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Does the Interplay Between Audit Committee Independence and Audit Quality Mitigate Tax Avoidance? Evidence from Non-Financial Firms Listed on the Amman Stock Exchange

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Abstract

Through the synergy between an independent audit committee (AC) and the high-quality external audit, the opportunities for unethical management behavior, including tax avoidance, can be significantly reduced. Independent audit committees and fair audit fees jointly strengthen governance by ensuring oversight integrity, audit quality, and a reduced risk of unethical tax avoidance. Therefore, the study aimed to identify the impact of AC independence on tax avoidance practices in non-financial firms listed on the Amman Stock Exchange (ASE), considering the moderating role of the external AFs. The research used a sample consisting of 53 non-financial companies listed on the ASE from 2017 to 2023, yielding 371 firm-year observations. Regression analysis was applied to test the direct effect of AC independence on tax avoidance, as well as the interaction effect of AFs. The results show that the effect exerted by the independence of AC on tax avoidances is negative but statistically insignificant. However, when the interaction between AC independence and AFs is considered, the effect becomes statistically significant, indicating that appropriate audit fees enhance the effectiveness of AC independence in curbing tax avoidance. The study shows that audit committee independence is effective only when supported by fair audit fees, underscoring the need for balanced governance practices in emerging markets like Jordan.

Keywords: audit committee independence; unethical tax avoidance; external audit quality; audit fees; tax avoidance; Jordan

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1. Introduction

Researchers generally agree that tax avoidance involves efforts to reduce a taxpayer's obligations to tax authorities. However, they differ in how they define it, largely due to varying perspectives on the methods used to achieve such avoidance. For example, Payne and Raiborn (2018) defines tax avoidance as an attempt to reduce tax liabilities while remaining in compliance with applicable tax laws by exploiting legal loopholes. In contrast, Salehi et al. (2020) describe it as a combination of both legal and illegal activities aimed at minimizing tax obligations, ultimately reducing the amount of taxes paid to the government. As tax avoidances reduce taxes paid, thereby positively influencing accounting profit, it also has the potential to increase legal, financial, as well as reputational risks, thereby potentially undermining the long-term value if tax avoidances were to be aggressive (Ghorbel & Boujelben, 2025).

Stakeholders' perspectives on tax avoidance schemes differ according to their perceptions of the resulting effects. This means that governments normally fight tax avoidance schemes, particularly aggressive and unethical tax avoidance schemes, due to their negative effects on the economy and society by reducing funds to be allocated for development projects. On the other hand, management perceives tax avoidance schemes as a tool for improving organizations' performance and generating personal gains for themselves (Fauzan et al., 2019; Egbunike et al., 2021). This means that management may indulge in tax avoidance or fraud to reduce the company's tax burden to obtain a lower cost of taxes. This behavior may be driven by opportunistic behavior to increase profits and hence increase managers' pay. But with a short-term approach to financial performance improvements, the company may encounter problems with financial transparency that may lead to a lack of legitimacy for the company in society (Tjondro & Olivia, 2018; Bougacha & Guedrib, 2025). This may ultimately lead to a reduction in the company's value due to a lack of transparency and increased risks for the company, which may therefore lose its legitimacy status in society (Nguyen, 2019; He et al., 2020; Egbunike et al., 2021). This means that shareholders normally dislike opportunistic tax avoidance schemes.

In such situations, the AC is expected to fulfill its monitoring role by enhancing audit quality and thereby improving the integrity of financial reports (Cohen et al., 2004; Beasley et al., 2009; Sulaiman, 2017; Al-Hajaya et al., 2025), while also mitigating the risks associated with unethical tax fraud practices. An important manner in which the AC supports the cause for investor protection and financial transparency in financial reporting is by monitoring and handling the external auditors (Safari, 2017; Al-Hajaya & Sawan, 2018; Ali et al., 2018; Rasheed & Tahir, 2025), thereby countering the possibility of releasing an inappropriate audit opinion (Abbott et al., 2003). Critically, the AC is also responsible for managing key risks inherent in the external audit process, including the appointment of auditors and the determination of audit fees (Lin, 2018). An effective and independent AC is likely to require additional audit procedures specifically targeting aggressive tax practices, prepared to offer fair and appropriate audit fees, while demanding a higher-quality audit (Lennox & Park, 2007; Lin, 2018). As a result, this often leads to increased audit fees (Goodwin-Stewart & Kent, 2006; Lennox & Park, 2007; Zaman et al., 2011; Lin, 2018).

Therefore, the importance of synergy between independent ACs in risk management in respect of aggressive tax avoidance schemes and quality external audits becomes apparent. According to agency theory, both the AC and external auditors are among the most critical monitoring mechanisms relied upon by corporate governance to manage risks, instill trust in financial reporting, and limit the potential for opportunistic managerial behavior (Fathelbab & Abu Quba', 2025). Koh et al. (2007) stated that the audit-related governance structure, which includes the audit committee and external auditors, is directly involved in managing corporate misconduct in terms of the integrity of financial reporting. According to Sunarto et al. (2021), the existence of independent commissioners in the ACs is critical in ensuring the effectiveness of the ACs themselves, thereby influencing aggressive tax avoidances. Similarly, Al Lawati and Hussainey (2021) indicates that both the independence of AC members and the quality of external audits can reduce tax avoidance.

Despite the increasing attention given to corporate tax behavior, limited empirical evidence exists on how audit-related governance mechanisms jointly influence tax avoidance, particularly in emerging markets such as Jordan. In these circumstances, the independence of the audit committee, together with the quality of external audit, is anticipated to improve the transparency of financial reporting, thereby discourage unethical conduct in financial reporting. All these mechanisms might be affected by their interactive roles. However, their effectiveness may depend on how these mechanisms interact in practice. Accordingly, this study explores whether the interplay between audit committee independence and external audit quality, proxied by audit fees, can effectively mitigate tax avoidance among non-financial firms listed on the Amman Stock Exchange (ASE). By investigating this interaction, the study contributes to the literature on corporate governance and tax avoidance by demonstrating how fair audit compensation strengthens the monitoring role of independent audit committees.

The significance of the research is in its concentration on a subject that is constantly raising concerns among researchers in the field. Critics contend that the persistent use of tax avoidance may harm a firm's long-term value, ultimately producing negative consequences for both the company and society. With these seemingly conflicting views, it is obvious that tools for preventing, discouraging, and countering tax avoidance practices, especially their impact on value and shareholder funds, are greatly needed. Accordingly, this research contributes to the prior literature and agency theory by examining the synergistic role of two key components of corporate governance structure—AC independence and audit quality—in preventing and deterring tax avoidance practices. This research is particularly valuable in the Jordanian context, since the Jordanian economy is distinguished by its small size, with the general budget facing fiscal deficit and debt, making it nearly impossible to obtain funds for development in the Jordanian economy. Despite the diversity of state revenue sources, taxes remain the primary and most significant contributor. The taxes collected during 2024 were 6.1 billion JD (Income and Sales Tax Department, 2025), while taxes are projected to constitute 50% of the 2025 budget (Jordanian Ministry of Finance, 2025). However, government estimates place tax avoidance at around 18%, representing a significant challenge for the Jordanian economy (Income and Sales Tax Department, 2025).

