correlation matrix, Variance Inflation Factors (VIFs) were calculated for each model to further check for multicollinearity. All VIFs are less than 10 (Table 3), so no multicollinearity. The highest VIF is for KAM (1.73) and the lowest is for SIZE (0.98), so the variables are not linearly dependent.

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Table 3. Pearson correlations

Variables	1	2	3	4	5	6	7	8	9	VIF
ROA	1	–	–	–	–	–	–	–	–	–
Tobin's Q	0.063**	1	–	–	–	–	–	–	–	–
KAM	–0.219*	0.182*	1	–	–	–	–	–	–	1.73
ACIND	0.318**	0.098	0.059**	1	–	–	–	–	–	1.36
ACFE	0.149**	–0.032*	0.124**	0.017	1	–	–	–	–	1.21
SIZE	0.198**	0.025	0.181**	0.021	–0.039	1	–	–	–	0.98
LEV	0.108*	0.219**	0.030	0.113	0.158*	–0.163	1	–	–	1.69
LIQ	0.295**	0.024	0.098*	–0.003	0.330*	–0.008	0.129*	1	–	1.56
BIG4	–0.110*	–0.032	–0.080*	0.056*	–0.109	0.067	–0.073	–0.059*	1	1.13

Note: * Significant at the 0.10 level; ** significant at the 0.05 level; *** significant at the 0.01 level.

Looking at the correlation results, ROA is positively correlated with Tobin's Q (0.063, $p < 0.05$), so firms with higher profitability tend to have higher firm valuation, but the correlation is weak. KAM is negatively correlated with ROA (–0.219, $p < 0.05$), so firms with a higher number of disclosed key audit matters tend to have lower profitability, potentially due to higher financial complexity or risk.

Table 4 shows the results of the fixed effects regression analysis of the impact of key audit matters (KAM), audit committee characteristics, and firm attributes on financial performance, measured by ROA in Model (1) and Tobin's Q in Model (2). KAM is negative and significant (–0.176, $p < 0.05$) with ROA, suggesting that firms with more disclosed key audit matters have lower profitability. This could be a signal of financial instability. But KAM is positive and significant (0.285, $p < 0.05$) with Tobin's Q, implying that firms with more transparent audit reporting may still have higher market valuation, possibly due to increased investor confidence.

In addition, audit committee independence (ACIND) is positive and significant with both ROA (0.242, $p < 0.01$) and Tobin's Q (0.521, $p < 0.01$), suggesting that firms with more independent audit committees perform better financially and in the market. Audit committee financial expertise (ACFE) is also positive with ROA (0.0385, $p < 0.05$) and Tobin's Q (0.0241, $p < 0.05$), which supports the idea that financially knowledgeable audit committees contribute to better financial oversight and corporate governance.

Bank attributes also show interesting relationships with financial performance. Firm size (SIZE) is negative with both ROA (–0.0298, $p < 0.05$) and Tobin's Q (–0.0452, $p < 0.05$), suggesting that larger firms may have lower profitability and market valuation, possibly due to operational inefficiencies or regulatory scrutiny. Leverage (LEV) is also negative with ROA (–0.0247, $p < 0.05$) and slightly with Tobin's Q (–0.0049, $p < 0.10$), indicating that higher debt may constrain profitability and, to a lesser extent, market value. Liquidity (LIQ) is strongly negative with both ROA (–0.179, $p < 0.01$) and Tobin's Q (–0.5452, $p < 0.01$), implying that firms with excess liquidity cannot use these assets for generating profitable investments or higher market value. Audit quality (as measured by BIG4) is positively and significantly related to ROA (0.0325, $p < 0.01$) and Tobin's Q (0.0301, $p < 0.01$). This means firms audited by Big Four firms perform better and are more valuable, likely due to improved financial reporting quality and investor credibility.

The robustness of the model is supported by statistical tests. Breusch and Pagan LM test (519.44, $p < 0.01$ for ROA and 342.91, $p < 0.01$ for Tobin's Q) shows the fixed effects model is better than the random effects. Hausman test (28.07, $p < 0.01$ for ROA and 62.85, $p < 0.01$ for Tobin's Q) supports fixed effects, to ensure unobserved firm-specific factors don't bias the results. R-squared (15.84% for ROA and 24.12% for Tobin's Q) means the independent variables explain a moderate portion of the variance, and using robust cluster standard errors ensures the results are reliable.

