Arab American University

Faculty of Graduate Studies

Department of Administrative and Financial Sciences

Master Program in Accounting and Auditing

The Mediating Effect of Audit Quality between Audit Committee and Earnings Management: An Applied Study on Listed Companies in Palestine Exchange

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Thesis Approval

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Palestine, 10/2024

Declaration

I declare that, except where explicit reference is made to the contribution of others, this thesis is substantially my own work and has not been submitted for any degree at the Arab American University or any other institution.

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Dedication

To my dear parents, my father and mother; may God prolong their life and keep them safe and healthy. They have always been a source of love, support, and inspiration.

To my sisters, who have always been by my side with their kind hearts and invaluable advice.

This thesis is the fruit of your efforts and sacrifices. Thank you from the bottom of my heart.

Ahmad Othman Mahmoud Taleb

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Abstract

This study aims to examine the mediating effect of audit quality (AQ) represented by audit fees and audit firm size, particularly the big four on the association between audit committees (ACs) and accrual earnings management (AEM). Data was sourced from the annual reports of 27 non-financial companies listed on the Palestine Exchange (PEX) from 2014 to 2022. Furthermore, ordinary least square (OLS) regression with robust standard error, as well as logistic regression was used to test the study models.

The findings revealed that the characteristics of ACs don't play a significant role in reducing AEM, except for the accounting and finance experience of committee members, which is positively associated with AEM. On the other hand, the study showed that the characteristics of ACs don't significantly affect the increase of audit fees, except for the number of meetings that showed a positive relationship with auditor fees. On the contrary, independence, frequency of meetings, and the presence of female members in ACs don't play a significant role in the selection of the big four audit companies, while the size and its members accounting expertise are positively associated with the selection of big four companies. Finally, the results showed that AQ, through audit fees and big four audit companies doesn't affect the reduction of AEM. Thus, according to Baron and Kenny (1986) mediation test, the AQ fails to achieve the role of mediator in the association between ACs and AEM. Furthermore, robust analysis was used to check the validity and robustness of the results, including the use of alternative regression estimators and alternative AEM model. The sample was also divided based on signed accruals, and it was found that the presence of ACs doesn't affect AEM and AQ. Finally, the issue of endogeneity was discussed.

The main contribution of this study is to examine the AQ as a potential mediating variable between ACs and AEM. The study recommends that regulatory bodies and policymakers in Palestine and other developing countries should review and update their governance mechanisms and develop legislative and supervisory instructions align with global governance standards, thereby contributing to strengthening the regulatory environment and improve better oversight of governance practices.

Keywords: Audit Committee, Audit Quality, Accrual Earnings Management.

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List of Definitions of Abbreviations

Abbreviations	Title
ACs	Audit Committees
AQ	Audit Quality
EM	Earnings Management
AEM	Accrual Earnings Management
REM	Real Earnings Management
CG	Corporate Governance
RDT	Resource Dependence Theory
PCCG	Palestinian Code of Corporate Governance
PCMA	Palestinian Capital Market Authority
PEX	Palestine Stock Exchange
PMA	Palestine Monetary Authority
PACPA	Palestinian Association of Certified Public Accounting
DA	Discretionary Accruals
NDA	Non-Discretionary Accruals
VIF	Variance Inflation Factor
AR (1)	First Order Autocorrelation
2SLS	Two Stage Least Squares
OLS	Ordinary Least Squares

Chapter One: Introduction

1.1 Introduction

The ongoing economic effects of global crises and disasters, such as the COVID - 19 pandemic and financial crisis, urge academicians, financial experts, risk specialists, and corporate stakeholders to explore their available options to confront the challenges of ensuring sustainability and financial stability (Papagiannis et al., 2024). During these crises, it becomes more clear that direct disclosures by companies, such as net income, may be inadequate to correctly evaluate their viability (Mollik et al., 2020). The essential issue in financial markets focuses on how companies can deliver reliable financial information that instills trust in stakeholders, given the obstacles involved with earnings management techniques. For financial academics, Earnings Management (EM) is an important topic, particularly in light of ignorant investors lack of financial literacy when it comes to assessing the quality of a company profits and identifying opportunistic EM strategies (Cheung & Chung, 2022). The development of organizations and the division of ownership and management gave rise to the agency theory, which describes an agency relationship in which the owners give the managers the power to decide for them and carry out certain responsibilities, so conflicts of interest result from both sides pursuing their own interests, which causes information asymmetry between managers and stockholders (Jensen & Meckling, 1976). Managers might falsify financial reports in order to benefit from contracts that depend on accounting gains. Healy and Wahlen (1999) suggested that the purpose of this manipulation may be to influence contractual outcomes based on accounting data or mislead stakeholders with conflicting interests about the companies economic success.

Recently, there has been a rise in interest in corporate governance (CG) concerns among academics and business specialists. Many factors have led to this heightened emphasis, including the financial catastrophes at major companies like WorldCom and Enron (Yahaya & Onyabe, 2022). According to Satyaguna et al. (2024) these scandals have caused a crisis of trust, raising concerns about the accuracy of financial data and significantly affecting stakeholder behavior. The creation of CG frameworks to regulate the conduct of all entities involved in corporate operations is acknowledged as a necessary response to these incidents, which are typically brought about by inherent conflicts of interest within the agency relationship between owners and managers (AlQadasi & Abidin, 2018). Consequently, mechanisms of CG have been implemented to support

investors by harmonizing the concerns of management with those of shareholders, thereby fortifying the dependability and trustworthiness of financial reports (Abdeljawad et al., 2020). These CG mechanisms encompass Audit Committees (ACs) as an internal mechanism and Audit Quality (AQ) as an external mechanism (Fama & Jensen, 1983). ACs is a subcommittee from board of directors, it plays an integral role in overseeing the financial reporting process, primarily by actively monitoring internal controls to ensure strict adherence to laws and regulations (Afenya et al., 2022).

According to agency theory, the fundamental task given to ACs is to ensure that managers are acting in the best interests of shareholders. This idea relies on the notion that the split of duties between management and owners implies protections for investors. The fundamental worry is that, owing to potentially conflicting interests, managers might not consistently prioritize the best interests of shareholders, as indicated by Fama and Jensen (1983) and Jensen and Meckling (1976). To address this issue, it is necessary to engage independent auditors who provide neutral assessments of the accuracy and fairness of companies financial reports (Bawuah, 2024). Hence, auditors are crucial to maintaining the integrity and quality of financial statements, as well as curbing EM practices because the company, and particularly the ACs, designates an outside auditor to examine the financial statements that the executive management has produced and provide a report (Alhababsah & Yekini, 2021). Establishing ACs in listed companies is one of the most essential criteria for promoting AQ. So these committees are entrusted with addressing important risks related to the external audit process, including the appointment of auditors and the negotiation of their fees (Lin, 2018). Moreover, well-functioning ACs insist on employing a credible audit agent and allocating extra audit duties and responsibilities, eventually leading to increased AQ (Al-Hajaya, 2019; Drogalas et al., 2021). Furthermore, committee members participate in face-to-face meetings with external auditors to discourse on audit-related problems and actively recommend and monitor the coordination of audit work with the audit team (Elmashtawy et al., 2023). Hence, this lowers the chance of delivering erroneous views. Still, it is crucial to emphasize that this dedication to quality may lead to increasing audit costs (Zaman et al., 2011).

Considering on our earlier discussion, this study seeks to offer real-world insights from listed companies in Palestine exchange about if external AQ mediates the connection between ACs and EM.

1.2 Problem Statement

EM is a critical issue in Palestine, as it threatens the integrity of financial reporting and investor trust. Studies indicate that 50% of listed companies in PEX engage in EM (Abdelkarim & Zuriqi, 2020; Saleh & Mansour, 2024). This matter necessitates a comprehensive examination of the impact of EM on Palestinian companies.

Many studies have delved into the relationship between ACs and EM in different economic environments and have shown divergent findings, many argue that powerful ACs tend to reduce opportunistic EM (Albersmann & Hohenfels, 2017; Bawuah, 2024; Daryaei et al., 2024; Zadeh et al., 2023), while others suggest that ACs may be used as a tool to facilitate financial manipulation if they lack sufficient independence or expertise (Ali, 2024; Cheung & Chung, 2022; Galal et al., 2022; Setiawan et al., 2020).

Furthermore, examinations of the link between AQ and EM in different economic environments have shown varying outcomes, many argue that high demand for AQ through hiring big audit four companies which require more fees tends to reduce opportunistic EM (Alzoubi, 2016; Santos Jaén et al., 2023), while others suggest that greater audit fees can raise concerns about auditor independence, because they may create incentives for auditors to permit EM practices (Awuye, 2022; Donatella et al., 2019; Guizani & Abdalkrim, 2021).

However, only a limited number of research have delved into the intricate relationship between AQ and ACs concerning to resolve of agency conflicts between managers and shareholders, as well as the alignment of management interests with those of investors. These investigations are grounded in agency theory and a few publications such as (Mollik et al., 2020; Zgarni et al., 2016) have indicated that the presence of proficient ACs and high AQ can significantly reduce the prevalence of EM and improving the precision of financial statements. Given these factors, there is a persuasive need to explore the association between ACs and EM, especially by highlighting the role of AQ in this association in the context of developing nations, especially listed companies on the Palestine Exchange (PEX). Furthermore, this study has a special relevance since it remains unexplored within developing nations, especially in the Palestinian context.

1.3 Research Questions

Based on the preceding discussions, this study aims to address the following questions:

1. Is there an influence of the ACs characteristics on EM in PEX-listed companies?
2. Is there an influence of the ACs characteristics on external AQ in PEX-listed companies?
3. Does external AQ exert an effect on EM in PEX-listed companies?
4. Is external AQ is mediate the association between ACs characteristics and EM in PEX-listed companies?

1.4 Research Objectives

This study is designed to accomplish the following objectives:

1. Understanding how ACs characteristics influence the EM of PEX-listed companies.
2. Exploring the influence of ACs characteristics on external AQ in PEX-listed companies.
3. Understanding how external AQ influence the EM of PEX-listed companies.
4. Determine if external AQ is mediate between ACs and EM in PEX-listed companies.

1.5 Research Significance

This study has two significances, including the following:

1.5.1 Practical Significance

This research offers various potential advantages. Firstly, it may improve CG practices in Palestinian listed companies by providing practical guidelines for improving governance practices, especially ACs thus, increasing investor trust and market stability. Furthermore, the study may improve investor protection and market efficiency by discovering links between ACs characteristics, external AQ, and reduced EM, resulting in increased transparency. Academically, it provides genuine data for accounting and CG research, broadening our knowledge of these subjects. Finally, it raises stakeholder awareness of the critical roles of AC characteristics and external AQ in maintaining accrual

manipulation, allowing for proactive initiatives toward openness and accountability. In conclusion, our findings have significant implications for Palestinian corporate governance, investor protection, and market efficiency.

1.5.2 Theoretical Significance

The significance of this study is highlighted by the scarcity of research in the field, especially those investigating the relationship between ACs and EM practices in PEX-listed companies. Furthermore, there is a conspicuous lack of academic research on the relationship between AQ and EM, and the findings of such studies differ depending on context. As a result, this study is unique in that it introduces external AQ as a mediating element in the relationship between ACs characteristics and EM in PEX-listed companies. Furthermore, this study adds greatly to the literature in three important ways. First, it builds on earlier literature by adding AQ as an intermediate variable in the link between ACs and EM. Second, it admits that there may be variances in how CG impacts emerging markets across various markets such as efficient markets like United States and Europe vs emerging countries and developing markets. Finally, this study separates itself from past literature by accepting the OECD corporate governance framework and successfully building suitable models that contain all suggested CG mechanisms.

In the following chapters, we investigate the theoretical framework, literature evaluation and hypothesis construction. Chapter three explains our study approach, including data sources, variables, and the research model. Moving on to chapter four, we describe the study results, followed by chapter five, where we make implications for this study.

Chapter Two: Literature Review

2.1 Introduction

This chapter contains three main sections. The first section deals with the theoretical framework for ACs, AQ, and EM. The second section focuses on reviewing previous studies and developing hypotheses. The third section explains the conceptual framework.

2.2 Theoretical Framework

2.2.1 Review Theories

In this study, the researcher used agency theory as the underpinning theory and resource dependency theory (RDT) as a supporting theory.

2.2.1.1 Agency Theory

Agency theory started by important works of Berle and Means in 1932 (Mandelbaum, 1933) and has been developed by Jensen and Meckling (1976). This concept discusses the ties that exist between the company owners, known as the principal, and the managers, known as the agents. In the current world of company, managers are held responsible for the day to day running of the company for owner who cannot do so possibly because of factors such as size, dispersion and the need for specialized skills. Managers are expected to work for the owners while they themselves may be owners of a part of the company, this leads to a clash of interest and can be referred to as the principal-agent problem.

Jensen and Meckling (1976) argue that agency theory is critical for understanding how owners engage managers by delegating decision-making power, expecting managers to make decisions that benefit the principal. The theory also explains the motivation for EM, where managers may manipulate outcomes to boost their incentives, salaries, and commissions, therefore harming the company's profitability (Healy & Wahlen, 1999). Costs connected with agency issue are classified as monitoring, bonding, and residual loss. Monitoring expenses refer to the resources committed by owners to supervise managers' actions. Bonding costs are the expenditures incurred by directors to ensure that their actions correspond with the principal's advantages and do not cause damage, and residual losses represent the extent to which owners' returns depart from expected values(Jensen & Meckling, 1976).

According to agency theory, ACs are essential in guaranteeing that management endeavors to increase the wealth of all shareholders. They aid in reducing information asymmetry, thus alleviating and resolving agency-related issues (Awuye, 2022). Sobhan et al. (2024) expand on this, explaining that effective oversight by ACs safeguards shareholder interests by addressing issues with internal control, the effectiveness of the external auditors, and yearly financial statements, then good supervision by ACs protects shareholder interests.

To align the interests of owners and management, numerous governance techniques may be used. Internal procedures like ACs and external instruments like external auditors, as proposed by Fama and Jensen (1983), are critical in this regard. According to DeFond and Jiambalvo (1991), collaboration between ACs and external auditors may successfully inhibit opportunistic reporting by management. As a result, organizations with strong ACs and greater AQ are expected to have a reduced risk of participating in EM than those without audit committees or with poorer-quality auditing services.

2.2.1.2 Resource Dependence Theory (RDT)

RDT was first developed by Pfeffer and Salancik (1978) this work quickly received significant attention and has since emerged as a prominent theory within the construction of strategic and organizational management theories especially as regards company boards. RDT states that life organizations depend on another in providing vital products, thereby forming relationships like cross-boarding, alliances, joint venture, in-sourcing and mergers, and acquisitions.

RDT emphasizes the crucial role the board plays in obtaining resources or reducing dependency on other organizations. Pfeffer (1987) argues that companies use boards of directors as a means to integrate crucial external entities with whom they have interdependencies. Daryaei et al. (2024) state that the RDT recognizes governance structures as a tool that companies use to achieve strategic goals. Furthermore, Al-Shaer & Zaman (2018) suggest that both management and investors will depend on the board to acquire and manage limited resources. According to the idea, managers supply important knowledge and advice across a broad variety of strategic domains, in addition to uncertainty reduction.

RDT supporters think that the board serves an important regulatory function by providing critical resources, protecting the corporation from any factors that threat a company to

continue, and reducing agency costs by high quality of auditing (Huse, 2005; Lynall et al., 2003). Sobhan et al. (2024) support this approach, argue that stakeholders, including executives and the governing body aims to address any risks, and establish links with other companies.

Within the scope of RDT, we believe that ACs is observed as a resource provider, providing knowledge and experience to help board companies to obtain a competitive advantage, notably in assuring the quality of financial audit. This idea is supported by Provan *et al.* (1980) that having board members serve on many organizational boards, including ACs is critical to the organization success.

2.2.2 Audit Committees

2.2.2.1 Audit Committees: Definition and Background

Audit committees (ACs) have been receiving more attention from researchers and regulatory bodies worldwide, especially after major financial crises in large companies (Orazalin, 2019). This increased interest comes from understanding the vital part that ACs play in make sure accurate and transparent financial reporting within companies (Brennan & Kirwan, 2015). As a result, organizations entering the financial market are required to formation ACs to protect the interests of investors (Albersmann & Hohenfels, 2017). Researchers have looked into ACs extensively, but there isn't a single agreed-upon definition. Various scholars have described them differently. For example, (Arens et al., 2020, p. 815) define it as:

"Selected members of a client's board of directors whose responsibilities include helping auditors to remain independent of management".

Whereas (Becker Professional Education, 2024, p. 103) defines it as:

"A committee of the board of directors, generally made up of three to five members of the board who are "outside directors" are individuals who are neither employees nor part of management and who do not have a material financial interest in the company".

In addition to Collier (1993) describes it as:

"A subcommittee of the main board comprised mostly of non-executive or independent directors with responsibility for oversight of auditing activities".

Finally, DeZoort *et al.* (2002) describe it as:

"An effective audit committee with qualified members having the authority and resources to protect stakeholder interests by ensuring reliable financial reporting, internal controls, and risk management through diligent oversight efforts".

Based on these definitions, it can be concluded that ACs are independently appointed by the board, they are composed of independent outside directors with accounting and financial expertise and must consist of at least three members, and their responsibilities include monitoring issues concerning financial reporting as well as external and internal audit and company's internal control.

The utilization of ACs was first embraced in the late 1930's after cases McKesson and Robbins fraud, whereby the SEC as well as the New York Stock Exchange (NYSE) encouraged their adoption (Birkett, 1986). The formation of the ACs was affirmed by the Blue Ribbon committee in 1990, as well as the Sarbanes-Oxley Act (SOX) in 2002 (Afenya et al., 2022; DeZoort et al., 2002). In Britain, recommendations of Cadbury committee in 1992 also supported the creation of ACs in public companies (Ghafran & O'Sullivan, 2017). The role of the ACs is crucial as a supervisory and control entity (Sobhan et al., 2024). It aims to ensure effective execution of financial reporting procedures, emphasizing independence to boost investor and stakeholder confidence in financial reports (Elmashtawy et al., 2023).

2.2.2.2 Audit Committees in Palestine

The formation of ACs is a newer concept in Palestine although the focus was intensified especially after the integration of CG principles in 2009. As a result of this achievement, the success was exclusive and owing to the teamwork of the Palestinian Capital Market Authority (PCMA), the Palestine Stock Exchange (PEX), and the Palestine Monetary Authority (PMA). Together, they established the *"Corporate Governance National Committee"* and released the *"Palestinian Code of Corporate Governance (PCCG)"* (PCMA, 2009). Furthermore, this code includes regulations that must be followed in order to apply the governance guidelines, as well as regulations that comply with global standards for the use of the guidelines. Regrettably, the application of this code is optional, and the creation of an ACs is not required.

Conversely, the Palestinian banking sector has aligned itself with global CG standards, whereas PMA mandating the boards of directors of Palestinian banks to establish ACs through banking law (PMA, 2010). Moreover, the PMA issued guidelines stipulating adherence to the *"Guide to Rules and Best Practices for Bank Governance in Palestine"*. These instructions emphasize the necessity of forming an ACs comprising at least three members, a permanent committee composed of board members, and a chairperson who is an independent. An ideal schedule of the meeting should be four or more times in a year and most of the members of this committee should have an accounting and finance background. The primary responsibilities of the committee include scrutinizing the accounting practices in the bank together with its financial practices, and scrutinizing the annual financial reports (PMA, 2017).

According to paragraph 59 of the PCCG, ACs shoulders a diverse array of responsibilities and authorities. These responsibilities span two key domains Firstly, concerning tasks associated with external auditors, the committee oversees critical tasks such as the choice of external auditors, scrutiny of their engagement letter, and the promotion of effective collaboration between management and external auditors. Moreover, the committee diligently reviews audited financial statements, engages in proactive meetings with external auditors to discuss findings prior to presentation to the board, and ensures diligent follow-up on external auditor notes to financial statements and management letter issues. Additionally, the committee meticulously evaluates accounting policies to prevent misrepresentations, assesses the competency of external auditors, and determines appropriate fee structures. Secondly, in relation to internal audit issues, the committee analyses the work of the internal audit department, discusses the improvements in controls and evaluates the efficiency of internal audit plan. In addition, the committee offers a means of communication between internal and external auditors promoting efficient audit work coordination (PCMA, 2009).