This study highlights the critical role of AC independence and external audit quality in reducing tax avoidance practices. For corporate policymakers, the findings underscore the importance of strengthening internal governance structures by appointing independent and qualified audit committee members and engaging high-quality external auditors. From an APB perspective, the implication is that there is a need for enforcement of governance practices in regard to encouraging audit independence and transparency, as well as policies on encouraging tax ethics while discouraging tax aggressiveness. Strengthening these mechanisms can enhance financial reporting credibility, protect shareholder interests, and support broader fiscal stability.

2. Literature Review, Theoretical Framework, and Hypotheses Development

2.1. Literature Review and Theoretical Framework

2.1.1. Corporate Governance, Audit Committee, Audit Quality, and Tax Avoidance

Corporate governance is the system through which organizations are controlled and directed, and under which managers are held accountable to stakeholders (Dienes & Velte, 2016). Corporate governance includes a set of interrelated mechanisms, all of which together ensure effective control and oversight over corporate management (Safari, 2017; Al-Hajaya & Sawan, 2018; Ali et al., 2018).

The agency gap, arising from the separation of corporate management and ownership, created the need for the development of mechanisms of internal and external monitoring (Young, 2000; Weir et al., 2002). Internally it is through a board of directors and its technical committees, while externally, it depends on external audits and the market for control mechanisms (Safari, 2017; Ali et al., 2018). Bassett et al. (2007) make a distinction between the mechanisms of governance, having a direct and indirect impact on corporate processes, and mechanisms having more indirect roles. In this context, Koh et al. (2007) detail that a non-audit-related governance structure that mainly represents a board of directors, having a formal responsibility over corporate operations, hold the most an indirect role in corporate reports, while the audit-related governance structure, which consists of the AC and the external audit, hold a more active and direct involvement in the integrity of the corporate process and the quality of the financial report.

As a primary oversight and monitoring body, the AC plays a significant corporate governance role (Raimo et al., 2021; Zaman et al., 2011; Lin, 2018; Almarayeh et al., 2025). It assists in constraining company misconducts and earnings management (Salem et al., 2021) and monitors financial performance and the quality of company disclosures (Caskey et al., 2010; Sulaiman, 2017). As a specialized board committee dedicated to audit and reporting issues, the AC is entrusted with preventing and detecting managers' misbehavior, ensuring the quality and reliability of a firm's financial information (Beasley et al., 2009; Goodwin-Stewart & Kent, 2006; Lennox & Park, 2007). Therefore, the function played by the AC in countering risks posed by companies in relation to aggressive tax avoidance schemes becomes significant since it increases transparency and trustworthiness in financial reporting (Al-Hajaya et al., 2025; Rasheed & Tahir, 2025).

The AC typically manages the risks of tax fraud by actively overseeing and managing the engagement with external auditors, ensuring their independence and enhancing the effectiveness of the audit process (Alassuli et al., 2025). The AC is also responsible for overseeing the relationship with the external auditor, including matters related to auditor appointment, independence, and audit fees, as well as identifying and addressing key risks in the audit process (Ali et al., 2018; Lin, 2018). In the past, the creation of ACs was motivated by the necessity of constraining management's excessive control over external auditors, specifically in terms of fee agreements and the possibility of having them fired, which would undermine audit independence (Anderson et al., 2004). Thus, the AC evolved as a control mechanism to ensure the independence of the auditor through the mediation of a buffer against management and the auditors. In enabling the coordination of both parties, the AC strengthens the independence and objectivity of external auditing (Al-Hajaya et al., 2025). As a result, the independent external auditor plays a key role in the development of stakeholder trust through the verification of corporate report integrity, hence the increase in transparency and the reduction in risks of managers' opportunism and unethical behavior (Han et al., 2012). Consequently, corporate reporting credibility and quality are significantly enhanced (Raimo et al., 2021; Prinsloo & Maroun, 2021).

Given this importance, external audits are essential to the AC, which depend on them to develop strategic plans, monitor ongoing activities, and assess organizational performance. The AC ensures that financial information is audited by an independent third party, adding an extra layer of assurance to the accuracy and integrity of the reported information. To support this, Koh et al. (2007) contend that the incorporation of the AC and external auditors in the governance structure greatly strengthens the integrity, transparency, and quality of financial disclosures, making the information, where possible, free of fraudulent practices. Furthermore, various studies—such as those conducted by Nianjia (2018), Lestari and Nedya (2019), Salehi et al. (2020), Riguen et al. (2020), and Gontara and Khlif (2021)—have pointed out the critical contribution of external auditing in controlling unethical tax avoidance practices, hence reducing the related financial and legal risks.

2.1.2. Audit Fees, Audit Quality, and Governance

Auditing is vital in providing integrity and credibility for financial statements (Chu & Hsu, 2018; Khasharmeh & Desoky, 2018). Quality audits, therefore, make financial reporting more dependable. In spite of the large body of literature in terms of audit quality, there is no common understanding in terms of a definition nor a uniform measure (Kilgore et al., 2014). Most of the past literature uses DeAngelo's (1981) definition, which positions audit quality in terms of the likelihood that auditors will identify and report a violation in the accounting system or a financial statement fraud. Such a likelihood, in turn, is mainly a reflection of the independence and professional skills of the auditor (Chu & Hsu, 2018).

Researchers have employed various proxies to measure audit quality, including the size of the audit firm (Carver et al., 2011), the type of auditor—distinguishing between Big Four and non–Big Four firms (Khlif & Samaha, 2016), audit fees (Abbott et al., 2003; Goodwin-Stewart & Kent, 2006; Ali et al., 2018), auditor experience and industry specialization (Lim & Tan, 2008; Minutti-Meza, 2013), and the provision of non-audit services (Lim & Tan, 2008; Chu & Hsu, 2018). In the present study, audit fees are adopted as the sole proxy for audit quality in non-financial firms listed on ASE. This choice is grounded in the premise that audit fees often reflect the extent of audit work, the resources allocated, and the level of professional expertise applied during the audit process. Higher fees generally represent a more extensive audit scope and level of examination, which increases the probability of identification and reporting of irregularities, including tax avoidance schemes, thus improving the quality of assurance. Given the availability and comparability of audit fee data across ASE-listed non-financial firms, this measure provides a practical and empirically supported indicator of audit quality within the study's context.

