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Master Program in Accounting and Auditing



**The Impact of Internal Audit Quality on Earnings Management for
Non-Financial Companies Listed on The Palestine Exchange**

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**This Thesis Was Submitted in Partial Fulfillment of the
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Faculty of Graduate Studies
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Thesis Approval

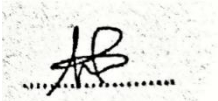

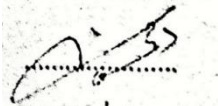
The Impact of Internal Audit Quality on Earnings Management for Non-Financial Companies Listed on the Palestine Exchange

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Palestine, May/ 2025

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 other degree at the Arab American University or any other institution.

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Dedication

In the name of Allah, the Most Merciful, the Most Compassionate.

All praise to the One who taught with the pen, who taught humanity what it never knew, and who guided me with His grace.

To those who stood by me through every step—

Who filled my heart with hope and taught me that nothing is impossible with determination...

To my beloved parents, my constant source of strength.

Your prayers lit my path, and your support made everything possible.

To my mother, my haven of peace,

and my father, my first teacher and lifelong role model.

To my dear siblings, thank you for always being there.

You showed me that success grows through shared strength and support.

And to my wonderful friends, thank you for walking this journey with me. You've been the best of companions.

Rama Monther Fuad Al-Khawaja

Acknowledgments

All praise is due to Allah, by whose grace good things are completed.

Peace and blessings be upon our Prophet Muhammad.

First and foremost, I thank Allah for granting me strength and patience and guiding me to complete this research.

I extend my heartfelt gratitude to my supervisor, Dr. Akram Rahhal, for his unwavering support and insightful guidance, which played a vital role in bringing this work to life.

My sincere thanks also go to the esteemed examination committee for their time and valuable feedback.

Finally, to everyone who stood by me and offered their support—thank you, truly.

I pray that this work proves to be beneficial and blessed.

The Impact of Internal Audit Quality on Earnings Management for Non-Financial Companies Listed on the Palestine Exchange

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Abstract

This study's objective was to understand internal audit quality's (IAQ) influence on the earnings management (EM) of non-financial companies listed on the Palestine Exchange (PEX) from 2018-2023. Data was gathered via qualitative and quantitative methods, to evaluate IAQ proxies. Researchers used the Modified Jones Model to quantitatively analyse financial reports for EM. Questionnaires and interviews were used to collect qualitative data on IAQ proxies through both internal and external auditors. The population was 29 non-financial Palestinian companies (145 firm-year observations). Control variables were company size and profitability.

Both the objectivity and competency of the auditors had no statistically significant impact on EM ($p > 0.05$ for both). However, there did seem to be a slight negative relationship but not sufficient to assume a significant relationship between IAQ and EM. The size of the company did not significantly influence the EM. Profitability has a positive relationship to its EM ($p < 0.001$). Firms with higher profitability rates indulge in discretionary accruals. The main reason the overall regression model showed significant results was the powerful impact of profitability, while the internal audit quality measures explained little. The uniqueness of the Palestinian market, or the governance environments can play a major role.

To combat the issue of EM, stronger and stricter corporate governance frameworks must be put in place to comply better with the international standards. Profitability had a major role in the rates of EM, and more advanced data analytics be utilised as well as developing software with the purpose of detecting certain audit's practice that could account for unwanted EM, especially when it comes to more profitable companies. Research in the future should focus on exploring alternative measures to IAQ and EM, as well as better understand the impact that other governance variables have on EM.

Keywords: Internal Audit Quality, Earnings Management, Palestine Exchange, Profitability, Governance.

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Chapter One: Introduction

Companies represent the economic acceleration of the State's finances and non-finances as they contribute to economic growth and job creation, and with strong competition in financial markets and the stock exchange, these companies seek to demonstrate best financial practices that relate to earning and managing profits to gain a positive image and enhance trust between them and investors and those who seek to invest. In some cases, they may be dealt with negatively and show unrealistic financial reports in an effort to gain investor confidence and bring in new investments (Adeneye & Kammoun, 2022).

Here, earning management is seen as one of the practices that some companies may use to influence the timing or volume of profits declared, in order to achieve certain objectives such as increasing the value of the stock, meeting investors' expectations, or avoiding losses. While earning management may take different forms, it poses a significant challenge to the quality of financial reporting, and negatively affects investors' confidence in companies (Alardah, 2023).

This highlights the significance of internal and external auditing and its impact on earning management (Schneider, 2013), as to reduce opportunities for earning management practices and enhance the quality of financial reporting, oversight mechanisms play a vital role. One of the most important is internal and external scrutiny.