The researcher highlights significant points regarding Palestinian laws and legislation pertaining to ACs. Firstly, companies listed on PEX do not comply with PCCG guidelines (PCMA, 2009). The rationale is that listed companies in Palestine are not required by law to create ACs with the exception of the banking sector, whereas PMA (2010) in accordance with banking law, in article (47) it obligated each bank to form ACs consisting of members of its board and determine its tasks and responsibilities. Secondly, absence of punitive measures, it is as well noticed that the Palestinian laws have no provisions

that seek to provide punitive measures in case of non-compliance by the banks in the formation of ACs. There is seen the lack of punitive sanctions, which represents the weakness of regulatory measures in the sphere of creation and functioning of ACs in the banking sector and quite in other sectors.

2.2.2.3 Audit Committees Characteristics

The ACs members must possess specific characteristics in order to perform their duties effectively. The most essential characteristics that prior research focused on are listed below. These characteristics were picked for this study based on publicly accessible information, which aided in its accurate gathering and analysis.

1. **ACs Size:**

The size of ACs has a considerable impact on their efficiency, which is determined by differences in regulations among nations as well as the kind of commercial operations by companies (Albersmann & Hohenfels, 2017). According to international guidelines for CG, such as Blue Ribbon committee in USA (BRC, 1999) and Cadbury committee in UK (Cadbury, 1992), they suggest that ACs must be have at least three members, which is compatible with PCCG (PCMA, 2009). This required size guarantees that the committee may successfully carry out its given activities (Gerayli et al., 2021). Furthermore, ACs need a respectable and sizable membership with a broad range of expertise and experience (Zadeh et al., 2023). A broader ACs is better positioned to participate in meaningful conversations with management about monitored operations (Turley & Zaman, 2004). Conversely, management may exert undue influence on a smaller committee, whereas a larger, diverse committee is less susceptible to such pressures (Habbash, 2010).

2. **ACs Experience:**

According to Cheung & Chung (2022), the level of competence of the members in ACs is one of the cornerstones in CG that assist organizations in attaining their strategic goals and objectives. The RDT postulates that the ACs experience is useful in ensuring the financial reports are high quality which leads to better corporate performance (Daryaei et al., 2024). According to the PCCG, at least one of the ACs members should possess financial and accounting skills (PCMA, 2009). This requirement emphasizes the need for members who have adequate accounting qualifications in order to perform the tasks of the ACs efficiently.

3. ACs Mettings:

The number of ACs meetings throughout the year is one of the factors that determine its effectiveness since this is a key indicator of the ability to properly fulfill its responsibilities and exercise its function in the right way (Ali, 2024; Almarayeh et al., 2022) . As suggested by BRC (1999) it was agreed and recommended that all ACs should have a meeting at least once quarterly. Furthermore, according to PMA (2017), the banks in Palestine require the minimum of four meetings of the ACs annually, this complies with the guidelines of the PCCG (PCMA, 2009). These criteria force companies to have regular meetings to guarantee effective supervision.

4. ACs Indpendance:

Independence is recognized as a fundamental principle expected from members of ACs (Mollik et al., 2020). It involves ensuring that ACs members maintain autonomy from the executive management of the institution, as underscored by (Daryaei et al., 2024; Mardessi & Fourati, 2020). Criteria defining the independence of ACs members, as delineated by the PCCG, encompass the following: (1) They should not be employed by the company or its subsidiaries. (2) Financial compensation, apart from that received for board service, should not be accepted from the company or its subsidiaries. (3) None of their close relatives should hold executive positions within the company or its subsidiaries. (4) They should not serve as an executive director in any company engaged in commercial dealings with the company or its affiliated entities (PCMA, 2009). These criteria serve as fundamental benchmarks for ensuring the independence of ACs members and maintaining effective governance practices within organizations.

2.2.3 Audit Quality:

2.2.3.1 Audit Quality: Definitions and General Framework

Audit quality (AQ) is a generally acknowledged notion, however it lacks a consistently agreed and exact definition among researchers and practitioners. This lack of consensus stems from differing perspectives on what create AQ. Knechel *et al.* (2013) noted asserted that *"AQ is a subject of much debate, yet remains poorly understood"*. DeAngelo (1981) offers one widely accepted definition for AQ , she described it as:

"The market-assessed joint probability that a given auditor will both (a) discover a breach (misstatement) in the client's accounting system, and (b) report the breach."

Many researchers agree with this this definition such as Detzen and Gold (2021) they argue that the ability of auditors to identify misstatement, as well as their impartiality and independence in reporting any violation in the financial statements guarantees the quality of the audit. However, detecting a misstatement requires the efficient utilization of relevant resources during the audit, including inputs and processes. On the other hand, disclosing the misstatement necessitates the auditor to take appropriate actions considering the prevailing circumstances at the conclusion of the audit, including outputs and context. Conversely, Knechel *et al.* (2013) criticize this definition due to incompatibility with audit risk, as well as potential error in market participants views.

In the literature, various definitions of AQ highlight the auditor's responsibilities concerning the audit objective. For example, the US government accountability office describes AQ as an audit that is carried out (GAO, 2003, p. 13):

"In accordance with Generally Accepted Auditing Standards (GAAS) to provide reasonable assurance that the audited financial statements and related disclosures are (1) presented in accordance with Generally Accepted Accounting Principles (GAAP), and (2) are not materially misstated whether due to errors or fraud"

Significant departures from these guidelines are often seen as indicating poor AQ. This viewpoint is consistent with that found in professional literature, as evidenced by publications such as Tie (1999) and Krishnan and Schauer (2001).Other experts underscore the importance of identifying errors and assessing the overall outcome of financial statements. They propose that a top-tier auditor should detect inaccuracies in stated earnings, thereby enhancing the trustworthiness of financial reports (Abdullatif &

Al-Khadash, 2010). Additionally, Carcello *et al.* (2002) contend that the extent of audit procedures are directly impacts on AQ. On the contrary, Peecher and Piercey (2008) evaluates AQ from the bad audit results resulting from the auditor's negligence. Though there are now no internationally recognized definition of AQ (Francis, 2011; IAASB, 2014; Sulaiman, 2023), it is generally agreed that AQ is a continuum and that higher quality is preferable to lower quality (Knechel et al., 2013).

Various professional organizations and regulatory authorities have devised several frameworks in response to differing opinions on AQ. The first systematic endeavor to establish a framework for AQ was undertaken by the financial reporting council in UK in 2006 (Knechel et al., 2013). Moreover, International Auditing and Assurance Standards Board introduced a framework for AQ and suggests that AQ is shaped by five main factors include "*(1) input factors, (2) process factors, (3) output factors, across three levels: engagement (client), firm, and national levels, in addition to (4) key interactions between stakeholders, and (5) contextual factors*"(IAASB, 2014).

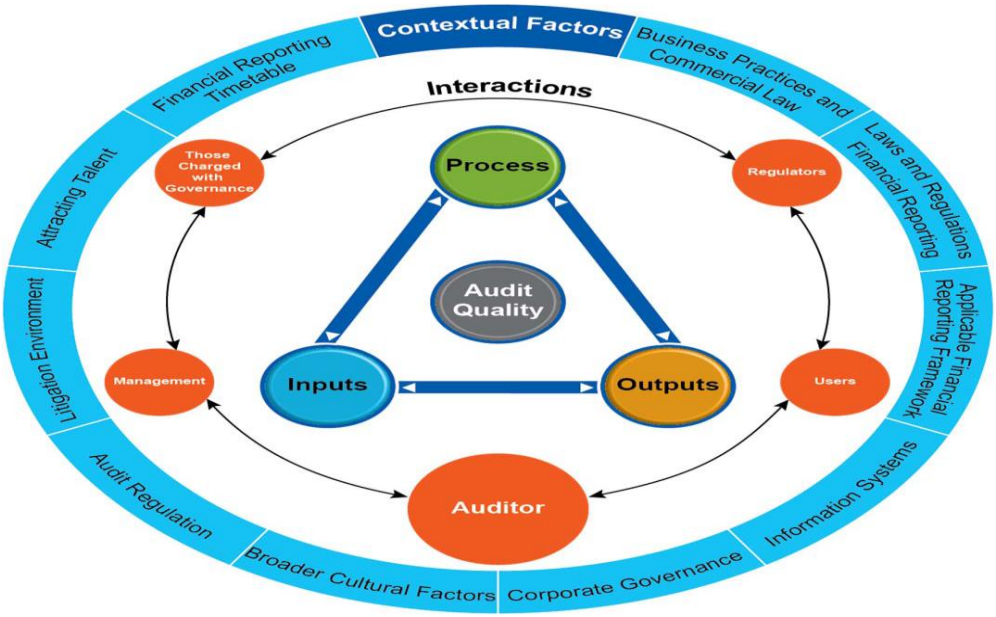

Figure (2-1) Audit Quality Framework

Source (IAASB, 2014)

The AQ are influenced by input factors which includes both the characteristics of the auditors such as their values, ethic, attitude, skills, experience, the situational characteristic such as the culture of the audit company and the amount of resources to be used such as time and money which are used in the audit exercise. In addition to process factors refer to the extent and intensity of the audit procedures and the efficiency of the

quality control procedures, whereas output factors pertain the tangible outcomes such as the audit report and other results stemming from the audit. Furthermore, stakeholders exert a noteworthy impact on quality of financial statement and audit outcomes by engaging in interactions with auditors. These interactions encompass formal and informal communication channels and are subject to environmental factors. For instance, discussions between auditors and corporate governance representatives during the audit planning phase directly affect the application of skills (inputs) and the eventual content and structure of the audit report (outputs). Thus, a large number of sources play a significant role in external conditions that may affect the quality of financial reporting in one or another way. Such aspects include the aspects of corporate governance, the framework under which financial reports are prepared, legal and regulatory requirements, and the nature of stakeholders' interactions. Also, these matters affect audit risk, the type, timing, and amount of audit evidence collected, and the audit effectiveness (IAASB, 2014).

2.2.3.2 Measurement of Audit Quality

Measuring AQ is a debate topic among academics and experts for a long time (IAASB, 2014; Knechel et al., 2013). This argument is made clear by Sulaiman (2023) and Francis (2004) who argues that because AQ is difficult to judge, a direct observable measure of quality is the audit report when the auditor issues an unmodified opinion. So, AQ cannot be measured directly, only by using indirect measures such as audit company size and audit fees (Guizani & Abdalkrim, 2021).

1. **Audit Company Size:**

According to Lindberg (2001) argue that the relationship among audit service demand and engagements with big companies stems from agency theory, as well as many researchers concludes that the relation between AQ and the size of the audit company are positive (Davidson & Neu, 1993; DeAngelo, 1981; Dopuch & Simunic, 1982; Salehi et al., 2019). As a consequence, companies choose larger companies known as *"Big 4"* over smaller ones to select strong quality auditors and get the greatest auditing outcomes. Since inaccurate reports might damage their reputation and cost them clients and audit revenue, these companies are driven to provide "accurate and clean audit reports" to keep their clients and their reputation (DeAngelo, 1981). Big four companies distribute essential resources to auditing engagement such as professional competence, auditor

qualifications, technology, and training which is a fundamental resources for evaluating how the size of audit companies impacts AQ which assisting in the detection of potential errors and misstatements (Alzoubi, 2016). Consequently, big four tend to prioritize ongoing professional education more significantly than their smaller counterparts. Research strongly confirm the argument that big four companies provide a higher auditing quality compare to non-big four (DeAngelo, 1981; Francis, 2004).

2. Audit Fees:

One of the most determinants measure that used in AQ literature is fees that paid to auditors (Hoitash *et al.*, 2007). In previous studies that examined the link between AQ and audit fees, research showed that there were different results. Some believe that high audit fees help improve the AQ by increasing the workload of auditor's effort (AlQadasi & Abidin, 2018; Eshleman & Guo, 2014; Francis, 2004; Guizani & Abdalkrim, 2021). In addition to DeAngelo (1981) argue in terms of auditor competency, specialization, and access to technical information through ongoing education, larger audit companies often employ more skilled experts than smaller organizations, so bigger audit companies are likely to have higher level of auditor specialization, which is related with increasing AQ and, thus, higher audit fees. Conversely, others argue that excessive fees given would cause auditors to be economically reliant on the client, which would prevent them from telling the client basic misstatement. For instance Hoitash *et al.* (2007) state that when an auditor is highly paid, it threatens its efforts and led increases risks which will prevent any clash with the client over material errors and thus lower quality. In addition to Choi *et al.* (2010) conclude a similar point the more fees threat its independency and led to less quality. However, in situations where doubts arise regarding the continuation of company operations, the link between fees and the appearance of a "going concern opinion" may not be directly seen, and it doesn't immediately prove the need for high AQ (Lindberg, 2001).

2.2.4 Earnings Management:

2.2.4.1 Earnings Management: Definitions and Motivation

The phenomenon of companies manipulating their earnings has been extensively studied the practice of companies adjusting their earnings has been extensively explored in academic research, drawing significant attention in the field of accounting, which interests both scholars and practitioners (Saleh & Mansour, 2024). Within scholarly discourse, EM is subject to diverse interpretations, highlighting its strategic nature in modifying financial reporting to achieve specific objectives. As defined by Schipper (1989) EM is:

"Disclosure management in the sense of a purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain".

In addition to Healy and Wahlen (1999) describe it as:

"Earnings management occurs when managers used judgment in financial reporting and in structuring transactions to alter financial reports to either mislead stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers."

Additionally, (Kieso et al., 2016, p. 155) contribute to the discussion by defining EM as:

"The planned timing of revenues, expenses, gains, and losses to smooth out bumps in earnings".

Moreover, Walker (2013) underscores the significance of both Accrual Earning Management (AEM) and Real earning management (REM), stating:

"The use of managerial discretion over (within GAAP) accounting choices, earnings reporting choices, and real economic decisions to influence how underlying economic events are reflected in one or more measures of earnings".

These comprehensive definitions collectively clarify manager's tactics for manipulating profits. In scholarly exploration, considerable attention is devoted to investigating various manipulation methods, including treatment of accruals using diverse accounting principles and methods (Healy & Wahlen, 1999; Walker, 2013), real economic decisions impacting cash flows (Healy & Wahlen, 1999; Roychowdhury, 2006), and earnings smoothing to reduce earnings fluctuations over time (Kieso et al., 2016; McKee, 2005).

However, the definitions of EM present certain issues. First, Dechow and Skinner (2000) argue that EM and fraud share a common ground of potentially misleading stakeholders. This similarity makes it difficult to differentiate between the two scenarios, so they suggest that compliance with GAAP rules acts as a serious factor in differentiating between fraud and EM. As figure (2.2) shows that if EM are comply with accounting standards such as (GAAP or IFRS) are deemed as EM, however, if they violate accounting standards, they are classified as fraud[1].

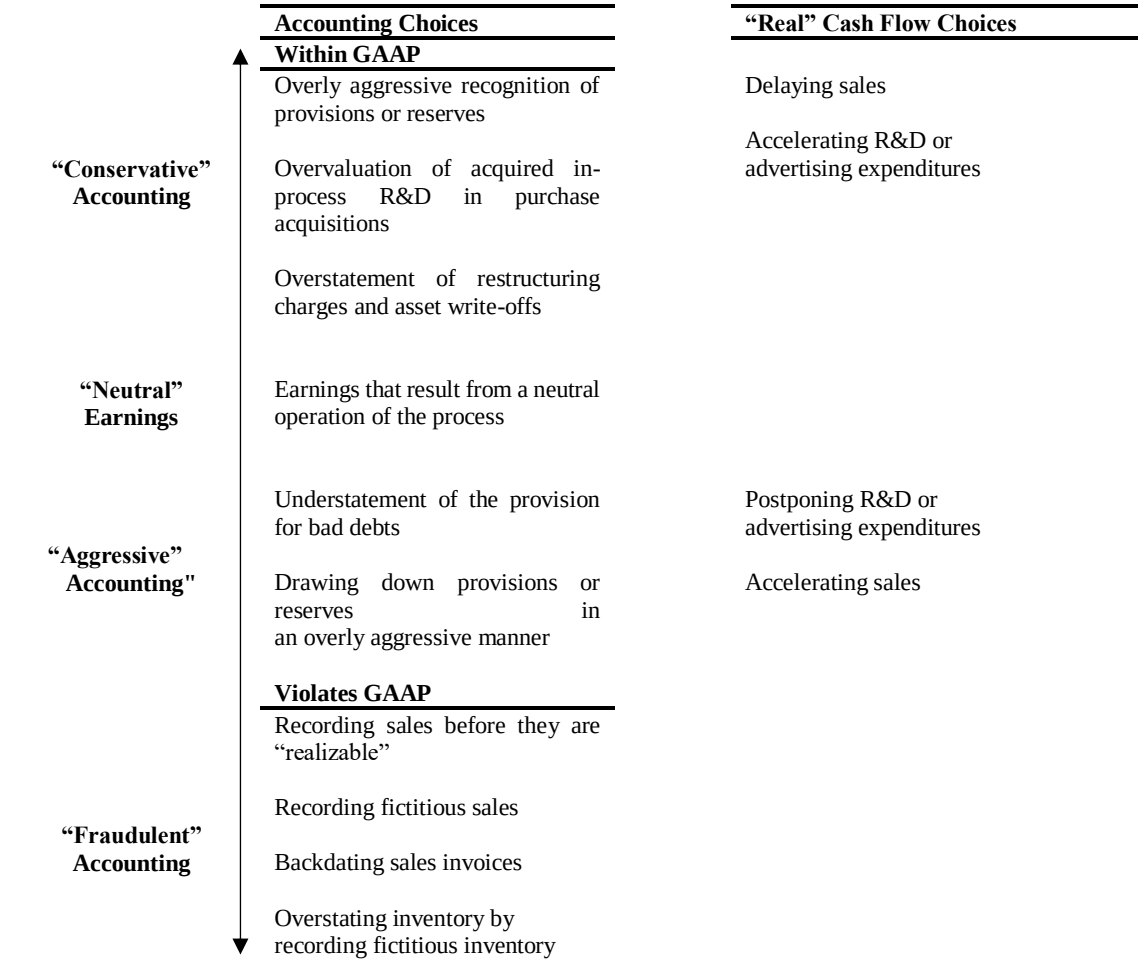

Figure (2-2) The Distinction between EM and Fraud

Source (Dechow & Skinner, 2000)

[1] Even this is not mandatory but it is more of a recommended best practice among the organizations. In academic research studies like that by Dechow, et al, (1996), samples used for research focus on a group of companies that have been deemed to have engaged in GAAP violation to deduce EM.

Secondly, as highlighted by Ronen and Yaari (2008), not every occurrence of EM carries negative consequences. Instead, EM can enrich the informational value of financial statement by facilitating the differentiation between regular earnings and isolated exceptional events.

According to Schipper (1989), EM is a practice conducted by managers and is motivated by their incentives. The persistent question revolves around understanding the incentives that drive managers and the company itself to resort an EM. Various incentives for EM exist across different levels. Among these incentives, as corroborated by Healy and Wahlen (1999), include contractual, capital market and finally political and governmental regulatory motives.

1. Contractual Motives:

In literature, a common reason for engaging in EM practices pertains to contractual agreements, such as management compensation and debt covenants. The executive compensation plan is considered one of the most important things that have emerged to solve agency problems, as many companies compensate managers with a basic salary in addition to additional incentives such as bonuses or allowances, as these bonuses are linked to two basic indicators of performance, which are declared profits and stock price (Scott, 2015, p. 393). In addition to Healy (1985) conclude that executives are interested to utilize EM strategies to optimize their benefits, thereby maximizing their wealth. Watts and Zimmerman (1978) suggest that compensation agreements and loan agreements are primary drivers behind the adoption of EM practices. Managers may utilize EM to optimize bonuses or meet the liquidity and solvency requirements outlined in loan agreements as outlined by Healy (1985) and Dechow *et al.* (1995).