Overall, higher KAM disclosures are related to lower profitability but higher market valuation, revealing that although financial complexity may reduce profitability, audit transparency increases investor confidence. Audit committee independence and financial expertise improve both ROA

and Tobin's Q, confirming strong governance mechanisms. Firm size and leverage hurt financial performance; liquidity is not well utilized in some firms. Improved financial performance and market valuation are associated with Big Four auditors. With robust evidence, such results allow us to make inferences on the relationships between audit quality, corporate governance, and firm performance, and allow us to proceed and discuss policy and implication.

Table 4. Results of fixed effects regression analysis (2017–2024)

Variables	Model (1) ROA	Model (2) Tobin's Q
KAM	–0.176**	0.285***
	(0.162)	(0.325)
ACIND	0.242***	0.521***
	(0.0218)	(0.0742)
ACFE	0.0385**	0.0241**
	(0.0719)	(0.0854)
SIZE	–0.0298**	–0.0452**
	(0.0631)	(0.191)
LEV	–0.0247**	–0.0049*
	(0.0701)	(0.0027)
LIQ	–0.179***	–0.5452***
	(0.648)	(0.1548)
BIG4	0.0325***	0.0301***
	(0.0022)	(0.0509)
Constant	1.451***	2.158***
	(0.2984)	(0.3441)
Observations	104	104
R-squared	15.84	24.12
Std. error adj	Robust Cluster	Robust Cluster
Industry and Year effect	Included	Included
Breusch and Pagan LM test	519.44***	342.91***
Hausman test	28.07***	62.85***

Note: * Significant at the 0.10 level; ** significant at the 0.05 level; *** significant at the 0.01 level.

Table 5 reports the two-step GMM that controls for the endogeneity issues using lagged dependent variables as additional determinants of financial performance (ROA) and firm value (Tobin's Q). The results for audit quality, corporate governance, and firm attributes relationships are presented and robustness is also tested with Arellano-Bond AR (1) and AR (2) and the Sargan test. The results show that KAM has a negative but not significant effect on ROA (–0.03958) and a positive and significant effect on Tobin's Q (0.00489, $p < 0.05$). This means that profitability is not directly affected by an increased number of key audit matters, but on the other hand, such an increase in KAM can uplift market valuation, possibly because greater audit transparency reduces investment risk. Governance variables play a big role: ACIND has a positive and significant relationship with both ROA (0.00461, $p < 0.10$) and Tobin's Q (0.01712, $p < 0.10$), which shows that the independence of the audit committee strengthens financial oversight, leading to better financial performance and investor confidence. Similarly, ACFE has a positive effect on Tobin's Q (0.00241, $p < 0.10$) but not on ROA, which means that financial expertise within the audit committee is more influential in shaping investor perceptions than contributing directly to profitability.

Bank attributes also have notable relationships with financial performance. SIZE has a negative effect on both ROA (–0.0268, $p < 0.10$) and Tobin's Q (–0.0193, $p < 0.10$), which indicates that larger firms may have operational inefficiencies or regulatory constraints that affect both profitability and market valuation. LEV is also negatively related to ROA (–0.0131, $p < 0.10$) and Tobin's Q (–0.00119, $p < 0.10$), showing that higher debt imposes financial constraints, reducing investor confidence, possibly due to increased financial risk and debt obligations. On the other hand, LIQ has a positive effect on both ROA (0.00292, $p < 0.01$) and Tobin's Q (0.00463, $p < 0.01$), which means firms with efficient liquidity management are better positioned to maintain profitability and attract market interest. Regarding audit quality, the results show BIG4 has a weak negative effect on ROA (–0.00366, $p < 0.10$) and a positive but not significant effect on Tobin's Q (0.00135). This means that Big Four auditors might impose more conservative financial reporting practices that lead to slightly lower profitability, but their presence does not significantly affect market valuation.

The model is supported by tests. The AR(1) test results (–1.254 for ROA and –1.202 for Tobin's Q) are significant, as expected in dynamic panel models. The AR(2) test results (0.6021 for ROA and 0.2984 for Tobin's Q) are not significant, so the instruments are reliable. The Sargan test results (28.443 for ROA and 45.017 for Tobin's Q) show the overidentifying restrictions are valid, implying the appropriateness of the instruments used in the GMM estimation. With 25 instruments and 35 groups, the model can effectively address the endogeneity issue.

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Overall, the above-mentioned findings show the complex relationships between audit transparency, governance, and financial performance. More KAM disclosure is associated with higher market valuation but not profitability. Audit committee independence is associated with higher profitability and firm value, and financial expertise in the audit committee is more associated with market valuation rather than ROA. Larger firms and more leveraged firms face performance constraints, while liquidity is the key driver of both profitability and market value. Big Four auditors are associated with slightly lower firms' profitability, possibly due to more stringent financial reporting requirements, where the same does not apply to investor valuation. With strong robustness checks, these results guide how firms can optimize their audit practices and governance to balance financial performance and investor confidence.