Some existing studies on the substitution versus complementarity role of corporate governance and internal control mechanisms for external audit research have provided inconsistent findings (Farooq et al., 2018). The "replacement view" posits that strong internal corporate governance structures, including the board of directors, board committees, and internal audit functions, can serve as a substitute for external audits, potentially eliminating the need for third-party assurance (Hay et al., 2008). Proponents of this view argue that robust internal controls reduce the risk of fraud and inherent audit risks, thereby minimizing the need for extensive external auditing (Ghafran & O'Sullivan, 2017; Farooq et al., 2018). Since audit fees are often determined by the level of perceived risk and audit scope, firms with effective internal governance systems are expected to incur lower audit fees due to reduced audit time, scope, and efforts (Hay et al., 2008; Ghafran & O'Sullivan, 2017). Conversely, the "complementary view", rooted in a demand-based perspective, argues that external audit enhances and supports corporate governance efforts. As argued in these theories, companies with well-structured governance systems are likely to hire independent external auditors in order to assure the quality and credibility of financial reporting (Srinidhi et al., 2014; AlQadasi & Abidin, 2018). Therefore, effectively operating ACs will tend to demand broader audit scopes and additional audit procedures (Srinidhi et al., 2014; Zaman et al., 2011; Ali et al., 2018), specifically, for high-risk practices, such as those conducting aggressive tax avoidance. Consequently, such a demand for increased audit efforts is likely built in the shape of increased audit expenses.

This study uses the complementary approach, which assumes that the existence of ACs and other governance structures cannot compensate for the need for independent third-party audits. On the contrary, this study assumes that a higher level of independence of the ACs will add to control and broaden the processes of audit by mandating further audit procedures to forestall and preclude unethical tax avoidance schemes. Therefore, more fees will be paid for audit services. Therefore, the study aims to investigate the simultaneous impact of good external audit procedures and independent ACs on tax avoidance behavior.

2.1.3. Theoretical Framework

According to the theory of agency as propounded by Meckling and Jensen (1976), since a separation between ownership and management does exist, resulting gaps of information may generate a conflict of interest between the shareholders-principals and the management-agents. This misalignment, known as the "agency problem," increases agency costs as managers may act in their own interests rather than those of the shareholders. One such managerial behavior is engaging in tax avoidance or fraudulent tax activities (Ghorbel & Boujelben, 2025). While such activities can temporarily boost reported performance, they can put the firm at high legal and financial risks in the case that they are found out—eventually damaging the firm's reputation and long-term value (Omesi & Appah, 2021). Higher risk can increase the firm's cost of capital, diminish financial flexibility, and damage investor confidence. Therefore, management may be incentivized towards tax aggressive planning strategies in an attempt to signal financial performance (Salehi et al., 2020; Riguen et al., 2020; Gontara & Khlif, 2021). Such practices, however, compromise the integrity of financial reporting and further exacerbate the agency dilemma.

To reduce such risks, corporate governance mechanisms, especially ACs and external audits, play a vital role in controlling management and arresting opportunistic practices. According to Dey (2008), the structures within governance also play an important part in removing conflicts within the agency, since well-functioning accounting entities, together with external audits, make significant contributions to improving the level of transparency within an organization. In particular, rigorous AC oversight and reputable external audits assist in ensuring adherence to tax policies, identifying collusions, and enhancing the quality of financial reporting (Riguen et al., 2020). Through the alignment of management behavior towards serving shareholders' interests, it can be ensured that there is less chance of tax-related improper behavior. In addition to that, according to Salehi et al. (2020), Omesi and Appah (2021), a strong independent AC and a good quality audit function that is fairly compensated are vital for a company to keep its financial information intact. In a nutshell, it can be stated that less aggressive tax behavior not only improves the quality of financial information but can serve as a potent tool for reducing agency costs. Therefore, the independent AC and strong external audit function are vital for reducing agency costs by identifying and discouraging tax avoidance behavior.

Though agency theory helps in understanding the manner in which the presence of audit committees and external auditors reduces the conflict between interests of managers and shareholders, Resource Dependence Theory (Pfeffer & Salancik, 2015) adds another dimension to it. As proposed by RDT, boards and their committees function as conduits for organizations' attainment of critical external resources, such as knowledge, legitimacy, and information, which increase organizational effectiveness. In light of the foregoing discussion, independent audit committee members could also act as sources of knowledge who increase the credibility of financial reporting. Likewise, external auditors, through adequate and fair audit fees, contribute professional expertise and reputational capital that enhance a firm's legitimacy among investors, regulators, and other stakeholders.

Therefore, considering the theories of agency and resource dependence simultaneously adds more depth in understanding the mutual relationships between independence in audit committees and audit fees. Independence in an organization is associated with objective monitoring (theory supporting agency), while competitive audit fees in an organization ensure the hiring of professional auditors with valuable skills (theory supporting resource dependence). The interaction between these two governance mechanisms thus enhances both control and resource access, improving financial transparency and reducing the likelihood of opportunistic tax avoidance.

2.2. Hypotheses Development

2.2.1. AC Independence and Tax Avoidance

ACs are essential in constraining tax avoidance, since their existence is a core part of sound corporate governance. The more effective and efficient the AC, the higher the probability of identifying material misstatements in financial statements, which can be corrected in a timely manner. In the context of agency theory, the AC's control and oversight of the preparation of financial statements strengthens its ability to constrain tax avoidance by preventing management's opportunistic behavior (Sunarto et al., 2021), Specifically, it is seen to be a key player in the monitoring of management misconduct, especially unethical profit maximization behavior. One of these profit-driven management behaviors may be sought through reducing tax expenses using tax avoidance strategies. Therefore, the AC, on the basis of its oversight role, is able to mitigate dysfunctional behaviors associated with financial reporting, such as aggressive/unethical tax avoidance schemes, in the area of earnings management practices (Dang & Nguyen, 2022).

The performance of an AC in performing its duty mainly depends on the existence of essential characteristics among its members, specifically their independence from management. According to Dewi and Jati (2014), AC independence negatively influences tax avoidance. Independence helps ensure that the members of a committee are not pressured by the managers in decision making (Izza et al., 2023), thus allowing them to examine practices which could be a sign of manipulation in the tax report, and implement corrective timely measures (Armstrong et al., 2015). An independent AC can exert greater oversight over the exploitation of legal loopholes or discrepancies between accounting and tax standards. Also, it plays a significant part in promoting compliance with International Financial Reporting Standards (IFRS) (Omesi & Appah, 2021), which therefore boosts the company's capacity to properly address tax issues while preventing tax avoidance that may arise as a consequence of unclear and ineffective legislation. Finally, an autonomous AC can be viewed as a strong tool of corporate governance that supports efforts to strengthen internal control and financial disclosure quality (Dang & Nguyen, 2022).

Earlier research investigating the correlation between AC independence and tax avoidance provided mixed evidence. Alqatan et al. (2025), in a sample of 72 French companies over the period, established a positive influence of AC independence on tax avoidance. Conversely, Nabilah and Umaimah (2022) observed a negative influence in a sample of 81 Indonesian companies, where they explained the finding through the supervision and control roles of the audit committee. This inverse relationship was also supported by the findings of Dewi and Jati (2014), However, other studies found no significant relationship between AC independence and tax avoidance. For instance, Dang and Nguyen (2022), using a sample of 468 Vietnamese companies, found no effect. Similar findings were reported by Minnick and Noga (2010), Omesi and Appah (2021), and Izza et al. (2023), indicating that AC independence may not always be a determinant of tax avoidance practices.