2. Capital Market Motives:

Healy and Wahlen (1999) argue that investors and analysts rely heavily on accounting facts to analyze companies , and this may incentivize companies to distort profits in order to affect stock prices. In the same point, Arya *et al.*, (2003) conclude that executive managers adopt EM strategy to meet shareholders' and financial analysts' performance projections, aiming to boost the company's market share price and thereby optimize their own bonus compensation. In addition to Athanasakou *et al.* (2009) suggests that management employs EM to indicate its predictions concerning the company's forthcoming cash flows to shareholders who rely on published reports, which

significantly influence the company's expected market value. Additionally, McKee (2005) suggests that management, by smoothing income, seeks to reduce fluctuations in periodic profits to decrease the element of risk surrounding the opportunities to achieve those profits in the future, thereby providing the company's profits with a continuity feature that positively reflects on the quality of those profits and hence on its stock price in the financial market.

3. Political and Governmental Regulatory Motives

They are sometimes called organizational or political motives. They aim to reduce regulatory, legislative, or political costs, when management is convinced that declared profits will affect the decisions of policy makers or political decision makers (Healy & Wahlen, 1999). Therefore, corporate management seeks to reduce its profits to obtain on government support, as in institutions whose activities are linked to a social role. The goal of profit management may sometimes be to postpone or reduce tax payments. Furthermore, Cohen *et al.* (2019) refer to that local governments are more likely to manage profits during the re-election period. Besides, Othman and Zeghal (2006) show evidence of an incentives for EM is precisely associated with tax rates.

In his concise analysis, Walker (2013) identified three rationales for EM. These include: (1) fulfilling contractual commitments linked to stated earnings, frequently associated with agreements based on earnings or equity compensation related to company performance,(2) manipulating the information that intermediaries or investors have access to in order to shape their evaluations of the risk of the company and their expectations for cash flows, and (3) regulating the information accessible to various external stakeholders concerned about the financial strength of the companies, including current or prospective competitors, customers, suppliers, regulators, labor unions, advocacy groups, and political entities.

2.2.4.2 Earnings Management: Types

Dechow *et al.* (2010) argue that earnings consist of two elements which includes cash flow portion and an accruals portion. Consequently, managing earnings can be achieved through two methods, the first is adjusting accruals (AEM), and the second by implementing strategies that impact cash flow (REM), as highlighted Roychowdhury (2006).

1. Accrual Earning Management

This method occasionally related to as accounting approach or artificial earnings management, and depends on the flexibility available in IFRS or GAAP when mangers use of accounting choices and accounting estimation such as inventory valuation assumption (FIFO or LIFO), useful life for equipment, depreciation and reserves such as ECL (expected credit losses or allowance for doubtful accounts). This approach involves reassessing transactions with the aim of presenting the company as meeting its performance targets and performing favorably (Healy & Wahlen, 1999). In preparing financial statements, managers often rely on their judgment (estimation) since there are several accounting techniques provided by GAAP or IFRS, which offer various valuation options. However, the flexibility in accounting methods may result in costs for shareholders, as it permits executives to act opportunistically, as observed by (Fields et al., 2001). For instance, depreciation methods can be calculated through different methods such (SLM), double-decline balance, and sum of years' digits, so the flexibility in choosing a method that influences earnings without affecting the statement of cash flow.

This process is usually carried out through the accruals accounts resulting from the application of accrual basis, which include both deferral and accruals. In studying AEM, it's crucial to differentiate between Discretionary Accruals (DA) and Non-Discretionary Accruals (NDA). DA refer to adjustments made by a company's managers, such as understating the provision accounts, with the aim of reducing current period expenditures (Dechow et al., 2010). Instead, NDA are adjustments required by accounting standards. Research on AEM primarily focuses on DA. Consequently, estimating the proportion of accrual that are DA versus NDA is challenging and the existing literature offers many estimation models which enable the estimation of DA.

2. Real Earnings Management

REM has received a lot of interest lately as a result of well-known work by Roychowdhury (2006). REM refer to the efforts by managers to acceleration the earnings through managing real and normal companies transactions (Graham et al., 2005; Habib et al., 2022; Huang et al., 2020; Roychowdhury, 2006). These inquiries underscore REM pivotal role in assessing management behavior.

The literature suggests that there are several ways in which managers can inflate profits through their practical actions. These actions include economic strategies such as manipulating and accelerate sales through relaxed credit terms and increased client discounts (Habib *et al.*, 2022; Huang *et al.*, 2020; Roychowdhury, 2006). In addition to implementing strategies to reduce fixed costs through overproduction, this is reflected in the reduction of COGS, reflected in the increase in the company revenue (Huang *et al.*, 2020; Roychowdhury, 2006). Lastly, aggressive and opportunistic reduction of estimated expenses such as research and development, advertising, and administrative (Habib et al., 2022; Huang et al., 2020; Roychowdhury, 2006).

2.3 Previous Literature and Hypotheses Development

2.3.1 Investigating the interrelation between ACs and AEM:

ACs, as an internal corporate governance tool, play a distinctive and essential role in enhancing the reliability of earnings in nations with inadequate accounting standards (Daryaei et al., 2024). The association between ACs and AEM has garnered attention from numerous scholars who have worked in a variety of economic environments, including both developed and developing markets, yielding a mixed results (Albersmann & Hohenfels, 2017; Ali, 2024; Almarayeh *et al.*, 2022; Daryaei *et al.*, 2024; Mardessi & Fourati, 2020; Mollik *et al.*, 2020; Gerayli *et al.*, 2021; Setiawan *et al.*, 2020; Soliman, 2022; Zadeh *et al.*, 2023).

Many literature for example in developed nations like USA , Abbott *et al.* (2004) conclude that ACs characteristics will reduced the possibility of occurrence an accounting restatements, Furthermore Albersmann and Hohenfels (2017) conclude the same conclusion that ACs have important roles in minimizing AEM. In addition to developing nation like Iran, Daryaei *et al.* (2024) documented that the roles of ACs have an negative effect of the possibility of mangers to practice AEM , that's agree with

Soliman, (2022) conclusion on the Egyptian market . On the contrary, a few studies, such as Setiawan *et al.* (2020), have indicated a positive association between ACs and AEM. Moreover, several research argues the lack of a noteworthy link between ACs and AEM like Almarayeh *et al.* (2022) in Jordanian companies. Based on these discussions, the first hypothesis is developed as follows:

H1: A significant inverse relationship exists between ACs and the incidence of AEM within companies listed on PEX.

2.3.1.1 ACs Size and AEM

The efficacy of ACs is closely tied to their composition, which is regulated by the legislative frameworks of various nations. According to the guidelines of the PCCG, it is required that ACs consist of at least three members (PCMA, 2009). The relation between ACs size and AEM has attracted a lot of attention in literature across various economic environments and the results are mixed. For instance, Albersmann and Hohenfels (2017) looked into German companies from 2005 to 2009 using the annual reports and carrying out regression analysis and observed an inversely link between ACs size and AEM. Also, Zadeh *et al.* (2023) based on their study of Iranian companies went further and opined that there is an inverse relationship between the size of the ACs and AEM. Similarly, in non-financial Egyptian companies were examined by Soliman (2022) during the period of 2012 to 2019, he concluded a same conclusion. In contrary, Almarayeh *et al.* (2022) examined the influence of ACs on AEM within Jordinain listed industrial companies spanning from 2012 to 2022. Through regression analysis, they found that the size of ACs did not significantly affect AEM, this conclusion consistent with Setiawan *et al.* (2020), who also observed a non effct of the size of ACs on AEM in Indonesia. Drawing from the diverse array of findings, we formulate the following sub hypothesis:

H1a: A significant inverse relationship exists between ACs size and the incidence of AEM within companies listed on PEX.

2.3.1.2 ACs Experience and AEM

The expertise held by members of ACs, particularly in financial and accounting domains, is widely recognized as a critical qualification in safeguarding financial integrity within companies (Ghafran & O'Sullivan, 2013). According to recommendations of PCCG , that companies should have at least one member of the ACs possess an experience in financial and accounting (PCMA, 2009). Ali (2024) investigated the linkage between ACs and AEM in Ethiopia , he conclude that the knowledgeable members in accounting has a positive link with the possibility of mangers to practice accruals manipulation. In addition to Setiawan *et al.* (2020) who embarked on research on Indonesian companies and arrived a similar conclusion. In contrary, Mardessi and Fourati (2020) examined the Dutch companies from 2010 to 2017. Their findings suggested that knowledgeable members in accounting and financial exerted a negative impact on REM. Similarly, Zadeh *et al.* (2023) investigated the impact of ACs expertise on both AEM and REM. Their findings revealed a negative effect of ACs accounting expertise on AEM, while no significant relation was observed with REM. In addition to several other studies, including Daryaei *et al.* (2024) , Soliman (2022), and Albersmann and Hohenfels (2017), predominantly focused on AEM and identified an inverse link between ACs accounting expertise and AEM. Contrasting with findings by Almarayeh *et al.* (2022) which found no significant relation between ACs knowledge in accounting and AEM. Drawing from the diverse array of findings, we formulate the following sub hypothesis:

H1b: A significant inverse relationship exists between ACs accounting and finance experience and the incidence of AEM within companies listed on PEX.

2.3.1.3 ACs Independence and AEM

Based on the signaling concept posits that the inclusion of outside directors in ACs can signal to shareholders the robustness of a corporation's governance tools, thereby enhancing investor protection (Chen et al., 2009). Early literature on ACs has underscored the importance of outside directors in ACs in restriction opportunistic behaviors by managers through less manipulation in accruals (Almarayeh et al., 2022; Daryaei et al., 2024; Mardessi & Fourati, 2020). However, there are some conflicting results, some studies revealed that there is no noteworthy link between ACs independence and AEM as identified by (Ngo & Le, 2021; Setiawan et al., 2020; Zadeh et al., 2023). Gerayli *et al.* (2021) also agreed with this conclusion, after detecting no noteworthy link between ACs

independence and the quality of accruals in sample companies operating in Tehran market during the period 2012-2017. Drawing from the diverse array of findings, we formulate the following sub hypothesis:

H1C: A significant inverse relationship exists between ACs independence and the incidence of AEM within companies listed on PEX.

2.3.1.4 ACs Meetings and AEM

The ACs directors diligence and dynamism in fulfilling their responsibilities are still evident in the total number of meetings (Almarayeh et al., 2022). Nuryana and Surjandari (2019) suggest that increased frequency of meetings among ACs members enhances their effectiveness in fulfilling their supervisory duties. Additionally, Albersmann and Hohenfels (2017) also establish that where committee meetings are held more than four times in a year, this tend to decrease accruals manipulation practices within the German companies. In contrary, Ali (2024) argue that ACs meetings are linked with the occurrence of more accrual manipulation in Ethiopian context. Nonetheless, Initial research conducted in different contexts of ACs, including, Almarayeh *et al.* (2022) in Jordan , Mardessi and Fourati (2020) in Netherland, and Soliman (2022) in Eqypt, failed to found a noteworthy evidence to support a link between meeting frequency and AEM. Drawing from the diverse array of findings, we formulate the following sub hypothesis:

H1d: A significant inverse relationship exists between ACs meetings and the incidence of AEM within companies listed on PEX.

2.3.1.5 ACs Female Membership and AEM

Global CG frameworks advocate for women to be included in strategic management to enhance the performance of their organizations. The inclusion of female directors in governance structures such ACs, is seen as crucial due to the valuable characteristics they bring, potentially improving corporate governance practices (Galal et al., 2022). Feminist theory suggests that when it comes to making professional decisions, women are more unbiased than males (Thiruvadi & Huang, 2011). The research on ACs indicates that there is a negative link between AEM and committees that include one or more female members (Daryaei et al., 2024; Galal et al., 2022; Mardessi & Fourati, 2020; Setiawan et al., 2020; Thiruvadi & Huang, 2011). This suggests that women's representation in ACs may improve financial reporting and lessen the use of EM practices. However, other

stuides concluded conflicting results. For example, Sun *et al.* (2011) found no connection between AEM in US companies and the number of women on ACs. On the other hand, Ali (2024) discovered that in Ethiopia, the presence of women increased accruals manpuliation. Drawing from the diverse array of findings, we formulate the following sub hypothesis:

H1e: A significant inverse relationship exists between ACs female member and the incidence of AEM within companies listed on PEX.

2.3.2 Investigating the interrelation between ACs and AQ:

The foundation of CG is audit, but its effectiveness relies on the reality and growth of the CG surroundings (AlQadasi & Abidin, 2018). Mixed results lead the literature to provide two alternative points of views on how CG instruments such as ACs affect AQ. Prior research has posited the notion that governance tools like ACs and external audits may serve as substitutes for each other based on risk viewpoint. Hay *et al.* (2008) explain this suggestion through the existence of effective corporate governance could potentially supplant the need for outside auditing, thereby reducing the demand for high auditing quality. Furthermore, Farooq *et al.* (2018) argue that robust CG practices could mitigate inherent risks for external auditors, resulting in shorter audit durations and scopes, thus leading to less fees.

In contrary, most of prior research argues the notion that CG tools and external audits are complementary for each other based on the demand viewpoint, indicating effectively implementing internal CG practices is correlate with enhanced AQ outcomes (Al-Hajaya, 2019; AlQadasi and Abidin, 2018; Drogalas *et al.*, 2021; Yahaya and Onyabe, 2022). According to Goodwin-Stewart and Kent (2006), their research of Australian companies revealed that the existence of efficient ACs and more internal audit use are linked to higher external AQ. Based on these discussions, the second hypothesis are developed as follows:

H2: A significant complementary relationship exists between ACs characteristics and the demand for external AQ within companies listed on PEX.

2.3.2.1 ACs Characteristics and Audit Fees

The relationship between the characteristics of ACs and external AQ is one of the most researched issues in the auditing literature. A quality commonly employed in most auditing literature is the audit fees. Each characteristics of ACs have a different outcome with charges that paid to auditing services, for example the outcomes of the association between the size of ACs and fees are mixed for example, Yahaya and Onyabe (2022) in Nigerian context, as well as Drogalas *et al.* (2021) in Athena concluded that more members of ACs led to pay higher fees. In contrary, Afenya *et al.* (2022) in Ghana market observed that more members led to less fees. Whereas Alhababsah and Yekini (2021) in a sample of Jordanian companies concluded that the size did not significantly impact audit fees.

Furthermore, outside director of ACs have different outcomes in different environmental context, recently papers such as (Abbott et al., 2003; Al-Hajaya, 2019; Alhababsah & Yekini, 2021; AlQadasi & Abidin, 2018; Zaman et al., 2011) argue that the outside directors that reflects the independency of ACs led to higher quality auditing outcomes through more fees. In other flip side, others literature suggests that the outside directors did not significantly impact audit fees (Drogalas et al., 2021; Yahaya & Onyabe, 2022). On the other hand, Ghafran and O'Sullivan (2017) explored in UK how expertise levels within ACs are influenced the audit fees. The authors concluded that about fees, the financial and non-accounting skills of ACs members were significantly related, but there was no relation to accounting experience. In same way Alhababsah and Yekini, (2021) concluded that financial and industry expertise have as positive link with fees. In contrary, other literature such as (Drogalas et al., 2021; Yahaya & Onyabe, 2022; Zaman et al., 2011) failed to conclude a noteworthy link between expertise and audit fees.

Furthermore, frequency of meeting for ACs have different outcomes in different environmental context, recently papers such as (Drogalas et al., 2021; Goodwin-Stewart & Kent, 2006; Yahaya & Onyabe, 2022; Zaman et al., 2011) argue that the more meetings of ACs led to higher quality auditing outcomes through more fees. In other flip side, others literature suggests that the more meetings held during the year led to less fees (Afenya et al., 2022; Al-Hajaya, 2019; Farooq et al., 2018). Furthermore, there has been disagreement over the impact of having female members on ACs in various circumstances, for example, Afenya *et al.*, (2022) found that the inclusion of women resulted in less demand for AQ, as seen by reduced audit fees. On the flip side,

Alhababsah and Yekini (2021) concluded a beneficial connection in Jordanian companies. In contrast to previous studies (Drogalas et al., 2021; Yahaya & Onyabe, 2022), they did not find a correlation. Drawing from the diverse array of findings, we formulate the following sub hypothesis:

H2.1a: A significant positive relation exists between ACs size and audit fees in PEX-listed companies.

H2.1b: A significant positive relation exists between ACs independence and audit fees in PEX-listed companies.

H2.1c: A significant positive relation exists between ACs accounting and finance expertise and audit fees in PEX-listed companies.

H2.1d: A significant positive relation exists between ACs meetings and audit fees in PEX-listed companies.

H2.1e: A significant positive relation exists between ACs female membership and audit fees in PEX-listed companies.

2.3.2.2 ACs Characteristics and Audit Company Size

Numerous research have dug into the link between ACs characteristics and external AQ, with specific focus on the audit company size as an indication of AQ. Asiriuwa *et al.* (2018) looked at how Nigerian companies external AQ was impacted by ACs efficacy. The authors demonstrate that successful ACs that comprise competent, experienced, independent persons who meet often increase the demand for high-quality audit work during contracts with big four international companies. Furthermore, Alhababsah and Yekini (2021) explored Jordanian companies and discovered that characteristics such as industry experience, financial competence, and independence enhance demand for AQ through contracts with the big four international companies. Also, Al-Hajaya (2019) conducted research in the same nation and found that although size and independence are factors that increase demand for AQ through contracts with the big four worldwide companies, but meeting frequency is not. Additionally, An (2023) conducted a study within the Korean stock market context to assess the effects of ACs characteristics on the selection of big four auditors and the enhancement of accruals quality. Her analysis revealed that both ACs meetings and financial knowledge are supplementary to enhanced AQ. The presence of female ACs member has a minor effect on AQ but does not much

improve accruals quality. Additionally, she suggests that ACs independence does not substantially influence AQ, whereas ACs member selection largely influenced by family ownership structures prevalent in Korean companies. Drawing from the diverse array of findings, we formulate the following sub hypothesis:

H2.2a: A significant positive relation exists between ACs size and audit companies size in PEX-listed companies.

H2.2b: A significant positive relation exists between ACs independence and audit companies size in PEX-listed companies.

H2.2c: A significant positive relation exists between ACs accounting and finance expertise and audit companies size in PEX-listed companies.

H2.2d: A significant positive relation exists between ACs meetings and audit companies size in PEX-listed companies.

H2.2e: A significant positive relation exists between ACs female member and audit companies size in PEX-listed companies.

2.3.3 Investigating the interrelation between AQ and AEM:

One of the most crucial oversight instruments in governance is seen to be the external audit. The link between AQ and EM has attracted the curiosity of several academics who have worked in both developed and emerging markets. However, research in the literature has produced inconsistent conclusions, for example, some publications in different markets such as (Alzoubi, 2016; Lin & Hwang, 2010; Mitra et al., 2009; Santos Jaén et al., 2023) found that higher AQ tends to correlate with a reduction in discretionary accruals. This implies that robust audit processes effectively constrain management's discretion over accounting matters, thus mitigating accruals EM practices. On the other hand, a number of research, like Duong Thi (2023) in Vietnam and Almarayeh *et al.* (2020) in Jordan, have not been able to demonstrate a meaningful correlation between AQ and EM, specifically discretionary accruals.

However, there are many research that provide opposite evidence like (Awuye, 2022; Donatella et al., 2019; Martinez & Moraes, 2017; Muzatko & Teclezion, 2016) and explore high demand for AQ, which, in turn, leads to a significant escalation of accruals manipulation. Based on these discussions, the third hypothesis are developed as follows:

H3: A significant inverse relationship exists between AQ and the incidence of AEM within companies listed on PEX.