Internal scrutiny is the Organization's first line of defense, examining and evaluating internal control systems, detecting weaknesses and proposing appropriate solutions. Internal audit contributes to enhancing the efficiency of operational operations, reduces the risks facing the company, ensures the validity and integrity of the financial statements, while external audit is carried out by independent auditors of the company, aims at issuing an opinion on the extent to which the financial statements conform to the applicable accounting rules, and external audit contributes to enhancing confidence in the financial statements, and limits manipulation practices (Gamayuni, 2018).

1.2. Research Problem:

Internal auditing quality is crucial for upholding an entity's general value and market position by reducing information asymmetry and leveling agency costs (Alardah, 2023). Keeping an entity's value high is imperative for attracting and convincing investors, and this reflects a forward movement toward sustainable investment and general economic progress (Alardah, 2023). In addition, internal auditing directly influences general performance since it evaluates the financial criteria of an entity, which is the pillar of that organization. Several studies have established the relationship between internal auditing quality measurement and earning management (Ismael & Kamel, 2021), applying internal audit tasks per the given standards and its general implication on overall entity performance (Atta and Shaqra), and the effects of audit quality on earnings quality (Alardah, 2023). Moreover, (Alyaruubi et al. 2021) showed a positive correlation between internal audit quality and earnings management industrial and service sectors. This indicates that the increase in audit quality will affect to enhance and improve the earning management in Omani listed firms. However, little or no literature and understanding exists regarding the impacts of internal audit quality measurement on earning management in non-financial companies, along with those listed in the Palestine Exchange. Therefore, this study will review the specific impacts of the quality of internal audit measurement on non-financial entities' earnings management standards in Palestine, focusing on entities listed on the Palestine Stock Exchange. It will highlight how to reduce the risk of earning management by improving internal audit practices.

1.3. Research Questions

Based on the foregoing, we can crystallize the study problem by trying to answer the following question:

What is the Impact of Internal Audit Quality on Earning Management for Non-Financial Companies Listed on the Palestine Exchange?

The following sub-questions are derived from it:

1. Is there an impact of the internal auditor's objectivity on the firm's earnings management practices.
2. Is there a relationship between the internal auditor's competency and the firm's earnings management practices?

1.4. Significance of the study:

Theoretical Significance: The importance of this study lies in the fact that it deals with the Palestinian non-financial shareholding companies. Where lays the importance of its role for stakeholders and regulators toward managing their earnings has become very important in the current situation, and that is why it is a crucial issue for the entire globe, not just for Palestine. In addition, the theoretical significance of this study represents in its subject and variables, which have been not extensively studied yet. This makes this study one of the few studies that have been conducted toward examining the relationship between internal audit and earning management in the non-financial companies. As well, this study has significance into exposing the theoretical practices of the internal audit, where earnings are managed and audit toward providing the company with facts and information toward taking decisions for managing the earnings received by the company. In addition, the paucity of research and literature on this topic in Palestine—at least from the perspective of the researcher—makes the study important.

Applied Importance: A poor capital structure will directly affect the company's financial position, which will ultimately affect the company's value. For this reason, the study's applied significance centers on elucidating the impact of internal audit quality on earnings management in the Palestinian non-financial shareholding companies through the degree to which companies are committed to financing their entire operations and growth using various sources of funds based on the reports of internal audit. Moreover, the applied significance of the study revolves around clarifying the role of the internal auditor in improving the quality and procedures of earnings management adopted by the non-financial companies in Palestine, through the extent of the internal auditor's commitment to the international standards for the professional practice of internal auditing, especially performance standards. Therefore, high-quality and efficient financial information and data are provided to the management of the company through channels and practices that the company must manage its earnings, under the shadow of the unstable political and economic situations in Palestine. Therefore, this will affect the number of financial elements and the sustainability of the companies.

1.5. Objectives of the study:

The primary objective of this study is to examine the relationship between internal audit quality and earnings management practices in non-financial companies listed on the Palestine Exchange.

The sub-objective

1. The study will accumulate evidence from the Palestine non-financial entities that have been listed in the Palestine Exchange and evaluate their internal audit quality measurement
2. The study will collect evidence on the Palestine non-financial entities' earnings management aspect

The study will evaluate any relationship between the entities' internal audit quality measurement and their earnings management aspect. The relationship will provide the impacts of internal audit quality measurement on the earnings management criterion.