The mixed evidence regarding the relationship between audit committee independence and tax avoidance may be attributed to several contextual and methodological differences across studies. First, there is heterogeneity in the level of institutional development between developing and emerging markets, thereby changing the role played by audit committees and their independence (Omesi & Appah, 2021; Dang & Nguyen, 2022). Second, using different metrics such as book-tax differences, effective tax rates, or discretionary accruals might hamper consistency in results (Wong et al., 2015). Additionally, firm-specific differences in ownership concentration, political connections, family control, among others, affect the monitoring function under the moderating influence of audit committees' independence (Almarayeh et al., 2025; Izza et al., 2023). Finally, some studies capture formal rather than functional independence; that is, committee members may appear independent on paper but still lack autonomy in practice. Therefore, differences in institutional governance quality and enforcement intensity could explain why some studies find audit committee independence to reduce tax avoidance, while others find no significant or even positive associations.

Taking into consideration these disparities, the current study embraces the proposition that the independence of the audit committee is associated with reduced tax avoidance, provided other governance structures are in place, specifically an adequate level of audit fees to allow external auditors to conduct their own independent work. There is consistency between this proposition and agency theory/resource dependence theory in that independence without appropriate external resources is likely inadequate.

Drawing on both agency theory and resource dependence theory, this study posits that the effectiveness of audit committee independence depends on the availability of complementary governance resources—particularly high-quality external audits supported by fair audit fees. From an agency perspective, independence reduces managers' opportunistic tendencies in governance, while resource dependence theory argues that independent audit committees enhance organizational legitimacy and benefits from qualified external knowledge. Both theories combine to offer a more robust theoretical basis for understanding the impact of independence in audit committees on tax avoidances.

Given the inconsistencies in the findings of previous studies, this research seeks to examine the nature and strength of the relationship between AC independence and tax avoidance. Accordingly, and based on the theoretical and empirical background discussed above, the first hypothesis of this study is formulated as follows:

Ha1: *AC independence has a negative effect on tax avoidance in non-financial companies listed on the ASE.*

2.2.2. AC Independence, Audit Quality, and Tax Avoidance

Agency theory posits that the board of directors occupies the highest position within the corporate governance framework, bearing ultimate responsibility for formulating strategies to mitigate agency conflicts (Meckling & Jensen, 1976). A crucial part of this role involves combating corporate misconduct and enhancing the quality of financial reporting (Lee & Kao, 2018; Ghorbel & Boujelben, 2025). To fulfill these responsibilities effectively, the board typically delegates oversight functions to its key committee, the audit committee, which is tasked with reducing agency costs by enhancing the transparency and reliability of corporate disclosures and curbing opportunistic managerial behaviors such as earnings manipulation and tax avoidance (Simnett et al., 2009). Distorted financial reporting increases corporate risk by distorting a firm's actual performance, thereby impairing stakeholders' ability to make informed decisions and exacerbating agency costs (McGuire et al., 2012). In such contexts, an independent AC is more inclined to engage external auditors to enhance the credibility and trustworthiness of corporate reports. As Dey (2008) notes, effective corporate governance structures, anchored by a well-functioning AC and supported by independent external auditors, play a pivotal role in resolving agency problems. External audits contribute to managing and mitigating potential risk by detecting and preventing managerial misconduct, including tax fraud, ultimately improving reporting quality and reducing agency costs (Minnick & Noga, 2010; Omesi & Appah, 2021; Izza et al., 2023).

However, the effectiveness of these governance mechanisms can vary significantly depending on the quality of the external audit. Audit quality is influenced by several factors, including auditor independence from management, the type of audit firm, the provision of non-audit services, auditor expertise, and the amount and fairness of audit fees. Reasonable and fair audit fees can sustain the independence and integrity of auditors, hence improving the quality of the audit process. This will help to ensure that a good audit has a higher chance of disclosing and preventing fraudulent activities by corporations, including aggressive tax avoidance schemes. Striking a balance between adequate independence of the AC and a fair level of audit fees can promote good corporate governance, mitigate legal and financial risks associated with tax avoidance schemes of corporations, and therefore promote corporate accountability and transparency to prevent problematic management behavior and bridge the agency problem (Lee & Kao, 2018; Mais & Patminingih, 2017; Bougacha & Guedrib, 2025).

This study adopts a complementary view of corporate governance structure, asserting that the presence of strong internal governance mechanisms does not diminish the need for third-party assurance. In contrast, external audits can be seen as a useful complement rather than a substitute for internal control mechanisms Well-managed firms pay external auditors a fair fee in return for effective audit processes, which improve financial transparency and make managers less likely to engage in tax avoidance schemes (A. L. Martinez & Lessa, 2014). External audits are particularly important as they empower ACs to use audit findings for strategic planning, performance evaluations, and ongoing monitoring. In view of it, it is likely that firms whose ACs function appropriately will allocate adequate resources for external audits so that auditors can undertake tailored work, for instance, targeted review on aggressive tax avoidance (Waluyo, 2017; Mais & Patminingih, 2017; A. Martinez & Hartman, 2020).

As a result, effective and independent ACs play a vital role in enhancing the quality of corporate reporting by curbing earnings management practices that may be used illegally to avoid or minimize tax payments. Yet, according to Mais and Patminingih (2017) and A. Martinez and Hartman (2020), the success of ACs in securing the integrity of corporate reports greatly relies upon the quality of, and coordination among, independent external auditors (Lestari & Nedya, 2019; Salehi et al., 2020). This is echoed in more current evidence provided in Salehi et al. (2020), who validate that independent ACs, supplemented by high-quality external audits, can greatly enhance the quality of reporting and diminish the rate of corruption and unethical managerial behavior.

Although Prior studies demonstrate differing results on the impact of AC independence on tax avoidance, most studies confirmed that the relationship between external audit quality and tax avoidance is governed by many determinants, primarily the strength of corporate governance mechanisms and the characteristics of the external auditor, especially audit fees. This was confirmed by the studies of Nianjia (2018), Lestari and Nedya (2019), Salehi et al. (2020), Riguen et al. (2020), and Gontara and Khlif (2021), which emphasized the importance of external audit fees that are fundamentally reflected in reducing tax avoidance practices. On the contrary, the studies by Salehi et al. (2020) and Omesi and Appah (2021) found a positive effect of audit fees on tax avoidance. Accordingly, the second hypothesis of this research can be formulated as follows:

Ha2: *External audit fees positively moderate the relationship between AC independence and tax avoidance in non-financial companies listed on the ASE.*

3. Research Design and Methodology

3.1. Study Population and Sample

The study population comprises all non-financial companies listed on the Amman Stock Exchange (ASE) during the period 2017–2023, totaling 80 companies: 35 in the manufacturing sector and 45 in the services sector.

This study sample was selected according to the following criteria:

1. The company must have been listed on the ASE throughout the study period.
2. Financial reports must be available for the entire study period.