2.3.3.1 Audit Fees and AEM

Prior investigations into the association between audit fees and AEM has attracted a lot of attention in literature across various auditing environments and the results are mixed. Many studies conducted in developed nations such as (Frankel et al., 2002; Hoitash et al., 2007; Lin & Hwang, 2010; Mitra et al., 2009; Santos Jaén et al., 2023) suggested that greater audit fees stimulate auditors to enhance their scrutiny of financial statements, thereby enhanced AQ and reducing the incidence of discretionary accruals. Similarly, inquiries conducted in developing countries such as Alzoubi (2016) in Jordan, and Khalil and Ozkan (2016) in Egypt, uphold these findings, indicating that higher AQ through more fees tends to minimize AEM practices. Conversely, a subset of studies supports an opposing view, for example Muzatko and Teclezion (2016) in USA , as well as Martinez and Moraes (2017) in Brazil , they concluded that high audit fees pose a risk to auditor independence, potentially fostering financial entanglements between audit companies and their customers and this scenario could incentivize auditors to tolerate discretionary accrual practices. This is supported by Donatella *et al.* (2019), who examined the impact of audit fees on AEM within Swedish municipalities from 2011 to 2013, revealing a positive correlation between these variables. However, Almarayeh *et al.* (2020) in their investigation in Jordanian listed companies from 2012 to 2016, indicated that audit fees do not affect discretionary accruals. Drawing from the above discussion, we formulate the following sub hypothesis:

H3a: Higher audit fees exert a significant influence in mitigating AEM in PEX listed companies.

2.3.3.2 Audit Companies Size and AEM

Previous research suggests that audit companies size, such as big four, are often linked to greater AQ (DeAngelo, 1981). Prior investigations into the association between brand name of audit companies and AEM has attracted a lot of attention in literature in a variety of auditing contexts and the results are mixed. Donatella *et al.* (2019) found in Swedish municipalities that big four audit companies have a noteworthy effect on accruals manipulation. Alzoubi (2016) comes to the same conclusion, stating that Jordanian companies that contracted with big four auditors have a minimum level of AEM.

Furthermore, Lin and Hwang (2010) contend that there is a lower incidence of AEM when using big four auditors in USA market.

On the other hand, some works provided evidence of the opposite, for instance, Almarayeh *et al.* (2020) in Jordan, as well as Duong Thi (2023) in Vietnam, stated that big four audit companies in fact do not help in reducing AEM. In contrary, Awuye (2022) analyzed French companies and discovered that companies audited by the big four had a greater degree of AEM. Drawing from the above discussion, we formulate the following sub hypothesis:

H3b: A significant inverse relationship exists between audit companies size and the incidence of AEM within companies listed on PEX.

2.3.4 Investigating the combined effect of ACs and AQ on AEM:

Agency theory suggests that ACs are crucial for increasing shareholder wealth by reducing information asymmetry and resolving agency-related issues (Jensen & Meckling, 1976). Effective oversight by ACs safeguards shareholder interests by addressing internal control, external auditors' effectiveness, and financial statements (Saleh & Mansour, 2024; Turley & Zaman, 2004). Collaboration between ACs and external auditors can inhibit opportunistic reporting, reducing the risk of EM in organizations with strong ACs and higher AQ (DeFond & Jiambalvo, 1991).

Previous research has tackled the intricate dynamics among AQ, ACs, and AEM utilizing diverse methodologies. For instance, Zgarni *et al.* (2016) examined the impact of proficient ACs and dependable external auditors on financial report excellence and potential profit manipulation in 29 non-financial Tunisian companies from 2001 to 2009. Their findings revealed that having a big four companies and an efficient ACs led to a reduction in discretionary accruals. On a different note, Bala *et al.* (2019) investigated how AQ and ACs effect on accuracy of financial reporting. Their comprehensive analysis found no important association between ACs characteristics and AQ with AEM. Meanwhile, Mollik *et al.* (2020) scrutinized Australian companies during the great recession, analyzing how AQ and ACs characteristics influence earnings management. Their study of 503 companies from 2006 to 2009 indicated that ACs and external audit quality negatively impact accruals as an indicator of EM, while positively affecting FRQ.

On the other hand, previous studies treated AQ as a moderating between the variables. Hasan *et al.* (2020) in Malaysian companies from 2013 to 2018. They concluded that the interaction between AQ and ACs led to mitigating AEM. This agree by Mardessi (2021) in Amsterdam companies, she conclude the same results but in different technique of EM which is real EM. Based on these discussions, the fourth hypothesis are developed as follows:

H4: The interrelation between ACs characteristics and AEM is mediated by higher demand for AQ by contracting with big audit companies which require a high degree of fees in PEX-listed companies.

2.4 Conceptual Framework

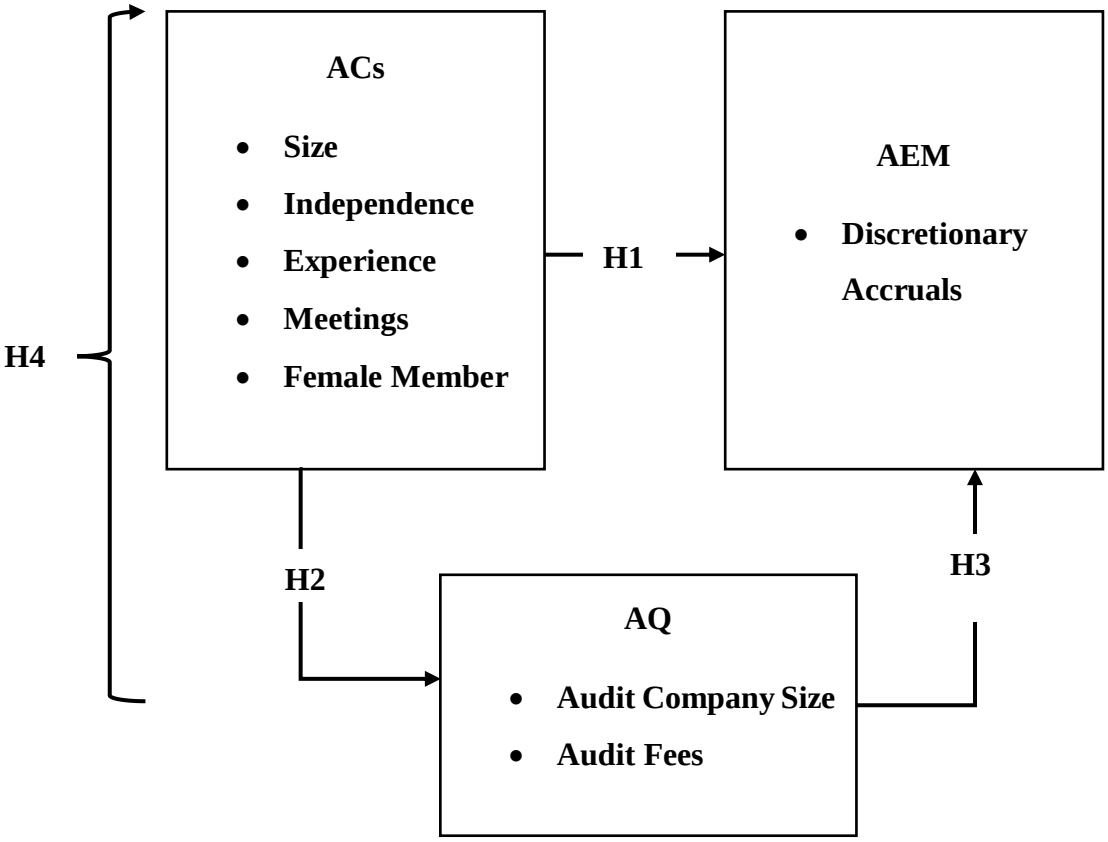

Figure (2-3) Conceptual Framework

Source (author)

Chapter Three: Methodology

3.1 Introduction

This study aims to examine the mediation role of AQ between ACs characteristics and AEM in Palestinian corporations that are listed in PEX. In this chapter, the researcher will discuss the data and methodology applied to this study. Firstly, it explains the population and the source of data. Secondly, it defines the variables measurement, thirdly explains the statistical methods that will be used in the analysis, and finally builds the research models.

3.2 Population and Sample

This study used a panel data technique and included a population of all 47 listed companies on PEX at the end of 2022 (financial and non-financial companies). The study excluded financial companies due to differing CG and oversight regulations between them and the non-financial sector, as the financial sector is subject to stronger governance and oversight rules that ensure a higher level of oversight and compliance (PMA, 2017). The target population consists of 31 non-financial companies, including those in the service, industrial, and investment sectors. The non-financial sector was chosen owing to the differences in accounting treatment and CG requirements between the two sectors.

The research sample was chosen based on non-financial companies matching particular criteria: 1) listed on the PEX during the period (2014 – 2022), (2) offer audited financial data published on the PEX website throughout the period (2014 – 2022). (3) their shares are traded over the period (2014 – 2022). Based on this set of non-financial companies, the study made its group, consisting of 27 companies studied throughout the time of nine years, from 2014 to 2022. Consequently, the total sample size amounted to 243 observations (27 companies * 9 years). Table (3.1) shows a detailed description of the sample size and the exclusions based on the given criteria with more information on the names of these firms supplied in Appendix (1).

Table (3-1) Sample Selection

	No. of Companies	Period (2014 - 2022)	No. of Observations
Panel A : Target Population			
Total Population at the end of 2022	47	9	423
Less:			
Financial companies	16	9	144
Banking companies	8		
Insurance companies	8		
Target Population (non-financial companies)	31	9	279
Service companies	9		
Industry companies	11		
Investment companies	11		
Panel B: Sample Selection Procedures			
Less:			
Total excluded companies:	4	9	36
Companies not listed during the Period (2014-2022)	3		
Companies with unavailable annual report	1		
Final selected sample	**27**	**9**	**243**
Percentage of sample to target population		87.10%	
Percentage of sample to total population		57.45%	

3.3 Data Collection

In this research, the major method of data collection is from secondary sources, notably annual reports that were provided by companies listed on the PEX. These reports cover a timeframe of nine years, from 2014 to 2022. The researcher utilized accounting data such as EM, and audit fees. Given that PEX encompasses companies that report financial statements in different currencies (JOD & USD), all continuous variables were converted to a single currency based on the financial statement date, so all disclosed data in JOD was translated to USD.

3.4 Measurement of Variables

3.4.1 Independent Variables

The study uses ACs as an independent variable. The literature has used a variety of methods to assess ACs characteristics. The first approach is to measure ACs characteristics using a dummy variable, such as size which AlQadasi and Abidin (2018) coded as (1) for companies with ACs sizes greater than the median and (0) otherwise. Furthermore, Almarayeh *et al.* (2022) applied the similar technique for several ACs features, such as outside directors, which takes a value of (1) if all directors are independent and (0) otherwise. Similarly, experience is assigned a value of (1) if at least one director in the ACs has previous expertise in accounting and finance, and (0) otherwise. The second approach is ratios and number counts, and this method is efficient in previous studies stated in the literature such as (Afenya et al., 2022; Albersmann & Hohenfels, 2017; Ali, 2024; Bawuah, 2024; Daryaei et al., 2024; Yahaya & Onyabe, 2022; Zadeh et al., 2023). In this study, we use ratios and number counts variables across five important indicators: size, independence, frequency of meetings, experience, and female member. Table (3.2) below offers a description of the study of measurement of variables.

3.4.2 Mediating Variables

The study introduced audit quality (AQ) as a mediator variable, tested through two key indicators: audit fees and audit companies size. Table (3.2) below offers a description of the study of measurement of variables.

3.4.3 Dependent Variables

EM was employed as the dependent variable, which was measured using discretionary accruals (DA). There are numerous models that have been used to estimate DA. The most well-known are the Jones model (1991) and the modified Jones model (1995), which was created to solve the shortcomings that existed in the prior model (Almarayeh et al., 2020). It was later developed into the Kothari model which is considered better than the previous two models. The results obtained through the use of this model are characterized by higher quality and reliability. This model also addresses the issue of the impact of accounting accruals it includes return on assets (ROA) as an indicator of corporate performance (Kothari et al., 2005). Kothari *et al.* (2005) model is the best of the existing models used

to estimate DA or abnormal accruals (Albersmann & Hohenfels, 2017; Almarayeh et al., 2022) and can be expressed by the following equation:

$$\frac{TACC\ i,t}{TA\ i,t-1} = \alpha 0 + \alpha 1\left(\frac{1}{TAi,t-1}\right) + \alpha 2\left(\frac{\Delta REV\ i,t - \Delta\ REC\ i,t}{TAi,t-1}\right) + \alpha 3\ \left(\frac{GPPE\ i,t}{TAi,t-1}\right) + \alpha 4\ ROA\ i,t + \varepsilon\ \mathrm{i},t$$

Whereas:

TACC i, t: total accruals in year t for company i, Calculated as [Net Income – CFO].

TA i, t-1: total assets in year t-1 for the company i.

Δ REV i, t: revenues in the year t less revenue in year t-1 for company i.

Δ REC i, t: receivables in the year t less receivables in year t-1 for company i.

GPPE i, t: gross property, plant and equipment in the year t for the company i.

ROA i, t: return on assets in the year t for company i calculated as [Net Income / Total Assets]

ε i, t = residual from the model represent the discretionary accruals.

α1, α2, α3, α4: are specifics company coefficient will be estimated based on the above equation.

DA were estimated as the residuals of the previous regression equation it was estimated using the OLS method using (STATA) software, then its absolute value was taken to be used as an indicator for AEM (Albersmann & Hohenfels, 2017; Almarayeh et al., 2022; Mitra et al., 2009). Table (3.2) below offers a detailed measurement of dependent variable.

3.4.4 Control Variables

To address the likelihood of external influences affecting the findings, and relying upon a comprehensive assessment of existing research, the study handles different variables as indicated in table (3.2).

Table (3-2) Measurement of Variables

Variable Code	Definition	Measurement	Supported Paper
Panel A: Independent Variables			
AC_SIZ	AC size	The number of ACs members.	(Afenya et al., 2022; Albersmann & Hohenfels, 2017; Ali, 2024; Bawuah, 2024; Daryaei et al., 2024; Yahaya & Onyabe, 2022; Zadeh et al., 2023)
AC_IND	AC Independence	Percentage of non-executive ACs members to the total number of ACs members.	(Ali, 2024; Bawuah, 2024; Daryaei et al., 2024; Yahaya & Onyabe, 2022; Zadeh et al., 2023)
AC_FAE	AC Experience	Percentage of ACs members who have experience in accounting and finance to the total number of ACs members.	(Albersmann & Hohenfels, 2017; Ali, 2024; Daryaei et al., 2024; Yahaya & Onyabe, 2022; Zadeh et al., 2023)
AC_M	AC Meetings	The number of ACs meetings during the fiscal year.	(Afenya et al., 2022; Albersmann & Hohenfels, 2017; Ali, 2024; Bawuah, 2024; Daryaei et al., 2024; Yahaya & Onyabe, 2022; Zadeh et al., 2023)
AC_FM	Female AC Member	Percentage of women on the ACs.	(Afenya et al., 2022; Ali, 2024; Bawuah, 2024; Daryaei et al., 2024; Yahaya & Onyabe, 2022)
Panel B: Mediating Variables			
AUD_FEES	Audit fees	The natural logarithm of audit fees.	(Afenya et al., 2022; Almarayeh et al., 2020; AlQadasi & Abidin, 2018; Drogalas et al., 2021; Goodwin-Stewart & Kent, 2006; Guizani & Abdalkrim, 2021; Mitra et al., 2009; Yahaya & Onyabe, 2022)
BIG4	Audit companies size	Dummy variable: takes (1) if the listed company is audited by Big 4, otherwise (0).	(Alhababsah & Yekini, 2021; Almarayeh et al., 2020; Alzoubi, 2016; Awuye, 2022; Donatella et al., 2019; Duong Thi, 2023)
Panel C: Dependent Variables			
ABS_DA	Accrual Earnings Management	Absolute value of discretionary accruals (DA), by Kothari et al. (2005) model.	(Albersmann & Hohenfels, 2017; Almarayeh et al., 2022; Mitra et al., 2009)

Panel D: Control Variables

EM Incentives

SIZE	Company size	The natural logarithm of total assets.	(Albersmann & Hohenfels, 2017; Almarayeh et al., 2022; Daryaei et al., 2024; Duong Thi, 2023; Zadeh et al., 2023)
LEV	Company Leverage	Calculated as total long-term liabilities divided by total assets.	(Albersmann & Hohenfels, 2017; Almarayeh et al., 2020; Zadeh et al., 2023)
LOSS	Loss	Dummy variable: takes (1) if the net income is negative, otherwise (0).	(Albersmann & Hohenfels, 2017; Mollik et al., 2020)
NEG_CFO	Negative Cash Flow from Operations	Dummy variable: takes (1) if the CFO is negative, otherwise (0).	(Albersmann & Hohenfels, 2017)
DUALITY	CEO Duality	Dummy variable: takes (1) if the CEO holds the position of board chairman, otherwise (0).	(Alves, 2023; Drogalas et al., 2021; Yahaya & Onyabe, 2022; Yasser & Mamun, 2015)

3.5 Study Models

The mediation of AQ on the association between ACs and AEM is examined by applying Baron and Kenny (1986) mediation approach. They are as follows:

- First: the independent variable (ACs) must be statistically significant with the dependent (AEM).
- Secondly, the independent variable (ACs) must be statistically significant with the mediator (AQ).
- Thirdly, the mediating variable (AQ) must be statistically significant with the dependent variable (AEM).
- Finally, we analyze if both ACs characteristics (X) and AQ (M) are associated to AEM (Y) while considering each other. This lets us analyze if AQ performs a mediation role between ACs and EM. Based on the above criteria study models are the followings:

Model (1): The effect of ACs characteristics (X) on AEM (Y).

$$ABS\_DA\ i,t = \beta 0 + \beta 1\ AC\_SIZ\ i,t + \beta 2\ AC\_IND\ i,t + \beta 3\ AC\_FAE\ i,t + \beta 4\ AC\_MEET\ i,t + \beta 5\ AC\_FEM\ i,t + \beta 6\ SIZEi,t + \beta 7\ LEVi,t + \beta 8\ LOSSi,t + \beta 9\ NEG\_CFO\ i,t + \beta 10\ DUALITYit + \varepsilon\ i,t \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Whereas:

ABS_DA i, t: Absolute value of discretionary accruals for company i, for year t

AC_SIZ i, t: The number of AC members for company i, for year t

AC_IND i, t: Percentage of non-executive AC members for company i, for year t

AC_FAE i, t: Percentage of accounting and finance experienced AC members for company i, for year t

AC_MEET i, t: The Number of AC meetings for company i, for year t

AC_FEM i, t: Percentage of women in AC for company i, for year t

SIZE i, t: Company size for company i, for year t

LEV i, t: Leverage for company i, for year t

LOSS i, t: Loss for company i, for year t

NEG_CFO i, t: Negative cash flow from operations for company i, for year t

DUALITY i, t: CEO duality for company i, for year t

β: model coefficients

ε i, t: error for company i, for year t

Model (2): The effect of ACs Characteristics (X) on AQ (M). And include two mediator variables as a measure of AQ.