1.6. Research hypotheses:

Accordingly, based on the conceptual model, four research hypotheses have been formulated for testing:

1. Internal auditors' Objectivity has a significant negative impact on earnings management.
2. Internal auditors' Competency has a significant negative impact on earnings management.
3. There are differences in the effect of audit quality on earnings management due to company size .
4. There are differences in the effect of audit quality on earnings management due to profitability.

1.7. Variables

- **Independent variables:**

Quality of internal audit

1- Objectivity of Internal Auditors

2- Competency of Internal Auditors

- **Dependent variable :**

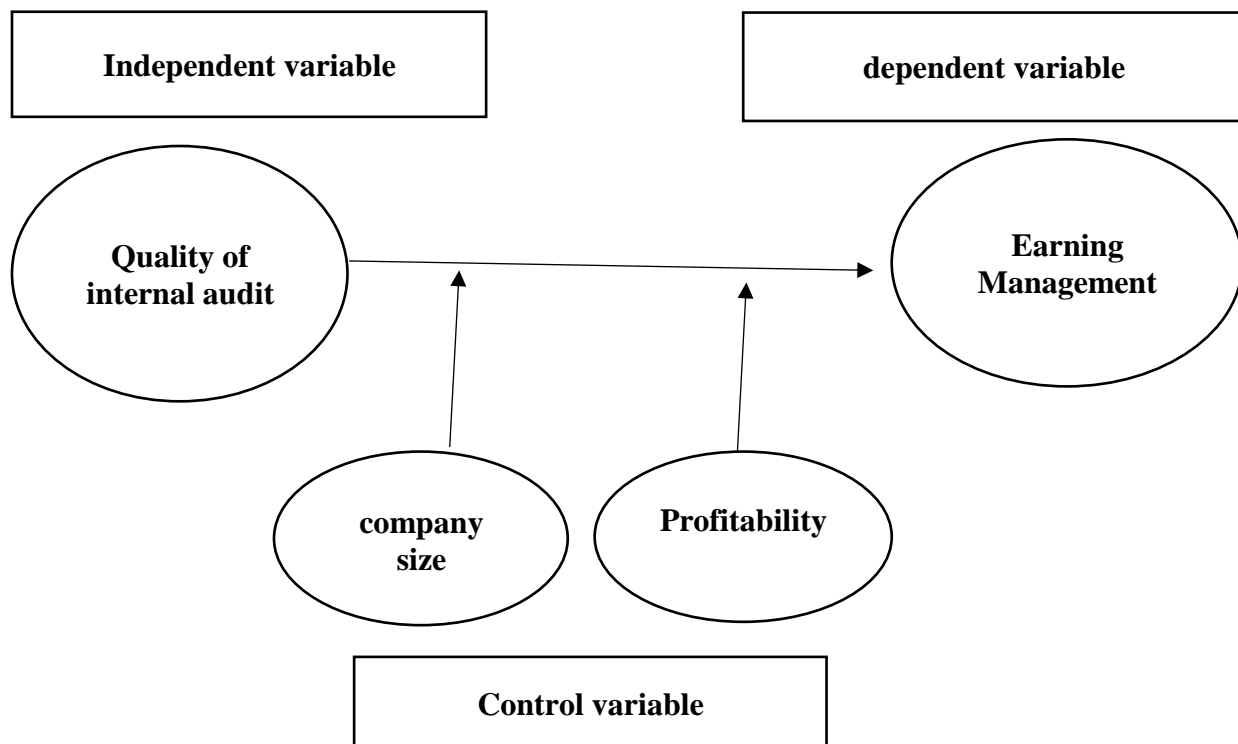
Earnings management

- **Control variables:**

company size

Profitability

1.8. Model form:



1.1 Figure: The proposed conceptual model of the study

Prepared by the researcher

1.9. Study limitations:

The study is limited by several limits, namely:

1. Time limit: years (2023 - 2024)
2. Spatial limit: non-financial companies listed on the Palestine Stock Exchange.
3. Population study: Internal Auditors
4. Objective limit: The impact of internal audit quality (Objectivity of Internal Auditors, Competency of Internal Auditors) on earnings management of non-financial companies listed on the Palestine Stock Exchange.
5. Terminology Limits: Quality Control and Earning Management.
6. Procedural Limits: Relationship between Quality Control and Earning Management.

1.10. Study terminology:

Internal Audit "Internal auditing is an independent, objective assurance and advisory service designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes" (IIA, 2024).