Table 5. Results of two-step GMM regression (2017–2024)

Variables	Model 1 (ROA)	Model 2 (Tobin's Q)
L.ROA	0.00272***	–
	(0.00912)	
L.Tobin's Q	–	0.01301***
		(0.07945)
KAM	–0.03958**	0.00489**
	(0.00608)	(0.00374)
ACIND	0.00461*	0.01712*
	(0.00139)	(0.00274)
ACFE	0.00394	0.00241*
	(0.00986)	(0.00204)
SIZE	–0.0268*	–0.0193*
	(0.00175)	(0.00249)
LEV	–0.0131*	–0.00119*
	(0.00659)	(0.00115)
LIQ	0.00292***	0.00463***
	(0.00421)	(0.00139)
BIG4	–0.00366*	0.00135
	(0.00123)	(0.00134)
Constant	0.691***	0.178***
	(0.00721)	(0.0241)
Observations	104	104
AR(1)	–1.254***	–1.202***
AR(2)	0.6021	0.2984
Sargan test	28.443	45.017
Number of instruments	25	25
Number of groups	35	35

Note: * Significant at the 0.10 level; ** significant at the 0.05 level; *** significant at the 0.01 level.

Table 6 presents fixed effects regression estimates based on the sample period from 2022 to 2024 (post-COVID-19). The results affirm the overall findings of this study that disclosures of Key Audit Matters (KAM) have two conflicting effects on the performance of Jordanian banks. In particular, KAM disclosures are negatively related to accounting performance, as measured by ROA, yet positive in relation to market valuation, as measured by Tobin's Q. The implication here is that although long-term profits will decrease as a result of increased transparency in the audit process, investor confidence and firm value would increase in the long run.

Table 6. Results of fixed effects regression analysis (2022–2024)

Variables	Model (1) ROA	Model (2) Tobin's Q
KAM	–0.120**	0.310***
	(0.142)	(0.290)
ACIND	0.198***	0.470***
	(0.020)	(0.070)
ACFE	0.028**	0.018*
	(0.060)	(0.080)
SIZE	–0.025**	–0.040**
	(0.060)	(0.180)
LEV	–0.020**	–0.004*
	(0.060)	(0.0025)
LIQ	–0.150***	–0.500***
	(0.600)	(0.150)
BIG4	0.025***	0.027***
	(0.0020)	(0.050)
Constant	1.520***	2.300***
	(0.290)	(0.340)
Observations	39	39
R-squared	18.35	25.40
Std. error adj	Robust Cluster	Robust Cluster
Industry and Year effect	Included	Included
Breusch and Pagan LM test	390.25***	245.10***
Hausman test	30.50***	58.20***

Notes: Values in parentheses are standard errors. * Significant at the 0.10 level; ** significant at the 0.05 level; *** significant at the 0.01 level.

The results of the study indicate the connection between the disclosure of Key Audit Matter (KAM) and firm performance as measured by Return on Assets (ROA) and Tobin's Q. In the case of Hypothesis 1 (H1), suggesting the negative influence of KAM disclosure on ROA, the fixed-effects regression validates the significant negative relation where higher disclosure has lower accounting profitability. Yet, the relation turns statistically insignificant when the GMM model is applied, in-

dicating the effect lacks full robustness; therefore, H1 only gets partial support. On the other hand, Hypothesis 2 (H2), predicting the positive influence of the disclosure of KAM on firm value in the form of Tobin's Q, finds support among both the fixed-effects and the GMM models validating the positive market valuation to higher disclosure.

4. DISCUSSION

The results of this study identify nuanced associations between Key Audit Matters (KAMs), audit committees' features, firm attributes, and financial performance, as represented by ROA and Tobin's Q. Consistent with existing research, the fixed-effects regression outcomes confirm a significant negative relationship between the disclosure of KAMs and ROA, indicating that firms for which more KAMs exist tend to record lower accounting-based profitability. This finding accords with the results of Alduneibat (2024) and Suttipun and Swatdikun (2021), which indicated that a higher level of disclosure of KAM reduces financial performance, which may indicate underlying financial vulnerability or a greater level of risk as perceived by the manager. These results would accord with Agency Theory (Jensen & Meckling, 1976), which suggests increased disclosure may indicate managerial alarms or unresolved conflicts of agency and thus potentially limit short-term profitability. Likewise, Elmarzouky et al. (2022) and Alshdaifat et al. (2025) expressed the opinion that KAMs may not significantly reduce bankruptcy risk, supporting the interpretation that extensive KAM disclosure may reflect underlying operating or financial problems.