Model (2.1) Audit Fees model

$$AUD\_FEES\ it = \beta 0 + \beta 1\ AC\_SIZ\ i,t + \beta 2\ AC\_IND\ i,t + \beta 3\ AC\_FAE\ i,t + \beta 4\ AC\_MEET\ i,t + \beta 5\ AC\_FEM\ i,t + \beta 6\ SIZE\ i,t + \beta 7\ LEV\ i,t + \beta 8\ LOSS\ i,t + \beta 9\ NEG\_CFO\ i,t + \beta 10\ DUALITY\ i,t + \varepsilon\ i,t..(2.1)$$

Whereas:

AUD_FEES i, t: The natural logarithm of audit fees for company i, for year t

AC_SIZ i, t: The number of AC members for company i, for year t

AC_IND i, t: Percentage of non-executive AC members for company i, for year t

AC_FAE i, t: Percentage of accounting and finance experienced AC members for company i, for year t

AC_MEET i, t: The Number of AC meetings for company i, for year t

AC_FEM i, t: Percentage of women in AC for company i, for year t

SIZE i, t: Company size for company i, for year t

LEV i, t: Leverage for company i, for year t

LOSS i, t: Loss for company i, for year t

NEG_CFO i, t: Negative cash flow from operations for company i, for year t

DUALITY i, t: CEO duality for company i, for year t

β: model coefficients

ε i, t: error for company i, for year t

Model (2.2): Audit Size (BIG4 model)

$$BIG4\ i,t = \beta 0 + \beta 1\ AC\_SIZ\ i,t + \beta 2\ AC\_IND\ i,t + \beta 3\ AC\_FAE\ i,t + \beta 4\ AC\_MEET\ i,t + \beta 5\ AC\_FEM\ i,t + \beta 6\ SIZE\ i,t + \beta 7\ LEV\ i,t + \beta 8\ LOSS\ i,t + \beta 9\ NEG\_CFO\ i,t + \beta 10\ DUALITY\ i,t + \varepsilon\ i,t \ldots (2.2)$$

Whereas:

BIG4 i, t: audit company size measured by dummy variable, (1) Big 4, otherwise (0) for company i, for year t

AC_SIZ i, t: The number of AC members for company i, for year t

AC_IND i, t: Percentage of non-executive AC members for company i, for year t

AC_FAE i, t: Percentage of accounting and finance experienced AC members for company i, for year t

AC_MEET i, t: The Number of AC meetings for company i, for year t

AC_FEM i, t: Percentage of women in AC for company i, for year t

SIZE i, t: Company size for company i, for year t

LEV i, t: Leverage for company i, for year t

LOSS i, t: Loss for company i, for year t

NEG_CFO i, t: Negative cash flow from operations for company i, for year t

DUALITY i, t: CEO duality for company i, for year t

β: model coefficients

ε i, t: error for company i, for year t

Model (3): The effect of AQ on AEM.

$$ABS\_DA\ i,t = \beta 0 + \beta 1\ AUD\_FEES\ i,t + \beta 2\ BIG4\ i,t + \beta 3\ SIZE\ i,t + \beta 4\ LEV\ i,t + \beta 5\ LOSS\ i,t + \beta 6\ NEG\_CFO\ i,t + \beta 7\ DUALITY\ i,t + \varepsilon\ i,t \ldots . (3)$$

Whereas:

ABS_DA i, t: Absolute value of discretionary accruals for company i, for year t

AUD_FEES i, t: The natural logarithm of audit fees for company i, for year t

BIG4 i, t: audit company size measured by dummy variable, (1) Big 4, otherwise (0) for company i, for year t

SIZE i, t: Company size for company i, for year t

LEV i, t: Leverage for company i, for year t

LOSS i, t: Loss for company i, for year t

NEG_CFO i, t: Negative cash flow from operations for company i, for year t

DUALITY i, t: CEO duality for company i, for year t

β: model coefficients

ε i, t: error for company i, for year t

Model (4): The Mediation effect of AQ between ACs and AEM.

$$\begin{aligned} ABS\_DA\ i,t = {} & \beta 0 + \beta 1\ AC\_SIZ\ i,t + \beta 2\ AC\_IND\ i,t + \beta 3\ AC\_FAE\ i,t \\ & + \beta 4\ AC\_MEET\ i,t + \beta 5\ AC\_FEM\ i,t + \beta 6\ AUD\_FEES\ i,t \\ & + \beta 7\ BIG4\ i,t + \beta 8\ SIZE\ i,t + \beta 9\ LEV\ i,t + \beta 10\ LOSS\ i,t \\ & + \beta 11\ NEG\_CFO\ i,t + \beta 12\ DUALITY\ i,t + \varepsilon\ i,t \ldots\ldots . (4) \end{aligned}$$

Whereas:

ABS_DA i, t: Absolute value of discretionary accruals for company i, for year t

AC_SIZ i, t: The number of AC members for company i, for year t

AC_IND i, t: Percentage of non-executive AC members for company i, for year t

AC_FAE i, t: Percentage of accounting and finance experienced AC members for company i, for year t

AC_MEET i, t: The Number of AC meetings for company i, for year t

AC_FEM i, t: Percentage of women in AC for company i, for year t

AUD_FEES i, t: The natural logarithm of audit fees for company i, for year t

BIG4 i, t: audit company size measured by dummy variable, (1) Big 4, otherwise (0) for company i, for year t

SIZE i, t: Company size for company i, for year t

LEV i, t: Leverage for company i, for year t

LOSS i, t: Loss for company i, for year t

NEG_CFO i, t: Negative cash flow from operations for company i, for year t

DUALITY i, t: CEO duality for company i, for year t

β: model coefficients

ε i, t: error for company i, for year t

3.6 Statistical Methods

In this study, data that gathered are panel which includes cross-sectional and time series data, and the following statistical methods and techniques were used:

- Descriptive statistics that including measures like mean, standard deviation, minimum and maximum values to describe the sample.
- Panel data diagnostic test: like check the outliers, normality, multicollinearity, heteroscedasticity, serial autocorrelation and cross sectional dependence: This method was employed to test the basic assumptions of OLS regression.
- Multivariate analysis: the researcher depends on OLS regression with robust standard error, in addition to using logistic regression for BIG4 model.
- Robustness tests: robustness tests were conducted to improve the reliability and validity of the statistical inferences. So its include additional regression estimators, additional measures for EM model, sub group analysis, and controlling the potential of endogeneity issue.

A detailed explanation of these techniques will be provided in chapter four.

Chapter Four: Results and Discussion

4.1 Introduction

In this chapter provides the statistics methods used in this research. That's includes descriptive statistics and the panel diagnostic analysis, testing the hypothesis and, lastly, robustness analysis. These are important techniques that provide a robust and solid conclusion for our research objectives.

4.2 Descriptive Statistics

The chosen study variables are summarized statistically in table (4.1), which includes three panels collected between 2014 and 2022. Panels A and B give descriptive statistics for continuous and binary variables for the whole research sample. Panel C illustrates comparable numbers for companies audited by both the big four and non-big four.

First, in panel (A) the absolute value of discretionary accruals (ABS_DA) estimated by the Kothari model shows that the average value and standard deviation are respectively (0.06) and (0.05), with a minimum of 0.003 and a maximum of 0.23. This indicates that non-financial companies listed on PEX manage profits using AEM of roughly 6% over the research period, since the extent of manipulation in AEM differs from company to company. These results are comparable with the findings of Almarayeh *et al.* (2020) who discovered the mean of the (ABS_DA) of 7% in the case of industrial Jordanian companies. Second, the governance variables (ACs), demonstrate that the (AC SIZ) has an average of around two members. In addition, the frequency of meetings (AC M) is about one meeting each year. The typical proportion of non-executive members (AC IND) is 65.4%. In addition, the percentage of experienced accounting and finance members (AC FAE) has a mean of 14.5%, and the percentage of women in the committee (AC FM) represents 1.5%.

Panel (B) shows that 57.20% of the sample companies have ACs, which is a low percentage that indicates weak application of CG standards, especially among non-financial companies listed on the PEX. Moreover, 70.78% of the sample companies use the big four auditors to provide audit services, which indicates that the majority of Palestinian non-financial companies choose to contract with the largest audit companies.

Panel (C) shows large differences in whether a company is inspected by one of the big four companies or not. It is clear that the average percentage of audit fees paid to the

big four companies is 4.383, while the non-big four companies pay 3.722. This is aligned with Almarayeh *et al.* (2020), who found that big four audit companies usually expect larger charges for their services than non-big four companies. Additionally, for ACs variables, companies whose auditors are among the big four will surely have a bigger ACs size, with an average of two members, as compared to non-big four companies, where the average is one. Non-executive members make up a bigger percentage 76.9% than non-big four companies, which have an average of 37.6%. The average percent of members having accounting and finance experience is 19.7%, which is greater than the average for non-big four companies, which is 1.9%. More meetings were made throughout the year, with an average of one meeting, compared to companies whose auditors were not from the big four, which had an average of less than one. In contrast, female ACs members show that there is no difference between companies whose auditors are big four and non-big four audit companies.

Table (4-1) Descriptive Statistics

Panel A : Descriptive Statistics for continuous variables

Variable	Obs	Mean	Std. Dev.	Min	Max
AC SIZ	243	1.733	1.558	0	5
AC IND	243	.654	.468	0	1
AC FAE	243	.145	.275	0	1
AC M	243	1.107	1.255	0	5
AC FM	243	.015	.068	0	.333
AUD FEES	243	4.19	.527	3.398	5.342
ABS DA	243	.06	.054	.003	.236
Lev	243	.116	.102	.006	.394
Size	243	17.562	1.512	13.962	20.938

Panel B : Descriptive Statistics for dummy variables

Variable	Frequency of (1) Yes	Frequency of (0) No	Percent of (1) Yes	Percent of (0) No
Big4	172	71	70.78	29.22
AC_Exi	139	104	57.20	42.80
LOSS	45	198	18.52	81.48
NEG CFO	63	180	25.93	74.07
DUALITY	27	216	11.11	88.89

Panel C : Descriptive Statistics for continuous variables by Big 4 vs Non Big 4

Variable	Big 4 (N=172)				Non Big 4 (N=71)			
	Mean	Std. Dev.	Min	Max	Mean	Std. Dev.	Min	Max
AC SIZ	2.186	1.463	0	5	.634	1.198	0	3
AC IND	.769	.419	0	1	.376	.464	0	1
AC FAE	.197	.309	0	1	.019	.077	0	.333
AC M	1.407	1.301	0	5	.38	.744	0	2
AC FM	.019	.077	0	.333	.005	.04	0	.333
AUD FEES	4.383	.481	3.602	5.342	3.722	.285	3.398	4.23
ABS DA	.063	.056	0.003	.236	.053	.048	0.003	.236

4.3 Panel Data Diagnostic Test

4.3.1 Outliers

Outliers as defined by Gassen and Veenman (2023) are observations that differ from the rest of the data and have a discrete error variance, which affects the accuracy of regression coefficient estimates. The best way to treat these values was to use the winorization method, in addition to using data transformation. The process of winorization is encouraged by Schmidt and Wilkins (2013), who claim that this method gives more accurate and consistent results and handling outliers.

4.3.2 Normality Test

Table (4.2) displays the Jarque-Bera normality test findings. The fact that all of the continuous variables have p-values less than 0.05 indicates that the distribution of the data is not normal. The exception is the variable (size), for which the p-value exceeds 0.05. According to Pallant (2020) , deviations from normality assumptions are unlikely to cause serious problems when the sample size is more than thirty observations. This suggests that even in cases when the data deviates from a normal distribution, parametric approaches may still be used (Elliott & Woodward, 2007).

Table (4-2) Jarque – Bera Normality Test

Variable	Jarque-Bera	Probability
ABS_DA	176.7951	0
AC_FAE	275.9146	0
AC_FM	4851.851	0
AC_IND	39.46399	0
AC_M	42.10365	0
AC_SIZ	25.60343	0.000003
AUD_FEES	14.99288	0.000555
LEV	44.46221	0
SIZE	2.256475	0.323603

Another method was used to ensure form the distribution of data, Figure (4.1) histogram test below show that the data are not normally distributed that confirm with above test.

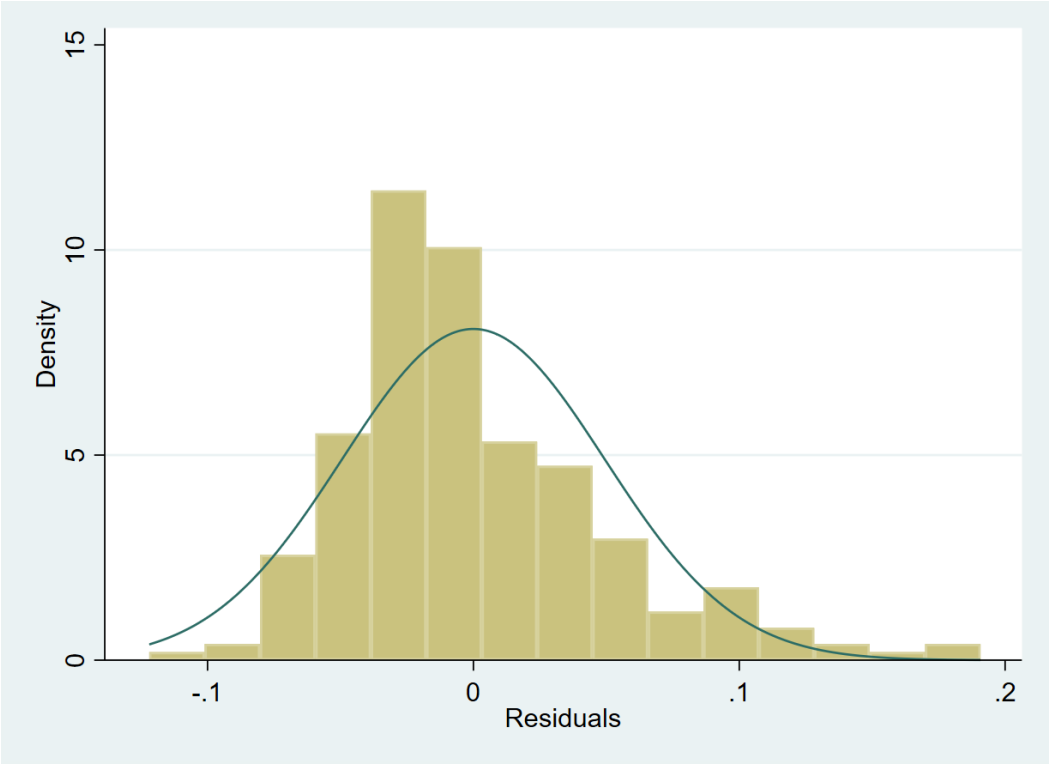

Figure (4-1) Histogram Residual Distribution

4.3.3 Multicollinearity Test

In statistics, multicollinearity is the significant association between two or more predictor variables in a multiple regression model. The first approach was used to evaluate the problem of multicollinearity by using variance inflation factor (VIF). According to O'brien (2007) there is no multicollinearity issue if the VIF is less than 10. Table (4.3) shows, that every variable in the research has a VIF value less than 10, indicating the absence of a multicollinearity issue.

Table (4-3) Variance Inflation Factor (VIF) for the variables of study

Variable	VIF	1/VIF
AUD FEES	5.337	.187
AC SIZ	4.975	.201
Size	3.649	.274
AC M	3.634	.275
AC IND	2.79	.358
BIG 4	1.83	.547
AC FAE	1.624	.616
Lev	1.536	.651
LOSS	1.411	.709
NEG CFO	1.28	.781
DUALITY	1.211	.826
AC FM	1.129	.886
Mean VIF	2.534	.

To confirm the results, a second approach was used through using an analysis of the pairwise correlation coefficients among all variables. As indicated by Asteriou and Hall (2007) if the correlation coefficient between any two variables exceeds 0.90, it indicates a serious issue of multicollinearity. Table (4.4) illustrates the pairwise correlation matrix, analyzing the linkages among ACs, AQ, and ABS DA variables. It's obvious that the strongest correlation, reaching 79%, is obtained between (AC_SIZ) and (AC_M). So this correlation, below the threshold of 0.90, implies that multicollinearity is not a worry in this study, which is consistent with the previously completed VIF test.

It is worth noting that the relationship between AC_FAE and ABS_DA is positive and significant at the 0.01 level. Whereas, AC_SIZ and AC FM show a negative and non-significant relationship with ABS_DA, while AC_IND and AC_M show a positive and non-significant relationship with ABS_DA. Moreover, the correlation between BIG_4 and ABS_DA is positive but insignificant, while the correlation between audit fees and ABS_DA is negative and insignificant.

Table (4-4) Pairwise correlations matrix for the relationship between ACs, AQ and AEM.

Variables	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**	**(13)**
(1) ABS_DA	1.000												
(2) AC_SIZ	-0.010	1.000											
(3) AC_IND	0.014	0.780***	1.000										
(4) AC_FAE	0.238***	0.461***	0.370***	1.000									
(5) AC_M	0.058	0.799***	0.617***	0.525***	1.000								
(6) AC_FM	-0.041	0.187***	0.146**	-0.028	0.183***	1.000							
(7) BIG_4	0.086	0.454***	0.384***	0.296***	0.373***	0.095	1.000						
(8) AUD_FEES	-0.007	0.489***	0.473***	0.114*	0.456***	0.204***	0.572***	1.000					
(9) LOSS	0.066	0.102	0.141**	0.015	-0.024	-0.104*	-0.043	-0.204***	1.000				
(10) NEG_CFO	0.304***	0.011	0.076	0.058	0.144**	-0.094	-0.012	-0.019	0.274***	1.000			
(11) DUALITY	-0.137**	0.170***	0.196***	-0.112*	0.095	0.036	-0.032	0.264***	-0.101	-0.060	1.000		
(12) Size	-0.023	0.243***	0.285***	-0.088	0.218***	0.139***	0.325***	0.803***	-0.261***	0.070	0.265***	1.000	
(13) Lev	0.058	0.340***	0.383***	0.128**	0.240***	0.210***	0.373***	0.505***	0.102	0.033	0.059	0.412***	1.000

****** p<0.01, ** p<0.05, * p<0.1***

4.3.4 Heteroscedasticity

This study was tests the basic assumptions for OLS, which is to see if the data are homoscedastic that's mean that the error must be constant across all companies so any violation from this assumption led to statistical problem called heteroscedasticity. To check this issue, we using Breusch-Pagan test and the results as shown in table (4.5) reveal that all p-values for all models are significant with p value less than 5 %, except in model (2.1), is insignificant p value more than 0.05 percent. This implies rejecting the null hypothesis and accepting the alternative, indicating that the error variance is not constant. Consequently, all study models, except for model (2.1), are affected by heteroscedasticity.

Table (4-5) Breusch–Pagan/Cook–Weisberg test for Heteroscedasticity

	Model (1) ACs and AEM	**Model (2.1) ACs and Audit fees**	**Model (3) AQ and AEM**	**Model (4) Mediation**
Chi2	42.50	1.89	43.63	43.18
P - value	0.0000	0.1682	0.0000	0.0000
Heteroscedasticity	Yes	No	Yes	Yes

4.3.5 Autocorrelation

The analysis in table (4.6) presents the results of a Wooldridge test aimed at evaluating autocorrelation within panel data models. This test operates under the null hypothesis that there is no first order autocorrelation, when p-value greater than 0.05 (Drukker, 2003). Among the examined models, significant serial autocorrelation is observed in model (2.1) evident from their notably low p-values of 0. In contrast, model (1), (3), and (4) do not display this issue.

Table (4-6) Wooldridge Test for Autocorrelation

	Model (1) ACs and AEM	**Model (2.1) ACs and Audit fees**	**Model (3) AQ and AEM**	**Model (4) Mediation**
F – test	1.656	40.934	1.647	2.285
P - value	0.2098	0.0000	0.2107	0.1427
Autocorrelation	No	Yes	No	No

4.3.6 Cross Sectional Dependence

Baltagi and Hashem Pesaran (2007) pointed out that cross-sectional dependence tends to be problematic in macro panels with lengthy time series exceeding 20 years. However, this study focuses on a smaller scale, specifically micro panels. Consequently, this particular issue isn't a concern in this research context. To prove this, the researcher performed tests such as the B-P/LM and Pasaran CD. The findings reveal across all models examined, there was no indication of cross-sectional dependency, with p-values surpassing 0.05.

4.4 Testing The Hypothesis

Considering the issues of autocorrelation with type AR (1) inside model (2.1) and heteroscedasticity concerns throughout all study models excluding model (2.1), the researcher was utilized OLS regression with robust standard errors.

4.4.1 Regression Results and Discussion on the Relationship Between ACs and AEM.

This portion handles the primary goal of the study, assessing the direct effect of ACs on AEM within listed companies in Palestine. Table (4.7) shows the results of hypotheses (H1a–H5e), which are tested using OLS regression with a robust function to alleviate the existing problem of heteroscedasticity as outlined by (Hoechle, 2007).

4.4.1.1 (H1a) ACs Size and AEM

The hypothesis (H1a) stated that *"a significant inverse relationship exists between ACs size and the incidence of AEM within companies listed on PEX".* However, regression results in table (4.7) show that the size (AC_SIZ) has an insignificant and negative relation with AEM, with a p-value greater than 0. 05. Hence, total number of membership in ACs doesn't decrease an AEM, which led to the rejection of (H1a).