Internal Audit is defined procedurally as: The audit process carried out by companies in order to self-review the efficiency of the company's work.

earning management: "A decision by the managers to directly influence treasury cash flows" (Sellami et al, 2010).

In this context, earning management is defined procedurally as: The sum of the procedures and operations carried out by companies in order to manage the money returned to them as profits. earning management can take two forms: one is positive, which is consistent with legal regulation and sound accounting practices, and the other is negative, which seeks to exploit profit management in a negative way and manipulate financial accounts.

Chapter Two: Literature Review

2.1. Introduction

Internal audit and earnings management are two key concepts in accounting and business management, and they form the core focus of this study. Therefore, the second chapter is dedicated to exploring and clarifying these concepts through a thorough review of existing literature.

Internal audit is generally described as an independent evaluation of a company's activities following a systematic process, while earnings management involves practices used to influence and improve a company's financial performance.

This chapter aims to review the literature on the relationship between the quality of internal audit and earnings management. It will cover the fundamental definitions of both variables, the factors that influence them, and the main theories that connect the two. Moreover, it will summarize the most relevant empirical studies to provide a solid background for understanding this relationship.

The research seeks to answer two main questions: Is there a negative relationship between internal audit quality and earnings management practices? And if so, what factors affect this relationship? Addressing these questions will help deepen our understanding of how internal audits can detect and reduce earnings management, thus supporting stronger governance systems.

The chapter is structured as follows: First, it defines internal audit and earnings management. Second, it reviews the theoretical literature on internal audit quality and its influencing factors. Third, it discusses the concept of earnings management and its determinants. Fourth, it presents theories linking internal audit quality to earnings management. Finally, it reviews key previous empirical studies in the field.

2.2. Internal Audit Quality

Internal audit quality is a critical component of effective corporate governance. It ensures that internal audit functions operate efficiently and effectively, providing reliable and relevant assurance to management and the board. This section delves into the core concepts of internal audit quality, including its definition, measurement, and the factors that influence it. By understanding

these elements, organizations can enhance the quality of their internal audit function and strengthen their overall risk management and control processes.

2.2.1. Concept of Internal Audit Quality

practice focused mainly on financial oversight to one that addresses all aspects of organizational activities and operations. Hazem (2022) notes that in 1999, the Institute of Internal Auditors (IIA) revised its definition to better reflect the profession's objectives, responsibilities, and broader scope. Under this updated perspective, internal auditing became recognized as an independent and objective activity that provides assurance and advisory services, aiming to create added value and improve organizational performance through systematic evaluation and enhancement of governance, risk management, and control processes.

In 2024, the IIA refined this understanding further, explaining that internal auditing serves as an independent and objective function that supports organizations in achieving their goals. It does so by applying a structured and disciplined approach to assess and improve governance systems, risk management strategies, and internal control mechanisms (IIA, 2024).

Within the Arab context, the Arab Institute of Accountants describes internal auditing as an internal function that works to establish effective management control. This includes overseeing accounting operations and ensuring optimal use of resources to maximize productive efficiency (Abu Tafa & Hallis, 2009).

These evolving definitions illustrate the profession's shift from a traditional, compliance-oriented role toward a strategic position that actively contributes to organizational value creation (Mihret & Yismaw, 2007). According to the IIA's Internal Auditing Standards, its purposes include reviewing progress toward organizational objectives, confirming that decisions are properly authorized, verifying the integrity and reliability of information, safeguarding assets, and ensuring compliance with applicable laws, regulations, policies, and contracts. Internal auditing also measures efficiency, effectiveness, and economy in operations, examines ethical practices, identifies potential fraud risks, monitors the implementation of past audit recommendations, and identifies opportunities for operational improvement (Wang et al., 2022).

In summary, internal auditing functions as a management-linked yet independent role carried out by qualified specialists who analyze administrative processes, continuously evaluate organizational plans, and contribute to the ongoing development of governance and operational performance.

2.2.2. Measurement of Internal Audit Quality

According to the IIA (2024), the effectiveness of internal audit is evaluated based on its ability to fulfill its strategic goals. These goals include providing independent and objective assurance on the effectiveness of internal control systems, offering valuable insights to support decision-making, and contributing to the overall improvement of organizational performance. The efficiency of internal audit is assessed through various key indicators, such as the percentage of irregularities identified, the implementation rate of audit recommendations, and the satisfaction levels of internal clients with the audit services.

Several studies have highlighted the important role of auditors and their positive impact on companies. However, there is no universally agreed framework for measuring internal audit quality. Evaluation procedures and methods vary, with some relying on objective approaches to assess the audit's impact on company performance, while others emphasize the auditor's personal skills and experience as factors influencing the quality of the audit process (Mliji, 2013).