3. The company must not have undergone a merger or been suspended from trading during the study period.
4. The company must have disclosed the amount of audit fees.
5. The company must not have reported a negative pre-tax net profit, as such cases may distort the measurement of tax avoidance practices and bias the empirical results (since firms with losses may report zero tax expense or benefit from deferred tax assets, making effective tax rate calculations unreliable).

Based on these criteria, the final sample consisted of 53 companies (22 manufacturing firms and 31 services firms); yielding a total of 371 firm-year observations over the study period.

3.2. Study Variables and Measurement Methods

The dependent variable for the research is tax avoidance, which is calculated using the difference between the statutory tax rate and the Current Effective Tax Rate (CETR). Such calculation is commonly employed in other research studies on tax practices adopted by corporations (Minnick & Noga, 2010; Dewi & Jati, 2014; Salehi et al., 2020; Dang & Nguyen, 2022; Nabilah & Umaimah, 2022; Omesi & Appah, 2021).

The current effective tax rate (CETR) is measured by total tax expense, including deferred taxes, relative to the pre-tax net income. The gap between statutory (legal) tax rates and CETR, abbreviated as DCETR, represents tax avoidance efforts. The higher the value for DCETR, the more difference between statutory tax rates and CETR; in other words, it is an indicator for efforts in tax avoidance practices.Although audit fees are commonly used as a proxy for audit quality, this approach has certain limitations. Prior studies argue that higher audit fees may reflect greater audit effort, auditor expertise, and independence (Gul et al., 2017; DeFond & Zhang, 2014). Nevertheless, quality in these audits may also be affected by other variables, including the size, tenure, industry specialization, and governance structure type of the company audited. As also supported in other studies in emerging markets (Salehi et al., 2020; Dang & Nguyen, 2022), the use of audit fees is the most accurate proxy for audit quality in a Jordanian setting due to the absence of comprehensive disclosures in the Jordanian market with respect to these audits.

The formula for the current effective tax rate (CETR) is:

$$\text{CETR} = (\text{total Tax Expense} + \text{Deferred Tax Expense})/\text{Pre Tax Income i,t} \quad (1)$$

To calculate tax avoidance, the difference between the statutory tax rate and the current effective tax rate is computed as follows:

$$\text{DCETR} = \text{LTR} - \text{CETR} \quad (2)$$

where

CETR: Current effective tax rate of the company;
Total Tax Expense: The total current tax expense of the company;
Deferred Tax Expense: The deferred tax expense of the company;
Pre-Tax Income: The pre-tax net profit of the company;
DCETR: A measure of tax avoidance;
LTR: The legal tax rate.

An increase in the statutory tax rate over the current effective tax rate is considered a result of engaging in tax avoidance practices.

- Independent Variable: The independent variable in this study is the independence of the audit committee (ACIN). This is measured by the ratio of independent audit committee members to the total number of audit committee members.

- Moderator Variable: The moderator variable is external audit quality. This variable is measured by external audit fees (FEES), which are quantified using the natural logarithm of the company's annual external audit fees.
- Control Variables: Three control variables were used in the study:
- Company Age (AGE): Measured as the number of years a company has been operating on the Amman Stock Exchange since its establishment.
- Financial Leverage (LEV): Calculated as the book value of total liabilities divided by total assets.
- Company Size (SIZE): Measured by the natural logarithm of the company's total assets.

3.3. Study Models

Based on research hypotheses, the study models were formulated as follows:

Model 1: The effect of audit committee independence on tax avoidance practices.

$$DCETR = \beta 0 + \beta 1\ ACIN + \beta 2\ AGE + \beta 3\ LEV + \beta 4\ SIZE + \varepsilon \quad (3)$$

Model 2: The effect of external audit fees as a moderate variable on the relationship between audit committee independence and tax avoidance practices.

$$DCETR = \beta 0 + \beta 1\ ACIN + \beta 2\ FEES + \beta 3\ BIN{*}FEES + \beta 4\ AGE + \beta 5\ LEV + \beta 6\ SIZE + \varepsilon \quad (4)$$

where

DCETR: Tax avoidance practices.

ACIN: Audit committee independence.

FEES: External audit fees.

ACIN*FEES: The interaction between audit committee independence and external audit fees.

AGE: Company age.

LEV: Company financial leverage.

SIZE: Company size.

β0: Constant term.

β1–β6: Regression equation coefficients.

εit: Random error term.

4. Results

4.1. Descriptive Statistics

Table 1 presents the descriptive statistics for the dependent, independent, and control variables. The results show that the average level of tax avoidance, measured by the change in the current effective tax rate (DCETR), was 6.2% with a standard deviation of 5%, indicating moderate variability among the sampled firms. The maximum recorded value was 17.8%, while the minimum was −22.4%, suggesting that in some instances companies paid taxes exceeding their pre-tax income. Diversity in values for DCETR is representative of varying tax planning efficiency in the firms, which could be affected by industry-related factors, management practices, and tax incentives offered in each industry concerned. The legal tax rate (LTR) averaged 16.7% (S.D. = 3.1%) and the current effective tax rate (CETR) averaged 10.4% (S.D. = 4.6%), reflecting a relatively consistent pattern across firms. Audit committee independence (ACIN) recorded a mean value of 51% with a standard deviation of 24%. The highest level of independence observed was 100%, indicating full compliance with corporate governance requirements, while the lowest was 0%, meaning that in some cases no independent members served on the audit committee. The variance in the level of independence for audit committees appears to show that while some companies fully comply with governance codes, other companies do appear to fall short in appropriate structures for monitoring.

Table 1. The descriptive statistics.

Variable	Mean	S. D	Min	Max
LTR	0.167	0.031	0.10	0.24
CETR	0.104	0.046	0.003	0.414
DCETR	0.062	0.050	−0.224	0.178
ACIN	0.510	0.243	0.00	1.00
FEES	17,343	17,823	6000	80,000
AGE	26.55	13.22	5	46
LEV	30.22	19.05	0.006	78.93
SIZE	2,145,117,000	5,331,445	418,958,955	165,747,572

Source: Authors' own work.

External audit fees (FEES) averaged JOD 17,343, with a considerable variation, as reflected by a standard deviation of JOD 17,823. The minimum and maximum recorded values were JOD 6000 and JOD 80,000, respectively. This variation is likely attributable to factors such as differences in firm size, the reputation and type of audit firm engaged, and the absence of a unified standard for determining audit fees. Given this dispersion, the natural logarithm of audit fees was used in the empirical analysis to normalize the data. The significant difference in audit fees could also point to differences in terms of audit complexity, risk exposure, or financial reporting quality among firms. The average age of the sampled companies was 26.55 years, with a range from 5 to 46 years, reflecting the coexistence of relatively new market entrants alongside long-established firms. The mean financial leverage (LEV) stood at 30.2% with a standard deviation of 19.05%, ranging from a low of 0.6% to a high of 78.9%, highlighting differences in firms' capital structures. Finally, firm size (SIZE), measured by total assets, exhibited substantial variability. The average firm size was approximately JOD 165.75 million, with a standard deviation of JOD 418.96 million. The smallest firm recorded assets of JOD 5.33 million, while the largest reached JOD 2.15 billion, indicating a wide dispersion in the scale of operations among the companies included in the study sample. In summary, the descriptive statistics show evidence of heterogeneity in governance structure attributes, financial attributes, as well as tax practices, indicating representativeness in the sample for investigation of the suggested relationships.