This result align with earlier studies such as Almarayeh *et al.* (2022) among the industrial Jordanian companies and Setiawan *et al.* (2020) on the Indonesian companies where similar findings are concluded. Still, this result is inconsistent with agency theory and current research such as Albersmann and Hohenfels (2017) in the German context they conclude a negative association with AEM. Similarly, Zadeh *et al.* (2023) in the Iranian companies, concluded a significant negative relation was observed with AEM. This result could be attributed to the weak compliance with the existing governance rules and

standards mainly in the Palestinian non-financial organizations. which is depicted in descriptive data that the non-financial companies listed in PEX are not fully in compliance with the international legislation concerning the establishment of ACs and the number of members in ACs are not standardized for all the incorporated companies.

4.4.1.2 (H1b) ACs Experience and AEM

The hypothesis (H1b) stated that *"a significant inverse relationship exists between ACs* accounting and finance experience *and the incidence of AEM within companies listed on PEX".* However, regression results in table (4.7) show that accounting and finance experience (AC FAE) has a significant and positive relationship with AEM demonstrated by the p-value of (0.001) which is a significant level at 1%. Actually, this means that members in ACs who have accounting experience don't increase financial reporting quality and, at the same time, help in raising manipulation of earnings, which led to the rejection of (H1b).

This result is complementary to other earlier studies such as Ali (2024) and Setiawan *et al.* (2020), they arrived a similar conclusion. However, it negates with agency theory and negates prior research such as Mardessi and Fourati (2020) in the Netherlands, as well as Zadeh *et al.* (2023) , and Daryaei *et al.* (2024) in the Tehran market which conclude a negative association with EM. One possible explanation for this positive relation that the experience of members in the field of accounting and finance in the ACs in non-financial companies listed on PEX reached 14.5 percent, which is a very small percentage. This indicates that qualified ACs members with experience in accounting matters are not in a position to assist the board of directors in providing advice regarding the company's financial and accounting issues, thus increasing the possibility of manipulating profits.

4.4.1.3 (H1C) ACs Independence and AEM

The hypothesis (H1C) stated that *"a significant inverse relationship exists between ACs independence and the incidence of AEM within companies listed on PEX".* However, regression results in table (4.7) show that the independence (AC IND) has an insignificant and negative relation with AEM, with a p-value more than 0. 05. Therefore, non-executive membership in ACs doesn't reduce an AEM, which led to the rejection of (H1C).

This finding is in line with the prior works, for example Zadeh *et al.* (2023) in Iran , similar to Gerayli *et al.* (2021) for the same market, as well as Ngo and Le (2021) in

Vietnam. However, it does not combine with agency theory and other papers like (Almarayeh et al., 2022; Daryaei et al., 2024; Mardessi & Fourati, 2020) all of them cementing a negative perspective with EM. Perhaps the reasoning for above result may be that the non-executive directors may have company affiliation or close interaction with the shareholders or may hold other executive positions in other companies that have company dealings with the company or any of the subsidiary. Also, relationships with CEOs could also worsen some of the other elements of this independence feature. This consideration tally with the assertion by Setiawan *et al*. (2020) that while it may appear that independent non-executive directors are a group of directors with no connection with the other executive directors they are in actual sense not independent in anyway.

4.4.1.4 (H1d) ACs Meetings and AEM

The hypothesis (H1d) stated that *"a significant inverse relationship exists between ACs meetings and the incidence of AEM within companies listed on PEX".* However, regression results in table (4.7) show that meetings (AC M) has a negative and insignificant relation with AEM with a p-value more than 0. 05. Therefore, frequency of ACs meetings doesn't reduce an AEM, which led to the rejection of (H1d).

This result aligns with earlier studies such as (Almarayeh et al., 2022; Galal et al., 2022; Mardessi & Fourati, 2020) where similar findings are concluded. Still, it is contrary to agency theory and current research such as Albersmann and Hohenfels (2017) in the German context they conclude a negative association with AEM. A possible explanation of this result that the non-financial companies the average of meetings held during the year for ACs are approximately one meeting and this is a low number that reflects the ACs in non-financial companies listed on PEX are not working effectively. This result could be attributed to the weak compliance with the existing governance and international CG guidelines in Palestine.

4.4.1.5 (H1e) ACs Female Member and AEM

The hypothesis (H1e) stated that *"a significant inverse relationship exists between ACs female member and the incidence of AEM within companies listed on PEX".* However, regression results in table (4.7) show that the female member (AC FM) has a positive and insignificant relation with AEM with a p-value more than 0.05. Therefore, the presence of women in ACs doesn't reduce the practie of AEM, which led to the rejection of (H1e).

This result is consistent with Sun *et al.* (2011) in USA where the same result was reached. On the contrary, this result is not aligns with other studies such as (Daryaei et al., 2024; Galal et al., 2022; Mardessi & Fourati, 2020; Setiawan et al., 2020; Thiruvadi & Huang, 2011) all of them found that female ACs organs significantly reduce the practice of AEM. This reflects the absence of women's representation on the boards of directors of Palestinian companies, specifically within subcommittees such as ACs, which do not contribute to serious oversight to prevent the AEM.

The findings also reveal that other control variables that may affect AEM, show that the magnitude of NEG_CFO has a positive significant effect. For this reason, Palestinian companies particularly those in the non-financial sectors who lack sufficient cash from their operating activities are likely to record a high level of AEM. The current result is consistent with Albersmann and Hohenfels (2017) who analyzed the similar nature of companies in Germany. On the other hand, CEO duality has a negative, but statistically insignificant relationship with AEM, which implies that the CEO duality in non-financial companies in PEX doesn't affect on AEM. These findings are consistent with the findings of Yasser and Mamun (2015). In the same regard, (LOSS) is not significantly correlated with AEM. This means that the rate of losses in their operations has little to no impact on AEM in non-financial companies in PEX. These results are consistent with Mollik *et al.* (2020) that conclude similar findings were noted in Australian companies. Further, company size (Size) and leverage (Lev) are significant but relatively less effective in explaining the AEM. This means that companies size of non-financial Palestinian companies and high leverage which don't impact AEM. These results are similar to those found in the study by Zadeh *et al.* (2023).

Table (4-7) OLS Regression for model (1) ACs and AEM. Results reported are robust standard errors (Huber-White estimator)

ABS_DA	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
AC_SIZ	-.003	.004	-0.79	.431	-.012	.005	
AC_IND	-.002	.011	-0.14	.887	-.022	.019	
AC_FAE	.057	.018	3.24	.001	.022	.092	***
AC_M	-.003	.005	-0.54	.589	-.013	.007	
AC_FM	.01	.046	0.22	.829	-.08	.1	
LOSS	-.003	.013	-0.23	.818	-.028	.022	
NEG_CFO	.037	.011	3.41	.001	.016	.058	***
DUALITY	-.012	.009	-1.42	.157	-.029	.005	
Size	0	.003	0.08	.936	-.005	.006	
Lev	.035	.048	0.73	.469	-.06	.13	
Constant	.046	.045	1.01	.313	-.043	.135	

Mean dependent var	0.060	SD dependent var	0.054
R-squared	0.168	Number of obs	243
F-test	2.831	Prob > F	0.002
Akaike crit. (AIC)	-749.981	Bayesian crit. (BIC)	-711.557

****** p<.01, ** p<.05, * p<.1***

4.4.2 Regression Results and Discussion on the Relationship Between ACs and Audit Fees

The first part of this portion handles the second goal of the study, assessing the association between ACs and audit fees within listed companies in Palestine. Table (4.8) shows the results of hypotheses (H2.1a-H2.1e), which are tested using OLS regression with Newey West estimator to alleviate the existing problem of autocorrelation as outlined by (Hoechle, 2007; Newey & West, 1986).

4.4.2.1 (H2.1a) ACs size and Audit Fees

The hypothesis (H2.1a) stated that *"a significant positive relation exists between ACs size and audit fees in PEX-listed companies"*. However, regression results in table (4.8) show that the size has (AC_SIZ) has an insignificant and positive relation with audit fees, with a p-value greater than 0. 05. Hence, numbers of members in ACs doesn't increase the quality of audit work and audit fees, which led to the rejection of (H2.1a).

This result aligns with earlier studies such as Alhababsah and Yekini (2021) among Jordanian companies where similar findings are concluded. Still, this result is not consistent with agency theory and other scholars (Drogalas et al., 2021; Yahaya & Onyabe, 2022), all of them concluded a significant positive relation was observed with audit fees. The reason for this can be similar to the possible justification given on the

result of the relationship with AEM, and that's because of weak application of CG guidelines especially ACs, as well as in developing nations the owners are not interested in more auditor work and high audit fees.

4.4.2.2 (H2.1b) ACs Independence and Audit Fees

The hypothesis (H2.1b) stated that *"a significant positive relation exists between ACs independence and audit fees in PEX-listed companies"*. However, regression results in table (4.8) show that the independence (AC IND) has an insignificant and positive related to audit fees, with a p-value greater than 0. 05. Hence, non-executive membership in ACs does not increase the quality of audit work and audit fees, which led to the rejection of (H2.1b).

This finding is in congruence with the prior findings, for example, Yahaya and Onyabe (2022) in Nigeria, and Drogalas *et al.* (2021) in Athena, where similar findings are concluded. But it cannot be confirmed with agency theory and other papers such as (Abbott et al., 2003; Al-Hajaya, 2019; Alhababsah & Yekini, 2021; AlQadasi & Abidin, 2018; Zaman et al., 2011) all of them cementing a positive perspective with audit fees. Perhaps the reasoning for the above result is similar to the possible justification given on the result of the relationship with AEM, like relationships with CEOs could also worsen some of the other elements of this independence feature.

4.4.2.3 (H2.1c) ACs Experience and Audit Fees

The hypothesis (H2.1c) stated that *"a significant positive relation exists between ACs accounting and finance expertise and audit fees in PEX-listed companies"*. However, regression results in table (4.8) show that the accounting and finance experience (AC FAE) has an insignificant and positive relationship with audit fees with a p-value greater than 0. 05. Hence, members in ACs those who have accounting and finance experience do not increase the quality of audit work and audit fees, which led to the rejection of (H2.1c).

This result is complementary to other earlier studies such as Zaman *et al.* (2011) who embarked on research on UK companies and arrived at a similar conclusion. Similarly, Yahaya and Onyabe (2022) in Nigeria, and Drogalas *et al.* (2021) in Athena context concluded the same results. However, it also negates agency theory and prior research such as (Abbott et al., 2003; Alhababsah & Yekini, 2021) they conclude a positive

association with fees. Perhaps the reasoning for the above result is similar to the possible justification given on the result of the relationship with AEM. This indicates that qualified ACs members with experience in accounting matters are not in a position to assist the board of directors in providing advice regarding the firm key auditing issues.

4.4.2.4 (H2.1d) ACs Meetings and Audit Fees

The hypothesis (H2.1d) stated that *"a significant positive relation exists between ACs meetings and audit fees in PEX-listed companies"*. However, regression results in table (4.8) show that there is a substantial positive link between meetings (AC M) and audit fees ($p = 0.001$) at the 1% level of significance. As a result, more ACs meetings resulted in better-quality auditing outputs and higher fees, leading to acceptance of (H2.1d).

This result is consistent with agency theory and earlier studies such as (Drogalas et al., 2021; Goodwin-Stewart & Kent, 2006; Yahaya & Onyabe, 2022; Zaman et al., 2011) where similar findings are concluded. Still, it is contrary to prior literature such as Afenya *et al.* (2022) concluded an inverse association with fees. Furthermore, (Abbott et al., 2003; Alhababsah & Yekini, 2021) conclude an insignificant association with auditor fees.

4.4.2.5 (H2.1e) ACs Female Member and Audit Fees

The hypothesis (H2.1e) stated that *"a significant positive relation exists between ACs female members and audit fees in PEX-listed companies"*. However, regression results in table (4.8) show that the female members (AC FM) has a negatively and insignificantly correlates with audit fees. Therefore, the overall argument that the presence of women in ACs does not enhance the quality of audit work and doesn't demand higher fees , which led to the rejection of (H2.1e).

This aligns with the views of Yahaya and Onyabe (2022) and Drogalas *et al.* (2021). However, this result is not supported by Afenya *et al.* (2022) who find a negative relationship with auditor fees. The preceding outcome may indicate that women are not fully involved in the oversight and provision of recommendations for demanding high-quality auditing services, as evidenced by their lack of representation in managerial roles such as boards of directors of Palestinian companies, particularly in subcommittees like ACs.

Besides the control variables, NEG_CFO has a negative significant relationship with audit fees. This implies that non-financial Palestinian companies that have poor operational cash flows, will opt for inferior audit quality. However, company size and leverage have a positive relationship with audit fees. The above implication indicates that higher levels of leverage and the size of non-financial Palestinian companies imply that the audit fees will also be higher. In contrast, there is a positive correlation between CEO duality and audit fees which is statistically insignificant, hinting that CEO duality doesn't affect audit fees. In the same regard, (LOSS) is not significantly correlated with auditor fees. This means that companies that have negative net income don't impact in quality of auditor work in non-financial companies listed in PEX.

Table (4-8) OLS Regression for Model (2.1) ACs and Audit fees. Results reported are robust standard errors (Newey–West estimators)

AUD_FEES	**Coef.**	**St.Err.**	**t-value**	**p-value**	**[95% Conf**	**Interval]**	**Sig**
AC_SIZ	.034	.031	1.099	.273	-.027	.095	
AC_IND	.054	.074	.734	.464	-.092	.201	
AC_FAE	.005	.086	.061	.952	-.164	.174	
AC_M	.076	.023	3.287	.001	.03	.121	***
AC_FM	-.202	.282	-.716	.474	-.759	.354	
LOSS	-.046	.06	-.773	.441	-.165	.072	
NEG_CFO	-.111	.042	-2.632	.009	-.195	-.028	***
DUALITY	.048	.073	.658	.511	-.096	.192	
Size	.23	.024	9.724	0	.183	.276	***
Lev	.756	.223	3.388	.001	.316	1.196	***
Constant	-.078	.393	-.197	.844	-.852	.697	
Mean dependent var		4.190	SD dependent var			0.527	
Number of obs		243	F-test			61.852	

****** p<.01, ** p<.05, * p<.1***

4.4.3 Logistic Regression Result and Discussion on the Relationship Between ACs and Audit Company Size (BIG4).

The second part of this portion handles the second goal of the study, assessing the association between ACs and audit company size such as big four within listed companies in Palestine. Table (4.9) shows the results of hypotheses (H2.2a-H2.2e), which are tested using logistic regression. Possibilities of having bias in the tested model like outliers and multicollinearity were effectively addressed.

4.4.3.1 (H2.2a) ACs size and Audit Company Size

The hypothesis (H2.2a) stated that *"a significant positive relation exists between ACs size and audit companies size in PEX-listed companies".* However, regression results in table (4.9) show that the size (AC_SIZ) has a significant and positive relation with the size of audit companies (BIG4) at a level of significance of 5%. Hence, large ACs size increases the chance of hiring big four audit companies so, higher quality of audit work, which led to the acceptance of (H2.2a). This result is supported by Al-Hajaya (2019) in Jordan and Asiriuwa *et al.* (2018) in Nigeria who concluded a positive association with big four.

4.4.3.2 (H2.2c) ACs Experience and Audit Company Size

The hypothesis (H2.2c) stated that *"a significant positive relation exists between ACs accounting and finance expertise and audit companies size in PEX-listed companies".* However, regression results in table (4.9) show that the experience in accounting and finance matters in ACs has a positive significant with the size of audit companies (BIG4) at a level of significance of 5%. Hence, members in ACs who have accounting and finance experience increase the chance of hiring big four companies so, higher quality of audit work, which led to the acceptance of (H2.2c)**.**

This result is supported by agency theory and other studies such as An (2023) in Korean market, as well as Asiriuwa *et al.* (2018) in Nigeria, and Alhababsah and Yekini (2021) in Jordanian companies were concluded a positive association with big four. These results are not consistent with the results of the audit fees model, and this indicates that large ACs composed of members with accounting experience recommend the appointment of big four auditors because of the quality of audit work they provide, which reduces opportunistic behavior and conflicts of interest.

4.4.3.3 (H2.2b) ACs Independence and Audit Company Size

The hypothesis (H2.2b) stated that *"a significant positive relation exists between ACs independence and audit companies size in PEX-listed companies".* However, regression results in table (4.9) show that the outside members (AC_IND) have a negative insignificant relation with the size of audit companies (BIG4) with a p-value more than 0.05. Hence, non-executive members in ACs don't increase the chance of hiring big four audit companies and higher quality of audit work, which led to the rejection of (H2.2b).

This result confirms with An (2023) in Korean companies that concluded similar results to our study. Whereas not confirmed by agency theory and other papers such as Alhababsah and Yekini (2021), Al-Hajaya (2019), and Asiriuwa *et al.* (2018) all of them conclude a positive association with hiring big four companies. These results are consistent with the results of the audit fees model, which reflects the same explanation that ACs are not particularly effective in the independence of their members, so there may be relationships with CEOs that could threaten the independence of their members.

4.4.3.4 (H2.2d) ACs Meetings and Audit Company Size

The hypothesis (H2.2d) stated that *"a significant positive relation exists between ACs meetings and audit companies size in PEX-listed companies"*. However, regression results in table (4.9) show that the frequency of ACs meetings has a negative and insignificant relation with the size of audit companies (BIG4) with a p-value of more than 0.05. Hence, the number of ACs meetings doesn't increase the chance of hiring big four audit companies and higher quality of audit work, which led to the rejection of (H2.2d).

This result is confirmed by Alhababsah and Yekini (2021) who concluded similar results to our study. Whereas not confirmed with agency theory and other papers such as An (2023), and Asiriuwa *et al.* (2018) they conclude a positive association with hiring big four companies. These results differ from the results of the audit fees model, and the justifications for these results are due to the ineffectiveness of ACs, especially the frequency of its meetings, as their members do not have the opportunity to meet more than once during the fiscal year to discuss and encourage the employment of big four companies.

4.4.3.5 (H2.2e) ACs Female Member and Audit Company Size

The hypothesis (H2.2e) stated that *"a significant positive relation exists between ACs female member and audit companies size in PEX-listed companies"*. However, regression results in table (4.9) show that the existence of women in ACs has a negative insignificant relation with the size of audit companies (BIG4) with a p-value of more than 0.05. Hence, female members in ACs don't increase the chance of hiring big four audit companies and higher quality of audit work, which led to the rejection of (H2.2e).

This result confirms with Alhababsah and Yekini (2021) in Jordanian companies who concluded similar results to our study. Whereas not confirmed with agency theory and

other papers such as An (2023) in Korean companies who conclude a positive association with hiring big four companies. These results are consistent with the results of the audit fees model, which reflects the lack of female representation on the boards of directors of Palestinian companies, especially in subcommittees such as ACs that do not have the opportunity to support the recruitment of big four audit companies.

Moreover, the control variables used in this study show that company size and financial leverage are positively statistically significant in the probability of contracting with the big four audit companies. This means that large Palestinian companies, especially non-financial companies that have high leverage, tend to contract with the big four audit companies that provide high-quality audit services. On the other hand, the analysis shows a negative and significant correlation between CEO duality and big four. This means that companies with the same person holding the positions of chairman and CEO are less likely to hire big four audit companies. In contrast, if the companies that have a net income are negative and have inadequate cash flow from operation doesn't affect hiring big four companies.