2.2.3. Factors Influencing Internal Audit Quality

The quality of internal audit plays a vital role in ensuring the effectiveness of internal control and helping organizations achieve their goals. Numerous studies have sought to identify the key indicators that determine internal audit quality.

For instance, Douglas et al. (2009) emphasized that efficiency and objectivity are essential factors in assessing internal audit quality. Meanwhile, Abid (2019) argued that internal audit extends beyond mere compliance activities; it actively supports organizational value and contributes to the overall strategic plan.

The Institute of Internal Auditors (IIA, 2024) highlighted that internal audit quality is closely related to its effectiveness in evaluating and improving risk management, control, and governance processes. It also depends on professionalism, independence, and adherence to ethical standards.

Various studies have pointed out multiple factors influencing internal audit quality, including auditors' qualifications, the size of the audit department, organizational independence, and the presence of audit manuals. Mliji (2013) proposed viewing audit quality as an integrated system consisting of three main components: input quality (such as qualifications), process quality (adherence to standards), and output quality (value added).

Overall, these studies agree that internal audit quality is a multifaceted concept shaped by many factors. Despite the diversity of indicators, there is broad consensus that the quality of internal audit is fundamentally linked to auditors' ability to add real value by enhancing risk management, control, and governance within organizations.

2.2.4. The importance of internal auditing

The significance of internal auditing arises from several key factors. Primarily, it ensures that operational processes align with established plans and that operational programs are sufficient to meet the economic unit's objectives. Achieving this requires ongoing evaluation and continuous problem-solving by individuals who possess comprehensive knowledge and experience related to the unit's activities and performance—qualities typically found in internal auditors. Additionally, the widespread issue of administrative corruption and its serious consequences further emphasize the need for effective internal auditing (Alsmady, 2023).

Gamayuni (2018) outlined several important roles of auditing, including:

1. Assisting institution officials and managers in managing affairs by ensuring the integrity of control systems.
2. Evaluating the institution's performance against established plans and verifying the accuracy and validity of accounting records.
3. Confirming the reliability of information provided to management through various reports.

4. Monitoring different aspects of internal control—financial, administrative, and economic—to ensure their efficiency and effectiveness.
5. Providing assurance to management about the control mechanisms and their proper functioning to achieve organizational goals.
6. Ensuring the accuracy and integrity of data recorded in books according to accepted accounting principles and confirming their use in decision-making.
7. Acting as a safeguard for the state’s general budget and the institution’s assets by protecting them from neglect and loss, while providing vital information for policy-making and planning.
8. Helping save time and effort for external auditors, such as the Financial Control Bureau, especially in government institutions.

Based on these points, internal auditing is clearly of great importance. The internal audit function is considered one of the most critical within any organization, as auditors serve as monitors, controllers, and reformers. Given the presence of corruption risks across government, private, and civil sectors—particularly in municipalities where corruption can permeate various operations—internal auditing plays a vital role in reducing financial and administrative misconduct.

2.2.5. Types of internal auditing:

Internal auditing can be classified into several types, including administrative auditing, financial auditing, compliance auditing, and operational auditing, which are explained as follows:

1. **Financial Auditing:** This type focuses on examining financial and accounting operations, documents, and procedures. Techniques used include analyzing accounts and results to identify deviations, verifying the authenticity of documents like invoices and trial balances, and physically inspecting assets through procedures such as asset receipt, inventory counts, and fixed asset verification. It also ensures the proper accounting treatment of these assets in the books (Nan, 2022).

2. **Administrative Auditing:** This audit reviews control procedures related to non-financial aspects of organizational activities. It requires understanding the institution's policies and procedures. Tasks include monitoring production processes for efficiency and quality control, evaluating employee training programs for effectiveness, and suggesting improvements to enhance overall organizational performance (Nguyen & Bui, 2023).
3. **Compliance Auditing:** This type assesses regulatory, financial, and operational controls to determine whether established systems comply with relevant legislation, policies, and procedures (Nan, 2022).
4. **Operational Auditing:** This comprehensive audit examines the various functions within an organization to ensure their efficiency, effectiveness, and appropriateness. It involves analyzing the organizational structure and evaluating methods used to measure how well the institution's objectives are achieved through these functions (Gamayuni, 2018).