4.2. Multicollinearity Analysis and Assumptions

A correlation coefficient of more than 0.70 among any two or more variables is generally high and can give rise to multicollinearity issues, distorting the relation among the independent and the dependent variables (Pallant, 2020), In order to confirm, a correlation matrix of the study variables was prepared, which is shown in Table 2. The correlations between the variables also give tentative indications on the nature and level of relationships between tax avoidance, audit committee independence, and audit fees. Correlation test results indicate that none of the correlation coefficients among the independent variables are greater than the 0.70 cutoff, indicating the non-existence of multicollinearity issues. This helps verify that the explanatory variables are conceptually different from each other in a way that guarantees each variable explains different things in relation to corporate governance practices. It thus suggests that the explanatory variables can be applied in the regression model without the threat of enlarged standard errors and unstable estimates of the coefficient. Thus, the results from the correlation tests aid in improving the accuracy of the regression tests that follow.

Table 2. Multicollinearity test.

Variable	ACIN	FEES	ACIN*FEES	AGE	LEV	SIZE
ACIN	1.000					
FEES	−0.152	1.000				
ACIN*FEES	−0.071	−0.157	1.000			
AGE	0.441	0.158	−0.101	1.000		
LEV	−0.252	0.0556	0.135	−0.078	1.000	
SIZE	−0.408	0.558	0.150-	0.205	0.19	1.000

Source: Authors' own work.

To further validate the previous findings, the Variance Inflation Factor (VIF) test was conducted for each of the study variables to detect potential multicollinearity issues. As Pallant (2020) states, a VIF of less than 10 shows no severe multicollinearity issues between the independent and control variables, and a Tolerance statistic over 0.10 substantiates the same. Table 3 displays the outcome of the multicollinearity diagnostics. The VIF values for all variables range between [insert actual range, e.g., 1.12–2.36], and the Tolerance values fall between [insert range, e.g., 0.42–0.89]. As the results in Table 3 reveal, all the VIF statistics are far below the cut of 10, and all the Tolerance statistics are over 0.10. These results substantiate the non-existence of multicollinearity between the independent and control variables, indicating that each variable makes a unique contribution towards the model without generating redundancy and instability in the regression estimates. This means that the independent variables are statistically independent, so they can be safely employed in subsequent regression analyses.

Table 3. Multicollinearity analysis.

Variable	Models 1		Models 2	
	VIF	Tolerance	VIF	Tolerance
ACIN	1.57	0.636	1.74	0.573
AGE	1.30	0.768	1.36	0.735
LEV	1.16	0.864	1.24	0.805
SIZE	1.29	0.775	3.69	0.271
FEES	-	-	2.79	0.358
ACIN*FEES	-	-	1.45	0.692
Mean VIF	1.33	0.752	2.05	0.488

Source: Authors' own work.

In addition to the test for multicollinearity, the following key assumptions of regression analysis were tested in an attempt to confirm the model. Normality of the residuals was tested through a visual check of the histogram and the normal probability plot, which showed the residuals were almost normally distributed. Linearity of the independent variables with the dependent variable was confirmed using scatterplots, showing no curvature. Homoscedasticity was verified using residual-versus-predicted value plots, which revealed a constant variance of residuals across the range of predicted values. Furthermore, the Durbin–Watson statistic indicated the absence of autocorrelation in the residuals. These diagnostic checks confirm that all major assumptions of multiple regression analysis were met, ensuring the robustness and reliability of the results.

4.3. Hypotheses Testing: OLS Regression

After confirming that the data were free from multicollinearity and that all other assumptions of the study model were satisfied, multiple linear regression analysis was performed to test hypotheses Ha1 and Ha2. The results are presented in Table 4. The table provides the regression coefficients, t-values, significance levels, and model-fit statistics for all variables included in the analysis.

Table 4. Regression results.

Variables	Models 1			Models 2		
	β	Z	Sig	β	Z	Sig
ACIN	−0.017	−0.72	0.472	−1.017	−0.83	0.408
AGE	−0.001	−1.44	0.15	−0.001	−2.35	0.019 **
LEV	−0.001	−1.01	0.311	−0.001	−0.69	0.493
SIZE	0.024	2.88	0.004	0.014	1.21	0.227
FEES	-	-	-	0.005	0.24	0.809
ACIN*FEES	-	-	-	−0.010	−4.73	0.000 ***
R Square		0.099			0.144	
F_statistic		12.81			41.6	
Sig (F_statistic)		0.012 **			0.000 ***	

Note: *, **, and *** correspond to the significance levels of 10%, 5%, 1%. Source: Authors' own work.

Model 1 examined the effect of audit committee independence on tax avoidance practices. The model was statistically significant at the 5% level, with an F-value of 12.81 and a corresponding significance level of 0.012, indicating the overall relevance of the model in explaining variations in the dependent variable. The coefficient of determination (R^2) was 9.9%, suggesting that variations in the independent and control variables collectively explain 9.9% of the variation in tax avoidance practices, leaving the majority of variation attributable to other factors not addressed in this study. The results revealed a negative but statistically insignificant relationship between audit committee independence and tax avoidance practices ($Z = -0.72$, $p = 0.472$). Consequently, Ha1 stating that audit committee independence negatively affects tax avoidance in companies listed on the ASE is rejected. This finding suggests that audit committee independence, in isolation, does not influence tax avoidance behavior. The control variables and company size exhibited a positive and statistically significant effect on tax avoidance at the 1% level ($p = 0.004$). In contrast, neither company age ($p = 0.150$) nor financial leverage ($p = 0.311$) showed a significant effect on tax avoidance practices. The results show that structural factors such as company age and capital structure are weak predictors in tax avoidance, thus acknowledging the significance of governance factors discussed in subsequent models. The robustness of the outcome appears reasonable since the results did not change with different forms of model estimations. Future research could thus incorporate other indicators for tax avoidance and audit quality to verify the appropriateness of these findings.

Model 2 tested the moderating effect of external audit fees on the relationship between audit committee independence and tax avoidance practices. The results indicate a highly significant moderating effect, with a statistical significance level of 0.000 and an F-value of 41.60. Consequently, hypothesis Ha2 stating that external audit fees positively moderate the relationship between audit committee independence and tax avoidance among companies listed on the ASE is supported. The introduction of external audit fees as a moderator increased the model's explanatory power by 4.45%, raising the adjusted R-squared to 14.35%. This means that 14.35% of the variation in tax avoidance practices is explained by the combined effects of audit committee independence, external audit fees, and their interactions. Hence, it can be concluded that the interaction between audit committee independence and external audit fees modifies the overall impact of audit committee independence on tax avoidance. Additionally, the results show a positive but statistically insignificant direct effect of external audit fees on tax avoidance practices (Z = 0.24, p = 0.809).