Table (4-9) Logistic Regression for Model (2.2) ACs and Audit Company Size (BIG4)

BIG4	**Coef.**	**St.Err.**	**t-value**	**p-value**	**[95% Conf**	**Interval]**	**Sig**
AC_SIZ	.75	.365	2.06	.04	.036	1.465	**
AC_IND	-.034	.545	-0.06	.95	-1.103	1.034	
AC_FAE	4.169	1.959	2.13	.033	.329	8.009	**
AC_M	-.364	.453	-0.80	.422	-1.252	.524	
AC_FM	-1.479	4.201	-0.35	.725	-9.713	6.755	
LOSS	-.192	.558	-0.34	.73	-1.286	.901	
NEG_CFO	-.412	.454	-0.91	.364	-1.301	.477	
DUALITY	-2.277	.699	-3.26	.001	-3.646	-.907	***
Size	.704	.194	3.63	0	.324	1.084	***
Lev	8.087	2.954	2.74	.006	2.296	13.877	***
Constant	-12.49	3.28	-3.81	0	-18.918	-6.061	***

Mean dependent var	0.708	SD dependent var	0.456
Pseudo r-squared	0.356	Number of obs	243
Chi-square	104.414	Prob > chi2	0.000
Akaike crit. (AIC)	211.176	Bayesian crit. (BIC)	249.599

****** p<.01, ** p<.05, * p<.1***

4.4.4 Regression Result and Discussion on the Relationship Between AQ and AEM

This portion handles the third goal of the study, assessing the association between AQ characteristics and AEM within listed companies in Palestine. Table (4.10) shows the results of hypotheses (H3a-H3b), which are tested using OLS regression with robust to fix the potential issue of heteroscedasticity as outlined by (Hoechle, 2007).

4.4.4.1 (H3a) Audit Fees and AEM

The hypothesis (H3a) stated that *"higher audit fees exert a significant influence in mitigating AEM in PEX listed companies."*. However, regression results in table (4.10) show that the audit fees have a positive insignificant relation with AEM with a p-value of more than 0.05. Thus when there are more audit tests and effort, the auditor fees go up but this doesn't reduce the practice of AEM, which leads to rejection (H3a).

This result is supported by Almarayeh *et al.* (2020) in Jordan who concluded a similar result. Nevertheless, it does not substantiate with agency theory and study's findings of both developed and developing nations, as proposed by (Alzoubi, 2016; Khalil & Ozkan, 2016; Mitra et al., 2009; Santos Jaén et al., 2023), they posited that higher audit costs encourage auditors to conduct a more thorough examination of financial statements, thereby improving AQ and reducing the AEM. This outcome can be attributed to the fact that the fees paid to auditors in Palestinian companies are significantly lower than those in developed countries and other Middle Eastern countries. This argument is in accordance with previous research conducted in Jordan, which is comparable to the Palestinian context. Abdullatif and Al-Khadash (2010) and Almarayeh *et al.* (2020) contend that the level of audit fees decreases as the risk of litigation decreases. Additionally, the researcher believes that Palestinian companies do not alter the auditor, which is evidence of the low audit fees in the Palestinian context. Therefore, it is unlikely that audit fees serve as an incentive to perform more audit work in order to limit EM.

4.4.4.2 (H3b) Audit Company Size and AEM

The hypothesis (H3b) stated that *"a significant inverse relationship exists between audit companies size and the incidence of AEM within companies listed on PEX"*. However, regression results in table (4.10) show that the audit company size (BIG4) had an insignificant and positive relation with AEM, and the p-value was greater than 0. 05.

Therefore, hiring big four audit companies doesn't alleviate the practice of AEM, which was the basis of rejection of (H3b).

This indicates that the size of audit companies either by big four or non-big four doesn't give an effective way to decrease the level of AEM in the Palestinian context, particularly for non-financial companies. This outcome is consistent with the findings of (Almarayeh et al., 2020; Duong Thi, 2023) in Jordan and Vietnam, where they arrived at a comparable conclusion. However, it doesn't support the agency theory and other studies such as (Alzoubi, 2016; Awuye, 2022; Donatella et al., 2019). This outcome can be explained based on the argument made by Jeong and Rho (2004) who posited that auditors don't have an incentive to prevent earnings manipulation, especially in developing countries like Palestine where culture doesn't allow for providing high quality auditing services and where chancing of being sued is low. In addition to other beliefs of some researchers such as Abdullatif and Al-Khadash (2010) and Almarayeh *et al.* (2020) that big four audit companies may face difficulties in implementing standardized audit procedures in underdeveloped countries. As a result, the researcher believes that the aforementioned recommendations may be a feasible explanation for the lack of a substantial link between the big four and AEM in the Palestinian setting.

Additionally, control variables, CEO duality demonstrate a negative significant correlation with AEM. That means the companies that chairman of the board who holds a CEO position may record a high level of AEM. Similarly, (NEG CFO) with inadequate cash flows from operations are more likely to engage in AEM. However, other variables including LOSS, Size, and Lev exhibit a non-significant relation with AEM.

Table (4-10) OLS Regression for Model (3) AQ and AEM. Results reported are robust standard errors (Huber-White estimator)

ABS_DA	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
AUD_FEES	.001	.012	0.08	.936	-.023	.024	
BIG4	.01	.009	1.20	.23	-.007	.027	
LOSS	-.008	.012	-0.67	.503	-.031	.015	
NEG_CFO	.039	.011	3.72	0	.019	.06	***
DUALITY	-.018	.008	-2.22	.027	-.033	-.002	**
Size	-.003	.003	-1.06	.289	-.01	.003	
Lev	.033	.052	0.63	.529	-.069	.135	
Constant	.097	.043	2.26	.025	.012	.182	**
Mean dependent var		0.060	SD dependent var			0.054	
R-squared		0.120	Number of obs			243	

F-test	3.019	Prob > F	0.004
Akaike crit. (AIC)	-742.526	Bayesian crit. (BIC)	-714.581

****** p<.01, ** p<.05, * p<.1***

4.4.5 Mediating Effect of Audit Quality on the Relationship between the ACs and AEM

This part tackles the study fourth goal, which is to analyze the mediating impact of AQ on the linkages between ACs and AEM in companies listed in PEX. Additionally, it seeks to establish the final condition for the mediation effect by testing the hypothesis (H4) stated that:

H4 :The interrelation between ACs characteristics and AEM is mediated by higher demand for AQ by contracting with big audit companies which require a high degree of fees in PEX-listed companies.

This hypothesis is tested specifically on the variables that meet the first three mediation requirements as described by (Baron & Kenny, 1986). These conditions require that: (i) the dependent variable has a significant association with the independent variable (ACs and AEM), (ii) the mediating variable has a significant association with the independent variable (ACs and AQ), and (iii) the dependent variable has a significant association with the mediating variable (AQ and AEM).

The mediation processes are delineated in table (4.11), which indicates that the first condition is only met by the accounting and finance experience (AC FAE) has a significant correlation with AEM. Nevertheless, this requirement is not met by other ACs variables. As for the second condition, it was used two mediating variables, the first was audit fees in the model (2.1), while the second was audit company size (BIG4) in the model (2.2). However, model (2.1) does not fulfill the second condition, while model (2.2) does, as (AC FAE) has a significant relationship with Big four audit firms. However, the third condition doesn't meet the requirement since there is a lack of significant association between AEM and AQ, demonstrated by audit fees and audit company size. Thus, it is necessary to reject the hypothesis (H4) based on the mediation procedures by Baron and Kenny (1986), indicating that AQ doesn’t mediate the relationship between ACs and AEM.

Table (4-11) OLS Regression for Model (4) Mediation of AQ on the relationship between ACs and AEM

VARIABLES	M (1) Direct (First Condition)	M (2.1) ACs and Audit Fees (Second Condition)	M (2.2) ACs and BIG4 (Second Condition)	M (3) AQ and AEM (Third Condition)	M (4) Mediation (Fourth Condition)
AC_SIZ	-0.00335	0.0340	0.750**		-0.00420
	(0.00424)	(0.0309)	(0.365)		(0.00433)
AC_IND	-0.00151	0.0544	-0.0341		-0.00182
	(0.0106)	(0.0742)	(0.545)		(0.0105)
AC_FAE	0.0569***	0.00519	4.169**		0.0554***
	(0.0176)	(0.0856)	(1.959)		(0.0179)
AC_M	-0.00281	0.0756***	-0.364		-0.00313
	(0.00520)	(0.0230)	(0.453)		(0.00532)
AC_FM	0.00988	-0.202	-1.479		0.0129
	(0.0458)	(0.282)	(4.201)		(0.0469)
LOSS	-0.00290	-0.0464	-0.192	-0.00792	-0.00226
	(0.0126)	(0.0601)	(0.558)	(0.0118)	(0.0126)
NEG_CFO	0.0369***	-0.111***	-0.412	0.0394***	0.0378***
	(0.0108)	(0.0423)	(0.454)	(0.0106)	(0.0109)
DUALITY	-0.0121	0.0480	-2.277***	-0.0176**	-0.0110
	(0.00852)	(0.0730)	(0.699)	(0.00792)	(0.00856)
Size	0.000225	0.230***	0.704***	-0.00338	-0.00151
	(0.00278)	(0.0236)	(0.194)	(0.00318)	(0.00332)
Lev	0.0351	0.756***	8.087***	0.0326	0.0256
	(0.0483)	(0.223)	(2.954)	(0.0517)	(0.0509)
AUD_FEES				0.000958	0.00559
				(0.0119)	(0.0125)
BIG4				0.0103	0.00655
				(0.00858)	(0.00899)
Constant	0.0458	-0.0776	-12.49***	0.0974**	0.0509
	(0.0453)	(0.393)	(3.280)	(0.0431)	(0.0452)
Observations	243	243	243	243	243
R-squared	0.168	-	-	0.120	0.171
Prob > F	0.002	0.000	-	0.004	0.006
Pseudo R2	-	-	0.355	-	-
Prob > chi2	-	-	0.0000	-	-

Robust standard errors in parentheses
***** p<0.01, ** p<0.05, * p<0.1**

Table (4-12) Summary of Results

M	Hypothesis	E.Sign	A.Sign	Result
M (1) Direct effect	**H1a:** A significant inverse relationship exists between ACs size and the incidence of AEM within companies listed on PEX	-	- Insig	Rejected
	H1b: A significant inverse relationship exists between ACs accounting and finance experience and the incidence of AEM within companies listed on PEX	-	+ Sig	Rejected
	H1c: A significant inverse relationship exists between ACs independence and the incidence of AEM within companies listed on PEX	-	- Insig	Rejected
	H1d: A significant inverse relationship exists between ACs meetings and the incidence of AEM within companies listed on PEX	-	- Insig	Rejected
	H1e: A significant inverse relationship exists between ACs female member and the incidence of AEM within companies listed on PEX	-	+ Insig	Rejected
M (2.1) ACs and Audit Fees	**H2.1a:** A significant positive relation exists between ACs size and audit fees in PEX-listed companies	+	+ Insig	Rejected
	H2.1b: A significant positive relation exists between ACs independence and audit fees in PEX-listed companies	+	+ Insig	Rejected
	H2.1c: A significant positive relation exists between ACs accounting and finance expertise and audit fees in PEX-listed companies	+	+ Insig	Rejected
	H2.1d: A significant positive relation exists between ACs meetings and audit fees in PEX-listed companies	+	+ Sig	Accepted
	H2.1e: A significant positive relation exists between ACs female members and audit fees in PEX-listed companies	+	- Insig	Rejected
M (2.2) ACs and audit company size (BIG4)	**H2.2a:** A significant positive relation exists between ACs size and audit companies size in PEX-listed companies	+	+ Sig	Accepted
	H2.2b: A significant positive relation exists between ACs independence and audit companies size in PEX-listed companies	+	- Insig	Rejected
	H2.2c: A significant positive relation exists between ACs accounting and finance expertise and audit companies size in PEX-listed companies	+	+ Sig	Accepted
	H2.2d: A significant positive relation exists between ACs meetings and audit companies size in PEX-listed companies	+	- Insig	Rejected
	H2.2e: A significant positive relation exists between ACs female member and audit companies size in PEX-listed companies	+	- Insig	Rejected
M (3) AQ and AEM	**H3a:** Higher audit fees exert a significant influence in mitigating AEM in PEX listed companies	-	+ Insig	Rejected
	H3b: A significant inverse relationship exists between audit companies size and the incidence of AEM within companies listed on PEX	-	+ Insig	Rejected
M (4) Mediation	**H4:** The interrelation between ACs characteristics and AEM is mediated by higher demand for AQ by contracting with big audit companies which require a high degree of fees in PEX-listed companies.	-	Insig	Rejected

4.5 Robustness Check

This section contains various extra analyses to ensure the validity and robustness of the results. We used other regression estimators and an alternative AEM model. In addition to dividing the sample based on signed accruals, we included a new independent variable in our models. Finally, we address the issue of endogeneity.

4.5.1 Additional Regression Estimators

The research used additional regression estimators to improve the reliability of the primary results. Following the Hausman test, it was established that random effects regression is better suited for all models. As a result, two robust estimators were used based on existing literature random effects regression with robust functionality to address heteroscedasticity or first-order autocorrelation AR (1), as suggested by Al-Absy *et al.* (2019) and Hoechle (2007), and OLS regression with robust company clustering, also recommended by Hoechle (2007). Table (4.13) shows that the results of several robustness tests are substantially consistent with the primary findings. The OLS regression with company clustering in model (1) and the robust random effects regression both corroborate the major findings, with the exception of AC_FAE, which is not significant in RE regression. In model (2.1), the OLS regression with robust company clustering and the robust AR (1) random effects regression support the major results, with the exception that AC_IND is significant and AC_FAE is not in the RE regression. For model (2.2), Probit regression verifies the original logistic regression findings. Model (3) is also consistent with the key results from different estimators. These robustness assessments confirm the original results, increasing the credibility and trustworthiness of the study findings.

Table (4-13) Robust Additional Regression Estimators

	Model (1) AC and AEM			Model (2.1) AC and Audit Fees			Model (2.2) AC and audit company size (BIG4)		Model (3) AQ and AEM		
VARIABLES	Main robust	Alternative Clustered by Company	Alternative RE robust	Main Newey	Alternative Clustered by Company	Alternative RE robust	Main logit	Alternative Probit	Main robust	Alternative Clustered by Company	Alternative RE robust
AC_SIZ	-0.00335	-0.00335	-0.00145	0.0340	0.0340	0.0163	0.750**	0.469**			
	(0.00424)	(0.00572)	(0.00416)	(0.0309)	(0.0468)	(0.0105)	(0.365)	(0.207)			
AC_IND	-0.00151	-0.00151	-0.00249	0.0544	0.0544	0.0365**	-0.0341	-0.0732			
	(0.0106)	(0.0106)	(0.0115)	(0.0742)	(0.103)	(0.0172)	(0.545)	(0.313)			
AC_FAE	0.0569***	0.0569**	0.0124	0.00519	0.00519	-0.0254	4.169**	2.370**			
	(0.0176)	(0.0273)	(0.0134)	(0.0856)	(0.125)	(0.0402)	(1.959)	(1.104)			
AC_M	-0.00281	-0.00281	0.00601	0.0756***	0.0756**	0.00856	-0.364	-0.219			
	(0.00520)	(0.00814)	(0.00598)	(0.0230)	(0.0355)	(0.00964)	(0.453)	(0.259)			
AC_FM	0.00988	0.00988	-0.0195	-0.202	-0.202	0.0317	-1.479	-0.930			
	(0.0458)	(0.0473)	(0.0242)	(0.282)	(0.256)	(0.0739)	(4.201)	(2.339)			
LOSS	-0.00290	-0.00290	0.000389	-0.0464	-0.0464	-0.00662	-0.192	-0.0796	-0.00792	-0.00792	-0.00274
	(0.0126)	(0.0165)	(0.0164)	(0.0601)	(0.0782)	(0.0147)	(0.558)	(0.323)	(0.0118)	(0.0184)	(0.0160)
NEG_CFO	0.0369***	0.0369**	0.0430***	-0.111***	-0.111**	-0.00653	-0.412	-0.231	0.0394***	0.0394**	0.0439***
	(0.0108)	(0.0144)	(0.0129)	(0.0423)	(0.0510)	(0.0106)	(0.454)	(0.263)	(0.0106)	(0.0147)	(0.0121)
DUALITY	-0.0121	-0.0121	-0.0188	0.0480	0.0480	0.339***	-2.277***	-1.334***	-0.0176**	-0.0176	-0.0149
	(0.00852)	(0.0121)	(0.0121)	(0.0730)	(0.134)	(0.118)	(0.699)	(0.400)	(0.00792)	(0.0126)	(0.0126)
Size	0.000225	0.000225	-0.000875	0.230***	0.230***	0.0467***	0.704***	0.421***	-0.00338	-0.00338	0.000131
	(0.00278)	(0.00458)	(0.00463)	(0.0236)	(0.0438)	(0.0108)	(0.194)	(0.111)	(0.00318)	(0.00515)	(0.00563)
Lev	0.0351	0.0351	0.0487	0.756***	0.756***	0.395***	8.087***	4.322***	0.0326	0.0326	0.0508
	(0.0483)	(0.0595)	(0.0333)	(0.223)	(0.263)	(0.0776)	(2.954)	(1.477)	(0.0517)	(0.0715)	(0.0426)
AUD_FEES									0.000958	0.000958	-0.0121
									(0.0119)	(0.0228)	(0.0271)
BIG4									0.0103	0.0103	0.0259
									(0.00858)	(0.0161)	(0.0172)
Constant	0.0458	0.0458	0.0565	-0.0776	-0.0776	3.651***	-12.49***	-7.441***	0.0974**	0.0974	0.0749
	(0.0453)	(0.0730)	(0.0750)	(0.393)	(0.737)	(0.158)	(3.280)	(1.882)	(0.0431)	(0.0775)	(0.0768)
Observations	243	243	243	243	243	243	243	243	243	243	243
R-squared	0.168	0.168		-	0.769				0.120	0.120	
Number of Companies			27			27					27

Standard errors in parentheses
***** p<0.01, ** p<0.05, * p<0.1**

4.5.2 Alternative Measure for AEM

To evaluate the robustness and reliability of our findings, we utilize other metrics extensively employed in prior work to calculate AEM, notably the modified Jones model (Dechow et al., 1995). Table (4.14) displays the regression model findings, with the dependent variable (ABS_DA) computed using the modified Jones model. The results show that the models provide conclusions comparable to those found with the Kothari *et al.* (2005) model.

Table (4-14) OLS Regression Results by Alternative AEM Model

	Model (1) Direct effect: ACs and AEM		**Model (4) Mediation**	
VARIABLES	Kothari Model	Modified Jones	Kothari Model	Modified Jones
AUD_FEES			0.00559	0.0107
			(0.0125)	(0.0180)
BIG4			0.00655	0.0111
			(0.00899)	(0.0111)
AC_SIZ	-0.00335	-0.00523	-0.00420	-0.00672
	(0.00424)	(0.00601)	(0.00433)	(0.00601)
AC_IND	-0.00151	-0.00636	-0.00182	-0.00695
	(0.0106)	(0.0131)	(0.0105)	(0.0127)
AC_FAE	0.0569***	0.0685***	0.0554***	0.0658***
	(0.0176)	(0.0235)	(0.0179)	(0.0240)
AC_M	-0.00281	-0.00132	-0.00313	-0.00195
	(0.00520)	(0.00733)	(0.00532)	(0.00760)
AC_FM	0.00988	0.0175	0.0129	0.0228
	(0.0458)	(0.0510)	(0.0469)	(0.0529)
LOSS	-0.00290	0.0158	-0.00226	0.0169
	(0.0126)	(0.0180)	(0.0126)	(0.0180)
NEG_CFO	0.0369***	0.0437***	0.0378***	0.0453***
	(0.0108)	(0.0142)	(0.0109)	(0.0139)
DUALITY	-0.0121	-0.00945	-0.0110	-0.00760
	(0.00852)	(0.0101)	(0.00856)	(0.0102)
Size	0.000225	-0.00173	-0.00151	-0.00496
	(0.00278)	(0.00393)	(0.00332)	(0.00509)
Lev	0.0351	0.0767	0.0256	0.0597
	(0.0483)	(0.0811)	(0.0509)	(0.0852)
Constant	0.0458	0.0784	0.0509	0.0873
	(0.0453)	(0.0647)	(0.0452)	(0.0665)
Observations	243	243	243	243
R-squared	0.168	0.178	0.171	0.185

Standard errors in parentheses
***** p<0.01, ** p<0.05, * p<0.1**

4.5.3 Signed Accruals

In the primary study, the researcher used the absolute value of DA as an indicator of AEM. In addition, signed AEM (DA+ and DA-) were used as dependent variables, as previously reported (Albersmann & Hohenfels, 2017; Almarayeh et al., 2020). As a result, the sample was separated into two sub-samples, positive AEM (DA > 0) and negative AEM (DA < 0), and models (1), (3), and (4) were re-estimated. Table (4.15) summarizes the results of various models, emphasizing the disparities across the sub-samples while remaining consistent with our primary conclusions.