2.2.6. Internal audit function:

According to Qiubo and Yuju (2020), there are five key activities that internal auditing must perform to achieve its objectives:

1. Verifying the accuracy and impartiality of financial and accounting transactions and reports relevant to the audited period.
2. Assessing employees' compliance with the institution's applicable policies, laws, and regulations.
3. Evaluating administrative processes related to planning, organization, and control.
4. Reviewing the efficiency and effectiveness of utilizing financial, human, and material resources.
5. Analyzing the outcomes of organizational operations and procedures, determining their suitability in meeting the set objectives, identifying deviations, assessing their impact, and recommending corrective actions.

From this, it is clear that internal auditing covers various responsibilities across financial, administrative, and operational aspects of the organization. These tasks encompass monitoring, verification, and evaluation of activities to ensure alignment with organizational goals.

2.3. Earnings Management of Companies

Earning management is a vital financial tool used by companies to achieve their strategic objectives. This management includes a range of methods and techniques aimed at influencing financial performance reports by adjusting accounting results.

In this context, this section addresses earnings management, a set of tactics and practices that determine how income and expenditure are managed to achieve certain results. It also includes how earnings management and its influencing factors are measured financially.

2.3.1. Concept of Earnings Management

The practice of managing profits has increased in many different economic institutions. This subject is attributed to researcher Paul M. Healy, who published a 1985 article entitled "Impact of remuneration schemes on accounting decisions", where he discussed the relationship between directors' remuneration and decisions they make. Managers tend to adopt accounting policies that promote predetermined rewards, and the concept of earning management is also linked to the agency's theory, which is rooted in the well-known economist Adam Smith. In his 1776 book *Wealth of Nations*, Smith noted that "managers who trust other people's funds cannot be expected to manage these funds with the same vigilance and caution as if they were its owners" (Zarqat, 2020).

As a result of this conflict, conflicts of interest arise, leading to the exploitation of the system of incentives and rewards. This is reflected in the practice of managing profits through the adoption of various accounting options within generally accepted accounting principles, reflecting a management opportunism aimed at improving reputation and meeting managers' interests (Fawzi, 2020).

The concept of earning management raises controversy over its adherence to accepted accounting principles. On the one hand, it can be seen as a process of planning and implementing

accounting decisions consistent with these principles. On the other hand, it may turn into illegal practices aimed at manipulating figures to achieve personal goals. Although accounting practices contrary to the principles are considered more dangerous, any form of earnings management may distort the financial performance of the Company and mislead stakeholders. (Fawzi, 2020).

Many researchers and bodies have addressed the concept of earnings management practices, defined as: "A decision by the managers to directly influence treasury cash flows" (Sellami et al, 2010).

This definition aims to illustrate how management seeks to guide financial performance according to certain interests, highlighting the importance of understanding this concept in the context of financial disclosure.

2.3.2. Objectives of Earnings Management:

The primary objectives that drive companies to engage in earnings management (Needles et al., 2018):

- **Meet Analysts' Expectations:** One of the primary motivations for earnings management is to meet or exceed the earnings forecasts and expectations of financial analysts and investors. This is particularly relevant for publicly traded companies, as missing these expectations can lead to negative market reactions and a decline in stock prices.
- **Influence Stock Prices:** Earnings management can be used to influence a company's stock price by creating the perception of improved financial performance. Higher stock prices can lead to various benefits, including increased market capitalization and access to capital markets.
- **Tax Management:** Earnings management may also have tax-related objectives, such as minimizing tax liabilities or taking advantage of tax incentives and credits.
- **Bonus and Compensation:** In some cases, executive compensation and bonuses may be tied to financial performance metrics, including earnings. Managers may manipulate earnings to enhance their own compensation packages.

The researcher acknowledges that these objectives highlight the multifaceted nature of earnings management, illustrating its impact on financial markets, taxation, and corporate governance. Understanding these objectives is pivotal for comprehending the motivations behind this complex financial practice.

2.3.3. Methods of Earnings Management

Earnings management involves various methods and techniques employed by management to manipulate financial statements and achieve specific financial reporting outcomes. These methods can be categorized into two primary approaches (Jiang, 2020; Valaskova et al., 2019):

☒ **Income-Increasing Earnings Management:**

- **Revenue Recognition Timing:** Accelerating the recognition of revenue, such as recording sales prematurely, to boost current period earnings.
- **Expense Deferral:** Delaying the recognition of expenses to future periods, which inflates current earnings.
- **Income Smoothing:** Spreading income fluctuations over multiple reporting periods to present a stable earnings trend.