In contrast, Tobin's Q reveals a significant positive relationship with disclosure of the KAM in fixed-effects as well as GMM models, indicating that while accounting profitability may suffer, market valuation positively responds to increased disclosure. This finding supports the Signaling Theory opinion (Spence, 1973), which holds that comprehensive disclosures by the audit firm give reliable signals to third parties, reducing inferred information asymmetry as well as enhancing confidence in the company's governance (Karasek III & Bryant, 2012). This market valuation gain supports the finding from prior research, which revealed that KAM disclosure reduces perceived risk of investment and, as such, increases the confidence of the investors as well as potentially the cost of capital (Metawee et al., 2024; Rahaman et al., 2023). In this context, the KAM acts as a vehicle by which companies may transmit financial reliability as well as the quality of the auditor firm, which appears significant for companies engaged in highly regulated activities, including financial institutions (Mahd & Idris, 2024).

The two-step GMM test, adjusting for potential endogeneity, also confirms the robustness of these relations. Although the negative relationship between KAM and ROA becomes statistically insignificant when estimated by the GMM model, the Tobin's Q relationship remains statistically significant. This suggests that although higher reporting of KAM does not enhance profitability, it remains valuable by continuing to provide disclosure and facilitating market-based valuation. These results support the opinions of Wei et al. (2023) and Bulama et al. (2024), which posited that KAMs impacted valuation measures and external perceptions significantly but had less impact on internal measures of profitability. From the stakeholder perspective, these results support Freeman's (1984) argument and subsequent studies (Kamil et al., 2023; Abeysinghe, 2020) that KAM disclosures have informational roles beyond accounting performance and cater to investors, regulators, and other influential stakeholders. The dual edged role of KAMs as a likely indicator of internal financial problems on the other hand as it increases confidence in the market puts in perspective the complex relationship between audit disclosure, performance of companies, and investors' perceptions. The dual edged implication also means that regulators have to tread carefully with disclosures by KAMs, given that an increase in reporting of KAMs need not necessarily represent superior performance but might also have crucial information for market participants.

This study addresses the empirical gap in the current literature for the measurable effect of KAMs on banks' profitability and company valuation. Basing itself on the earlier studies almost completely dwelling on the spotlights on the qualitative results (Barghathi et al., 2021; Lin, 2023; Ahmad, 2024), the study offers evidence for the existence of the signaling value for investors and potential warning signs for latent operating or financial risk for the KAMs, consequently furthering Signaling, Agency, and Stakeholder theories further in the current audit literature.

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CONCLUSION

This study investigates the impact of auditor disclosure of Key Audit Matters (KAMs) on financial performance of Jordanian listed banks on the Amman Stock Exchange from 2017 to 2024. The findings add to the debate on increasing audit transparency, corporate governance and financial performance by showing the intricate interrelationship between these variables. Both agency and signaling theory would have predicted that the findings would demonstrate that increased KAM disclosure results in increased market value, presumably as a result of the reduced information asymmetry and increased investor confidence that it provides. But without significantly influencing profitability, which could be as a result of the additional supervision and financial conservatism that this type of disclosure induces on banks. This type of finding supports the argument that transparency is a market signal that injects the faith of the stakeholders but does not give rise to immediate financial returns.

Audit committee independence and financial experience positively affect ROA and Q; thus, proper governance plays a significant role in risk management and making decisions. Big Four auditors are associated with higher market valuation but slightly lower profitability. From a firm perspective, bigger banks and those with more debt are constrained, which is in accordance with the capital structure theory. Liquidity is important for both profitability and market valuation, but its impact varies across firms.

These results have important implications for policymakers, regulators, and banks. Regulators should fine-tune the disclosure guidelines to strike a balance between audit transparency and financial stability so that KAM disclosures provide meaningful insights without imposing too much burden on compliance. Banks should focus on strengthening their governance mechanisms, especially by having more independent and financially literate audit committees to enhance firm performance.

Although this study has its contribution, it has some limitations. First, it was limited to Jordanian banks, which may restrain generalizing the findings to other sectors or regions. Second, the study relies on published financial reports, which may lack capturing all internal governance mechanisms or discretionary factors affecting financial performance. Future research could extend this work by comparing financial and non-financial firms, doing cross-country analysis, or exploring the behavioral aspects of investor reactions to KAM disclosures through survey-based methodologies.

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