Table (4-15) OLS Regression Results by Signed Accruals

	Positive AEM (Increasing)			**Negative AEM (Decreasing)**		
VARIABLES	M(1)	M (3)	M(4)Mediation	M(1)	M (3)	M(4)Mediation
AC_SIZ	-0.0141		-0.0148	0.00330		0.00354
	(0.0141)		(0.0141)	(0.00422)		(0.00424)
AC_IND	-0.0250		-0.0253	0.00228		0.00402
	(0.0224)		(0.0227)	(0.0144)		(0.0146)
AC_FAE	0.105***		0.104***	0.0259		0.0264
	(0.0295)		(0.0297)	(0.0168)		(0.0167)
AC_M	0.0115		0.0122	-0.0104**		-0.00918*
	(0.0213)		(0.0212)	(0.00459)		(0.00475)
AC_FM	-0.0783		-0.0728	0.0135		0.00946
	(0.0890)		(0.0824)	(0.0551)		(0.0577)
LOSS	0.0202	-0.00108	0.0221	-0.0240	-0.0198	-0.0258
	(0.0344)	(0.0342)	(0.0347)	(0.0165)	(0.0145)	(0.0169)
NEG_CFO	0.0709***	0.0831***	0.0691***	0.0398***	0.0305***	0.0385***
	(0.0162)	(0.0158)	(0.0169)	(0.0116)	(0.0108)	(0.0116)
DUALITY	-0.00400	-0.0325	0.00385	0.0151	0.0171	0.0153
	(0.0173)	(0.0198)	(0.0188)	(0.0118)	(0.0113)	(0.0118)
Size	0.00110	-0.000899	0.00334	-0.00283	0.00110	0.000795
	(0.00850)	(0.00825)	(0.00934)	(0.00315)	(0.00366)	(0.00371)
Lev	0.113	0.122	0.117	-0.00848	0.0114	0.00366
	(0.154)	(0.165)	(0.163)	(0.0439)	(0.0479)	(0.0458)
AUD_FEES		-0.0102	-0.0203		-0.0189	-0.0148
		(0.0392)	(0.0354)		(0.0118)	(0.0132)
BIG4		0.0230	0.0200		0.00259	-0.000835
		(0.0201)	(0.0203)		(0.0106)	(0.0113)
Constant	0.0201	0.0745	0.0500	-0.00334	0.00201	-0.00809
	(0.144)	(0.156)	(0.153)	(0.0480)	(0.0438)	(0.0470)
Observations	100	100	100	143	143	143
R-squared	0.419	0.308	0.425	0.089	0.074	0.096

Standard errors in parentheses
***** p<0.01, ** p<0.05, * p<0.1**

4.5.4 Additional Independent Variable

In this study, the researcher included a new independent variable, the presence of ACs, to evaluate its influence on the major study models. This conclusion was influenced by the sample, which included both companies with and without ACs. Table (4.16) shows that the existence or lack of ACs has no significant impact on AEM, audit quality of Big4 audit companies, or audit fees. Furthermore, the results of the other independent variables are consistent with the primary findings (table 4.11).

Table (4-16) Regression analysis: Evaluating the effect of the existence of ACs on study models

VARIABLES	M (1) Direct	M (2.1) ACs and Audit Fees	M (2.2) ACs and audit company size (BIG4)	M (3) AQ and DA	M (4) Mediation
AC_Exi	-0.0242	-0.0449	-3.126		-0.0231
	(0.0227)	(0.177)	(2.544)		(0.0227)
AC_SIZ	0.00306	0.0459	1.756*		0.00195
	(0.00735)	(0.0497)	(0.905)		(0.00736)
AC_IND	0.00149	0.0600	0.0635		0.00105
	(0.0108)	(0.0796)	(0.550)		(0.0107)
AC_FAE	0.0584***	0.00794	3.712**		0.0569***
	(0.0173)	(0.0890)	(1.865)		(0.0176)
AC_M	-0.00288	0.0755***	-0.335		-0.00319
	(0.00512)	(0.0231)	(0.454)		(0.00524)
AC_FM	0.0104	-0.201	-1.662		0.0133
	(0.0460)	(0.282)	(4.221)		(0.0472)
LOSS	-0.00151	-0.0438	0.0165	-0.00792	-0.000947
	(0.0126)	(0.0587)	(0.582)	(0.0118)	(0.0126)
NEG_CFO	0.0364***	-0.112***	-0.432	0.0394***	0.0373***
	(0.0109)	(0.0428)	(0.454)	(0.0106)	(0.0110)
DUALITY	-0.0120	0.0482	-2.336***	-0.0176**	-0.0110
	(0.00860)	(0.0724)	(0.703)	(0.00792)	(0.00866)
Size	0.000597	0.231***	0.732***	-0.00338	-0.00112
	(0.00274)	(0.0246)	(0.201)	(0.00318)	(0.00327)
Lev	0.0397	0.765***	8.246***	0.0326	0.0303
	(0.0490)	(0.225)	(2.982)	(0.0517)	(0.0516)
AUD_FEES				0.000958	0.00555
				(0.0119)	(0.0126)
BIG4				0.0103	0.00625
				(0.00858)	(0.00899)
Constant	0.0392	-0.0899	-13.00***	0.0974**	0.0444
	(0.0444)	(0.409)	(3.411)	(0.0431)	(0.0444)
Observations	243	243	243	243	243
R-squared	0.171	-	-	0.120	0.174
Pseudo R2	-	-	0.361	-	-

Standard errors in parentheses
***** p<0.01, ** p<0.05, * p<0.1**

4.5.5 Endogeneity Problem

Endogeneity is a common problem in accounting and auditing research, resulting from simultaneous causality, measurement mistakes, and the absence of relevant variables (Larcker & Rusticus, 2010). Extensive research has shown that research on corporate governance and AEM typically faces endogeneity issues (Al-Absy et al., 2019; McKnight & Weir, 2009). Xie *et al.* (2003) argue that composition of the board and ACs may impact the degree of AEM, and vice versa, the degree of AEM can impact choosing of board and ACs members in the future.

These possible endogeneity problems, such as reverse causality, may have an effect on the relationships in our research findings. The literature suggests two main approaches to deal with this issue. The first is using instrumental variable (IV) approach and the second is using the lag values of independent variables. The first technique, which is based on Al-Absy *et al.* (2019) methodology, uses lags in the independent variables. The results of re-estimating every model using lagged values for the independent variables are shown in table (4.17). The findings held true, indicating that reverse causality is not likely to be a major issue. Further, the second technique is using two-stage least squares (2SLS) estimation procedure was employed, depending on the methodological recommendations presented by (Almarayeh et al., 2022; McKnight & Weir, 2009), where lagged values of endogenous variables were used as instruments for estimation and all ACs variables were assumed to be as endogenous. To check the presence of any form of endogeneity in the results, table (4.17) re-estimates the initial results using the following 2SLS, the estimated results continue to support the earlier predictions which explain that our findings are not suffering from endogeneity issues.

Table (4-17) Lag Regression and 2SLS for Endogeneity Test

VARIABLES	Lag value of independent variables regression				2SLS			
	M (1) Direct	M (2.1) ACs and Audit Fees	M (2.2) ACs and BIG4	M (4) Mediation	M (1) Direct	M (2.1) ACs and Audit Fees	M (2.2) ACs and BIG4	M (4) Mediation
AC_SIZ t-1	-0.00280	0.0208	0.975**	-0.00364				
	(0.00558)	(0.0264)	(0.392)	(0.00567)				
AC_IND t-1	0.00705	0.101	0.208	0.00569				
	(0.0142)	(0.0648)	(0.575)	(0.0140)				
AC_FAE t-1	0.0488***	-0.0370	4.097**	0.0473**				
	(0.0184)	(0.0799)	(1.935)	(0.0189)				
AC_M t-1	-0.00526	0.0868***	-0.766	-0.00582				
	(0.00649)	(0.0224)	(0.517)	(0.00669)				
AC_FM t-1	-0.0183	-0.0117	0	-0.0177				
	(0.0452)	(0.262)	0	(0.0466)				
AUD_FEES t-1				0.00841				
				(0.0131)				
BIG4 t-1				0.00763				
				(0.00948)				
AC_SIZ					-0.00212	-0.0474	0.174*	-0.00309
					(0.0125)	(0.0642)	(0.0932)	(0.0129)
AC_IND					0.0203	0.276	-0.131	0.0189
					(0.0411)	(0.211)	(0.306)	(0.0415)
AC_FAE					0.0572**	-0.110	0.361**	0.0553**
					(0.0226)	(0.116)	(0.168)	(0.0234)
AC_M					-0.0107	0.139***	-0.0830	-0.0112
					(0.00928)	(0.0475)	(0.0690)	(0.00998)
AC_FM					-0.0592	-0.181	0.0463	-0.0580
					(0.132)	(0.678)	(0.985)	(0.132)
AUD_FEES								0.00874
								(0.0161)
BIG4								0.00797
								(0.0107)

LOSS	-0.00313	-0.0380	-0.278	-0.00233	-0.00779	-0.0394	-0.0773	-0.00683
	(0.0141)	(0.0586)	(0.607)	(0.0141)	(0.0121)	(0.0619)	(0.0899)	(0.0121)
NEG_CFO	0.0425***	-0.122***	-0.291	0.0438***	0.0431***	-0.158***	0.00448	0.0445***
	(0.0118)	(0.0423)	(0.478)	(0.0117)	(0.0102)	(0.0522)	(0.0758)	(0.0106)
DUALITY	-0.0190**	0.0502	-2.517***	-0.0178*	-0.0182	0.0220	-0.234**	-0.0166
	(0.00940)	(0.0559)	(0.787)	(0.00933)	(0.0123)	(0.0628)	(0.0912)	(0.0125)
Size	-0.000111	0.223***	0.767***	-0.00252	1.32e-05	0.217***	0.0762***	-0.00249
	(0.00293)	(0.0205)	(0.210)	(0.00353)	(0.00314)	(0.0161)	(0.0233)	(0.00443)
Lev	0.0416	0.810***	7.411**	0.0302	0.0339	0.775***	0.769**	0.0210
	(0.0549)	(0.201)	(2.981)	(0.0566)	(0.0455)	(0.233)	(0.339)	(0.0471)
Constant	0.0478	0.0262	-13.68***	0.0533	0.0435	0.0945	-0.866**	0.0496
	(0.0479)	(0.338)	(3.577)	(0.0476)	(0.0514)	(0.263)	(0.382)	(0.0526)
Observations	216	216	209	216	216	216	216	216
R-squared	0.181	0.771	-	0.187	0.143	0.753	0.311	0.149

Robust standard errors in parentheses
***** p<0.01, ** p<0.05, * p<0.1**

Chapter Five: Conclusion and Recommendations

5.1 Introduction

This chapter provides a conclusion of this study. In addition, outlines the implications and limitations of the study, and provides recommendations for future research.

5.2 Conclusion

This study searches to provide some answers to the empirical question of whether companies with effective ACs and high demand for AQ show less earnings manipulation in listed Palestinian companies. The data are manually extracted from the PEX website made available for the study a sample of 27 non-financial companies registered in the years 2014-2022. First, we test for the direct association between ACs and AEM. The findings indicate that all characteristics of ACs except accounting experience do not affect AEM. The accounting and finance experience of ACs members tends to have a positive impact on AEM. Second, we investigate the association between the internal mechanism of CG such as ACs and external AQ by two indicators. The first indicator is auditor fees and from the results obtained, we evidenced that the findings indicate that all characteristics of ACs except meetings don't affect auditor fees. While frequency of ACs meetings has a positive relationship with audit fees. In addition, another indicator for AQ is audit firm size such as the big four, and the results obtained, show that AC factors such as independence, frequency of meetings, as well as female members don't have a significant association with the selection of big four audit companies. However, other characteristics of ACs such as size and accounting experience have a positive relationship with the selection of big four audit companies. Thirdly, examining the effect of external AQ on AEM, the results reveal that audit fees and the size of audit companies either by big four or non-big four don't give an effective way to decrease the level of AEM. Therefore, based on the Baron and Kenny (1986) mediation test, these findings suggest that audit fees and the size of audit companies either by big four or non-big four fail to meet the criterion in the mediation process. Therefore, AQ doesn't mediate the association between ACs characteristics and AEM in PEX non-financial listed companies. This shows that in the Palestinian context, especially non-financial companies have a weak application of international CG, so we can conclude that the role of ACs in Palestine is ineffective, and external audits in Palestine may not always operate in the same manner as in developed nations. This is due to some common characteristics

between Palestine and other emerging markets are high concentration of ownership, relatively low investor protection, small and inefficient stock exchange, strong company relationships between auditors and their clients, and little demand for high-quality external audits.

5.3 Implication and Limitation

The present findings provide significant implications for key stakeholders interested in ACs effectiveness and external AQ, namely regulators and policymakers, academic researchers, and investors. In addition, these findings can be extended beyond Palestine to a broader context, especially in other developing countries. Furthermore, the main contribution of the present study is to examine the big four audit companies and their fees as a potential mediating variable between ACs and AEM. Moreover, it highlights the issue of improving CG mechanisms in the Palestinian context. Based on the results, we recommend the Palestinian regulatory should force companies listed on PEX to form ACs, with the need to activate their role through clearer legislative and supervisory instructions that are consistent with global CG practices. This is done by expanding the powers of the ACs and not limiting them to the number of their meetings, and by focusing on the independence of their members and accounting experience by adding legislative texts related to the personal qualities of the ACs members. In addition, low audit fees and limited demand for high-quality audits should be addressed in reforms aimed at strengthening the role of external audit in the Palestinian context. We recommend full disclosure of how audit fees are determined and enacting legislation that sets maximum and minimum audit fees and imposes deterrent laws to ensure compliance. In addition, emphasizes the need to educate big four audit companies on the importance of minimizing unhealthy competition and avoiding lowering fees to attract new clients, as this has a negative impact on audit quality. Furthermore, it's important to the creation of a strong audit environment to prevent unethical practices. That required intensified efforts and cooperation between PCMA, PACPA, and academia to effectively implement best practices of CG principles.

Nevertheless, some limitations of this study are Firstly, this work refers only to listed non-financial companies, and they cannot be generalized. Thus, it can be concluded, that the results of this study may not be of interest to the listed financial companies. Lastly, this study involves the use of this pair of variables which is ACs and external AQ as a

mechanism of CG in reducing AEM. Future research in developing nations such as Palestine can explore other mechanisms of CG such as internal auditing, ownership structure, and board characteristics on EM. In addition, more investigations can also be conducted through the application of other forms of EM such as REM, and classification shifting which can also be a potential area of research for the future.

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Appendices

Appendix (1) Sample Selected of Listed Companies on PEX (2014 -2022)

Company Name	Symbol	Sector	Listing Date
PALESTINE TELECOMMUNICATIONS	PALTEL		1997
AL-WATANIAH TOWERS	ABRAJ		2010
WATANIYA PALESTINE MOBILE TELECOMMUNICATIONS	OOREDOO		2011
THE ARAB HOTELS	AHC		1998
PALESTINE ELECTRIC	PEC	Service	2004
THE RAMALLAH SUMMER RESORTS	RSR		2010
PALESTINIAN COMPANY FOR DISTRIBUTION & LOGISTICS SERVICES	WASSEL		2007
NABLUS SURGICAL CENTER	NSC		2008
BIRZEIT PHARMACEUTICALS	BPC		2004
JERUSALEM PHARMACEUTICALS	JPH		1997
THE VEGETABLE OIL INDUSTRIES	VOIC		1999
PALESTINE POULTRY	AZIZA		2002
JERUSALEM CIGARETTE	JCC	Industry	1997
NATIONAL ALUMINUM AND PROFILE	NAPCO		2011
GOLDEN WHEAT MILLS	GMC		2005
ARAB COMPANY FOR PAINTS PRODUCTS	APC		1997
THE NATIONAL CARTON INDUSTRY	NCI		2006
PALESTINE PLASTIC INDUSTRIES	LADAEN		2002
ARAB PALESTINIAN INVESTMENT – APIC	APIC		2014
PALESTINE DEVELOPMENT & INVESTMENT	PADICO		1997
PALESTINE INDUSTRIAL INVESTMENT	PIIC		2002
PALESTINE REAL ESTATE INVESTMENT	PRICO		1997
UNION CONSTRUCTION AND INVESTMENT	UCI		2007
ARAB INVESTORS	ARAB	Investment	1997
PALESTINE INVESTMENT & DEVELOPMENT	PID		2006
AL-AQARIYA TRADING INVESTMENT	AQARIYA		2011
JERUSALEM REAL ESTATE INVESTMENT	JREI		2006
Total	**27 Companies**		

أثر جودة التدقيق كوسيط بين لجنة التدقيق وإدارة الارباح: دراسة تطبيقية على الشركات المدرجة في بورصة فلسطين.

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ملخص

تهدف هذه الدراسة إلى فحص التأثير الوسيط لجودة التدقيق المتمثلة في رسوم التدقيق وحجم شركة التدقيق، وخاصة شركات التدقيق الأربع الكبار على العلاقة بين لجان التدقيق وإدارة الأرباح. وقد تم الحصول على البيانات من التقارير السنوية لـ 27 شركة غير مالية مدرجة في بورصة فلسطين من عام 2014 إلى عام 2022. علاوة على ذلك، تم استخدام انحدار OLS مع خطأ معياري قوي، وكذلك الانحدار اللوجستي لاختبار نماذج الدراسة.

وأظهرت النتائج أن خصائص لجان التدقيق لا تلعب دورًا كبيرًا في تقليل ممارسات إدارة الأرباح، باستثناء الخبرة المحاسبية والمالية لأعضاء اللجان، التي ترتبط بشكل إيجابي بإدارة الأرباح. من ناحية أخرى، أظهرت الدراسة أن خصائص لجان التدقيق لا تؤثر بشكل كبير على زيادة رسوم التدقيق، باستثناء عدد الاجتماعات الذي أظهر علاقة إيجابية مع الرسوم. كما تبيّن أن استقلالية اللجان وتكرار الاجتماعات ووجود أعضاء إناث ليس لها تأثير كبير على اختيار شركات التدقيق الأربع الكبار، بينما يرتبط حجم اللجنة وخبرة أعضائها المحاسبية بشكل إيجابي مع اختيار هذه الشركات. وأخيرًا، أظهرت النتائج أن جودة التدقيق، من خلال رسوم التدقيق و شركات التدقيق الأربع الكبرى، لا تؤثر على تقليل ممارسات إدارة الأرباح. وبالتالي، وفقًا لاختبار الوساطة، نجد بأن جودة التدقيق تفشل في تحقيق دور الوسيط في العلاقة بين لجان التدقيق وإدارة الأرباح. علاوة على ذلك، تم استخدام تحليلات المتانة للتحقق من صحة النتائج ومتانتها، بما في ذلك استخدام مقدرات الانحدار البديلة ونموذج بديل لإدارة الأرباح، كما تم تقسيم العينة على أساس الاستحقاقات الموقعة، وتبين أن وجود أو عدم وجود لجنة التدقيق ليس له دور في تقليل ممارسات إدارة الأرباح وتحسين جودة التدقيق. وأخيرًا، تم مناقشة مسألة التجانس الداخلي.

تتمثل المساهمة الرئيسية لهذه الرسالة في فحص جودة التدقيق كمتغير وسيط محتمل بين لجان التدقيق وإدارة الأرباح. وتوصي الدراسة بأن تقوم الجهات التنظيمية وصانعي السياسات في فلسطين و غيرها من الدول النامية على مراجعة وتحديث آليات الحوكمة لديهم، وتطوير تعليمات تشريعية وإشرافية تتماشى مع معايير الحوكمة العالمية، مما يساهم في تعزيز البيئة التنظيمية و تحسين الرقابة على ممارسات الحوكمة.

الكلمات المفتاحية: لجان التدقيق، جودة التدقيق، إدارة الأرباح