☒ **Income-Reducing Earnings Management:**

- **Cookie Jar Reserves:** Building up reserves or provisions in good years and releasing them in bad years to artificially inflate earnings when needed.
- **Big Bath Accounting:** Recognizing all expected future losses and write-offs in a single period, creating a lower baseline for future earnings.
- **Discretionary Accruals:** Adjusting discretionary accounting items, such as allowances for bad debts or inventory write-downs, to impact earnings.

These methods may involve the use of accounting estimates, judgment, and discretion, making them subject to regulatory scrutiny and ethical considerations. Effective governance and oversight mechanisms are essential in detecting and preventing abusive earnings management practices, ensuring that financial reporting remains transparent and trustworthy for all stakeholders

2.3.4. Real Earnings Management Techniques

Earnings management involves various methods and techniques employed by management to manipulate financial statements and achieve specific financial reporting outcomes. These methods can be categorized into these approaches:

- Strategic Acquisition for Future Growth

With this tactic, a corporation buys out another, so placing a calculated wager on the future. Increasing the acquired company's reported income is one of the main goals of this strategy, particularly when the acquisition is properly organized and documented using the right accounting techniques, such the purchase method. The "Strategic Acquisition for Future Growth" approach consists of two sub-techniques: the process of integrating the acquired company's earnings into consolidated earnings and the depreciation of the acquiring company's research and development costs. The first sub-technique lessens the impact on current income while protecting future revenue from rising costs by amortizing a portion of the purchase price over the year of purchasing. The integration process is the subject of the second sub-technique (Strakova, 2021).

- Proficient Portfolio Administration

Companies frequently look for ways to spend extra money or form strategic partnerships by purchasing shares in other businesses in the global business landscape. Companies can manage earnings by investing in securities that are marketable and readily available for purchase through effective portfolio management. Operating income includes any gains or losses from the sale of marketable securities as well as any changes in their market value. Any profits or losses resulting from changes in the market value of securities that are available for purchase are reported in other comprehensive income. Any profits or losses from the sale of marketable securities are included in operating income for the business. If the real sale of securities does not occur, any unrealized gains or losses are still reported but are categorized as profit rather than operating profit (Ayu et al., 2020).

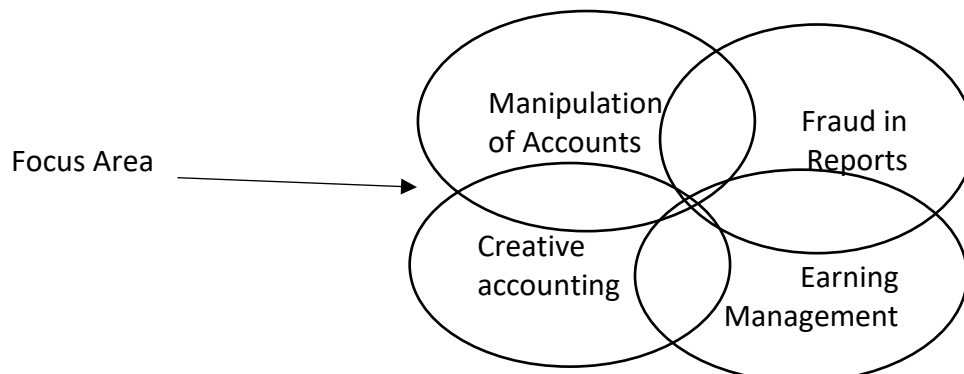
- Disposal of Underperforming Segments

This technique involves eliminating underperforming business segments that may impede profit growth in subsequent periods. Disposal can be executed in three ways: selling a segment, creating a special purpose entity, or spinning off the segment. In the case of selling a segment, any gain from the sale is recognized in the current accounting year when the sale occurs. Special purpose entities are subsidiaries established by larger corporations to acquire and finance specific assets while mitigating risks associated with the parent company's creditors. In the global context, it can also entail spinning off a subsidiary from the parent company, resulting in a division of shares among current shareholders, who then become owners of the spun-off company (Fogel-Yaari, Ronen, 2020).

- Share Repurchases

This practice involves a company repurchasing its own shares from equity security owners, with no immediate profit recognition in the financial statements. The primary objective is to increase earnings per share, which signifies the company's profitability (Ozili, 2017).

From the researcher's perspective, earnings management encompasses a range of techniques used by management to manipulate financial results and present the company's performance in a specific way. These techniques serve various objectives, such as enhancing reported income, managing investments effectively, divesting underperforming segments, and improving earnings per share. Understanding these techniques is crucial in unraveling the complexities of earnings management in the corporate world.