Importantly, findings show that there is a significant negative effect of the interaction term (audit committee independence * external audit fees) on tax avoidance practices at the 1% significance level (Z = −4.73, p = 0.000), meaning that higher audit fees with high levels of AC independence lead to a lower risk of tax avoidance.

Regarding control variables, company age negatively affects tax avoidance practices at the 5% significance level (p = 0.019), while company size and financial leverage show no significant effect, with p-values of 0.227 and 0.493, respectively.

4.4. Endogeneity and Robustness Analyses

A potential source of bias in the OLS estimates arises from endogeneity between corporate governance mechanisms (audit committee independence (ACIN)), external audit fees (FEES), and tax avoidance (DCETR). Reverse causality is plausible, where firms that engage in tax avoidance may influence audit committee composition or audit-fee arrangements, and omitted variables (for example, managerial incentives or firm risk culture) may jointly affect governance and tax outcomes. To address these concerns, we applied formal endogeneity diagnostics, estimated instrumental-variable regressions using two-stage least squares (2SLS), and conducted robustness checks with alternative dependent variables and alternative proxies for audit quality (Baltagi, 2021). All regressions use panel-data techniques with standard errors clustered at the firm level to account for within-firm correlation over time. Models include the control variables AGE, LEV, and SIZE and control for year-fixed effects to mitigate omitted time effects. We used instruments for potentially endogenous variables, such as ACIN and FEES. Instruments were chosen to be relevant (correlated with the endogenous regressors) and plausibly exogenous (uncorrelated with the structural error term) following standard IV practice (Wooldridge, 2015). The instruments used are as follows:

- Industry-average audit committee independence (IND_ACIN): the average ACIN of other firms in the same two-digit industry (excluding the firm). Industry- or peer-based averages are commonly used as instruments in governance studies because they capture peer norms that predict firm-level governance but are less likely to be driven by firm-specific tax avoidance after controlling for firm and year effects.
- Lagged audit fees ($FEES_{t-1}$): the natural logarithm of audit fees in the prior year, which is predictive of current-year fees but less likely to be contemporaneously affected by current tax avoidance.
- Audit committee meeting frequency (BOARDMTG): the number of audit committee meetings in year t, used as an additional instrument for ACIN. Meeting frequency reflects governance activity that correlates with independence but is not expected to directly determine tax avoidance choices conditional on controls.

4.4.1. Endogeneity Diagnostics

A Durbin–Wu–Hausman test (Durbin; Wu; Hausman, commonly cited in applied work) was implemented to compare OLS and IV estimates. The test rejected the null of exogeneity (Hausman χ^2 = 4.86, p = 0.027), indicating that OLS estimates may be biased and IV estimation is preferable (Wooldridge, 2015). Given this result, IV/2SLS estimations were presented as the preferred specification.

First-stage regressions predicted ACIN and FEES using the instruments; second-stage regressions use predicted values to estimate effects on DCETR. All specifications included AGE, LEV, SIZE, and year-fixed effects, and cluster-robust standard errors. Instrument relevance is supported by first-stage F-statistics that exceed commonly accepted thresholds, and the Sargan/Hansen test failed to reject the null of instrument exogeneity.

Results of the first-stage statistics in Table 5 indicate sufficiently strong instruments. The Sargan overidentification test (p = 0.209) does not reject instrument validity. In the 2SLS second stage, the direct effect of ACIN remains negative but statistically insignificant, consistent with OLS. Importantly, the interaction term ACIN × FEES is negative and statistically significant, indicating that even after accounting for potential endogeneity the moderating role of audit fees on the ACIN–tax avoidance relationship persists.

Table 5. 2 SLS estimation: first-stage and second-stage results (instrumenting ACIN and FEES).

First Stage (1) ACIN	First Stage (2) FEES	Second Stage (3) DCETR (2SLS)
IND_ACIN	0.412 *** (4.81)	—
BOARDMTG	0.024 ** (2.15)	—
FEES_(t−1)	—	0.178 *** (5.23)
ACIN (pred)	—	−0.012 (−0.88)
FEES (pred)	—	0.006 (0.31)
ACIN × FEES (pred)	—	−0.008 *** (−3.42)
AGE	−0.001 (−1.21)	−0.001 * (−1.96)
LEV	−0.001 (−0.98)	−0.001 (−0.84)
SIZE	0.019 ** (2.31)	0.022 ** (2.45)
First-stage F (weak instrument)	18.6 (p < 0.001)	23.9 (p < 0.001)
Sargan (overid.)	—	X^2 = 1.58 (p = 0.209)
Observations	371	371
R^2 (second stage)	—	0.138

Notes: t-statistics in parentheses. * p < 0.10; ** p < 0.05; and *** p < 0.01. Instruments: IND_ACIN, BOARDMTG, and $FEES_{t-1}$. Standard errors clustered by firm. See Stock and Yogo (2005) and Staiger and Stock (1997) for guidance on weak-instrument inference.

4.4.2. Robustness Checks

Robustness tests were conducted to assess whether results are held under alternative model specifications and measures. Two sets of robustness checks were implemented: alternative dependent variables for tax avoidance and alternative proxies for audit quality. These checks follow common practice in tax-avoidance and audit-quality research (Dyreng et al., 2010; Hanlon & Heitzman, 2010).

Alternative dependent variables (tax avoidance proxies) are as follows:

- Long-run CETR ($CETR_{LR}$)—three-year average CETR to smooth transitory shocks (Dyreng et al., 2010).
- Book–tax difference (BTD)—a commonly used measure of tax avoidance intensity (Hanlon & Heitzman, 2010).
- Alternative audit-quality proxies.
- BIG4—a dummy variable indicating Big-four auditor engagement (DeFond & Zhang, 2014).
- AUD_TENURE—auditor tenure in years.

In these tests for robustness, with long-term tax rates, book-tax differences, the presence in Big-4 accounting firms, and tenure, the mediating effect of audit quality on the ACIN- tax avoidance relation continues to remain significant in terms of sign, as presented in Table 6.

Table 6. Robustness checks: alternative DVs and alternative moderators.

Model	DV	Moderator	ACIN	FEES/Moderator	ACIN×Mod
A1 (OLS)	DCETR_LR	FEES (ln)	−0.014 (−0.95)	0.007 (0.38)	−0.007 ** (−2.10)
A2 (2SLS)	DCETR_LR	FEES (instr)	−0.011 (−0.82)	0.004 (0.21)	−0.006 ** (−2.05)
B1 (OLS)	BTD	BIG4 (dummy)	−0.009 (−0.69)	0.021 (1.12)	−0.043 ** (−2.08)
B2 (OLS)	DCETR	AUD_TENURE	−0.013 (−0.88)	0.002 (0.09)	−0.003 * (−1.78)

Notes: t-statistics in parentheses. * $p < 0.10$; ** $p < 0.05$; and *** $p < 0.01$. All regressions control for AGE, LEV, and SIZE and include year fixed effects. For 2SLS models, instruments are IND_ACIN and $FEES_{t-1}$.

5. Discussion

The finding that audit committee independence has no significant effect on tax avoidance practices among non-financial companies listed on the ASE aligns with the results of Minnick and Noga (2010), Omesi and Appah (2021), Dang and Nguyen (2022), and Izza et al. (2023), all of whom reported no significant relationship between audit committee independence and tax avoidance. However, it contrasts with the findings of Alqatan et al. (2025), who identified a positive relationship, and Nabilah and Umaimah (2022), who found a negative relationship.

The conflicting results can be explained from an integrated theoretical point of view. As agency theory emphasizes monitoring and mitigating managerial creativity in pursuing opportunities unilaterally with independent oversight, resource dependence theory emphasizes the mediating function played by the audit committee in acquiring vital external knowledge credentials. Synthesizing these theories, it could be derived that independence is perhaps no guarantee to effectively deter tax avoidance on its own with optimal audit resources and moderate audit fees to equip external auditors with optimal capability.

This result is unexpected from the perspective of agency theory, which suggests that independent oversight should constrain opportunistic behavior, including aggressive tax avoidance. According to agency theory, independent audit committees reduce conflicts of interest between managers and shareholders, thereby mitigating tax avoidance. A plausible explanation for this finding is that audit committee independence alone may not be sufficient as a governance mechanism. Instead, an effective governance structure should encompass both an independent audit committee and high-quality external audits, as recommended by Koh et al. (2007) and Dey (2008), consistent with the complementary view of corporate governance. In other words, independence by itself is inadequate to curb aggressive tax avoidance unless it is supported by active engagement with external auditors.

Aggregating these findings with existing research, it is supported that the independence of the audit committee is only one aspect in ensuring monitoring in an organization; other factors need to be considered (Dang & Nguyen, 2022; Omesi & Appah, 2021).

This explanation is supported by the current study's finding that the interplay between higher-quality external audits—proxied by higher audit fees—and more independent audit committees significantly reduces tax avoidance practices. This underscores that independent audit committees and appropriate audit fees jointly help mitigate the risks of tax avoidance by reducing conflicts of interest between management and shareholders. Independence of the audit committee provides impartiality in the conduct of the audit, while adequate audit fees enhance the independence and quality of the audit, hence constraining tax avoidance. Fair audit fees enable the auditors to execute their mandate effectively, enhancing company stability and building trust among stakeholders.

This result is consistent with the agency theory view, which asserts that in the case where audit fees are sufficient and fairly paid, the auditors will be motivated towards comprehensive and independent audits that help curb tax avoidance. In cases where the fee is low or management-based, undetected tax avoidance is likely to increase, giving rise to agency costs. This is also consistent with the results of earlier studies who conclude that the interaction between tax avoidance and the quality of the external audit is shaped by numerous factors, chiefly the quality of corporate governance mechanisms and the characteristics of the external auditor, principally the audit fee. This convergence is sustained in the studies such as Nianjia (2018), Lestari and Nedya (2019), Salehi et al. (2020), Riguen et al. (2020), and Gontara and Khlif (2021), who all insist that the use of an external audit fee is key towards the inhibition of tax avoidance activities.

6. Conclusions

The role of audit committee independence and external audit fees in tax avoidance practices is a highly important topic within the framework of corporate governance, as it refers to the impact these factors may have on a company's ability to comply with legal tax requirements and detect tax avoidance practices. Independence of the audit committee means that the audit committee can take its decisions without being pressured by the company's management or anyone else in the company. An independent audit committee can be viewed as a powerful way of identifying legal financial behavior that may involve tax avoidance. External audit fees refer to the amount of money that a company pays to external auditors for the efforts that the auditors directly devote to conducting the company's audit. Roger's study proposes that the appropriateness of the external audit fees may impact on the ability of auditors to conduct accurate and independent audit processes. This may be achieved by making the external audit fees adequate to the performance of the auditors. On the other hand, if the fees are low or managed under management pressure, audit quality may be reduced, or aggressive tax avoidance practices may even be covered up to avoid raising concerns about financial issues.

The findings of this study reveal a negative but statistically insignificant relationship between audit committee independence and tax avoidance practices among non-financial companies listed on the ASE. However, when external audit fees were introduced as a moderating variable, the explanatory power of the model improved, indicating that the interaction between audit committee independence and external audit fees plays a role in reducing tax avoidance practices.

Within the broader corporate governance framework, these results highlight the joint importance of audit committee independence and external audit fees influencing a company's ability to comply with tax regulations and detect potential tax avoidance. Audit committee independence reflects the committee's capacity to make unbiased decisions without undue influence from management, thereby enhancing oversight effectiveness. Meanwhile, fair and qualifying external audit fees serve as a proxy for audit quality, as adequate and performance-linked fees strengthen auditor independence and facilitate comprehensive, high-quality audits.

The study's findings contribute to the agency theory and corporate governance literature, as it provides evidence that the interplay between independent audit committees and fair and appropriate audit fees can act as a deterrent to opportunistic managerial behavior, including aggressive tax avoidance. Conversely, low or management-influenced fees may compromise audit quality, increasing the risk of undetected tax avoidance and associated agency costs. These findings underscore the need for policymakers and regulators to strengthen governance mechanisms not only by promoting formal independence of audit committees but also by ensuring that external audit arrangements, including fee structures, are designed to safeguard auditor objectivity and effectiveness. Additionally, the findings highlight the need for policymakers to move beyond formal compliance metrics and focus on strengthening the functional capacity and authority of audit committees in practice.

Finally, the researchers affirm that the results of this study are constrained by the sample, study period, and the measures used. Confirming or refuting these results requires further research efforts in the Jordanian environment, based on different measures for tax avoidance, audit quality, and corporate governance, while expanding the research base to include sectors other than industrial companies. The researchers also recommend conducting future studies and more research, such as studying the impact of audit fees on the integrity of audit reports and the detection of tax avoidance and examining the cultural and social effects on audit committee independence and audit fees in tax avoidance practices.

A further limitation of this study is the reliance on audit fees as the sole proxy for audit quality. While this proxy is widely used in the prior literature, it does not fully capture the multidimensional nature of audit quality, which can also depend on factors such as auditor size, tenure, and industry specialization. Future studies can also consider other governance factors, such as board size, board independence, and gender diversity, to gain a better understanding of the role of broader governance structures in tax avoidance together with audit quality. Future research could, for example, examine the role of audit committee financial expertise and meeting frequency in moderating the relationship between audit quality and tax avoidance. It could also employ panel data covering a longer period or compare listed and unlisted firms to assess whether governance effects vary across ownership structures. Furthermore, intercountry comparisons with Jordan and other emerging markets could also identify the role of institutional factors in these relationships.

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