2.1. Figure: lays down the relationship between earning management and similar terminology (Fawzi, 2020).

2.3.5. Measurement of Earning Management

Investment decisions depend heavily on financial information provided by organizations. However, the flexibility offered by GAAP in choosing accounting policies and methods may open the door for some organizations to manipulate numbers with a view to artificially improving their financial profile. These practices, known as earning management, reduce the credibility of financial statements and negatively affect the quality of investment decisions. Due to the difficulty of detecting such practices in traditional ways, researchers used advanced statistical methods to analyze financial statements and uncover evidence of earning management practices. These statistical methods can be classified into four main methods (Fawzi, 2020).

2.3.5.1. Income List Style

The "income list" method is used as one of the main tools in managing profits. This method is to artificially move items between regular and unusual items classification. The purpose is to conceal real fluctuations in the company's operating performance and provide a more stable picture of profits, which may affect the decisions of investors and creditors.

2.3.5.2. Contrast Style

This method is characterized by its simplicity and lack of need for complex predictions. It relies on already available financial statements, such as profits and sales, which makes it easier to apply. Nor does it require detailed analysis of expenses, saving time and effort.

2.3.5.3 Method of computational changes

The method of accounting changes is used as one of the main tools in managing profits. This method is to select accounting methods that serve management's short-term interests, regardless of their impact on the quality of financial information provided to investors.

2.3.5.4. Accrual Method of Measuring the Earnings Management

The receivables entry is one of the most common methods of studying earning management practices. This entry is based on the idea that the flexibility available in assessing receivables, in

accordance with the principle of accounting entitlement, allows enterprises to manipulate profits. By using subjective estimates of intangible assets, inventory and doubtful debt allocations, management can influence declared profits, distorting the true picture of the company's performance and harming investors' interests.

The dependent variable in this study is earnings management, which is estimated by the method of the modified Jones Model, which measures the overall accruals, and divides those accruals to Discretionary Unexpected Portions, and Non-Discretionary Expected Portions. Jones Model is widely used for estimating earnings management in the previous literatures. It is an extension of the original Jones Model, which was developed by Jones (1991) and Dechow et al, (1995-1996). The Modified Jones Model includes an additional variable for accounts receivable accruals (AR_{it}), which helps to control for the effects of changes in accounts receivable on total accruals (Jones, 1991; Chen et al., 2007).

To measure earnings management by Modified Jones Model, four steps will be conducted in this study as following:

1. Estimate the total accruals value: they are estimated according to the income statement approach to reduce errors and bias when estimating accruals, and income is measured to reduce errors and bias when estimating accruals, which is measured according to the equation as follows:

$$TA_{it} = NI_{it} - CFO_{it} \quad (1)$$

In which:

- ✓ TA_{it} : indicates the company A's total accruals in period 1 and represents the difference between net income before extraordinary items and net flows Cash from operating activities based on the statement of changes in financial position.
- ✓ NI_{it} : the company's net operating income | In period 1.
- ✓ CFO_{it} : Net cash flow from the company's operating activities | In period 1

2. Estimate the regression coefficient β_1 , β_2 and β_3 value according to the equation 2:

$$\frac{TA_{it}}{A_{i,t-1}} = \beta_1 * \frac{1}{A_{i,t-1}} + \beta_2 * \frac{\Delta REV_{it} - \Delta AR_{it}}{A_{i,t-1}} + \beta_3 * \frac{PPE_{it}}{A_{i,t-1}} + e_i \quad (2)$$

3. Estimate nondiscretionary accruals value (NDA) according to the equation 3:

$$NDA_{it} = \beta_1 * \frac{1}{A_{i,t-1}} + \beta_2 * \frac{\Delta REV_{it} - \Delta AR_{it}}{A_{i,t-1}} + \beta_3 * \frac{PPE_{it}}{A_{i,t-1}} + e_i \quad (3)$$

4. Determine the accrual discretionary value according to equation 4:

$$DA_{it} = \frac{TA_{it}}{A_{i,t-1}} - NDA_{it} \quad (4)$$

Where:

TA_{it} : is the total accruals in year t for firm i.

NI_{it} : is the Net income in year t for firm i.

CFO_{it} : is the Net cash flow from operations in year t for firm i.

$A_{i,t-1}$: is the Total assets for firm i in period t-1.

REV_{it} : is the Revenue for firm i in period t.

PPE_{it} : is the Net property, plant, and equipment for firm i in period t.

AR_{it} : is the Accounts receivable accruals for firm i in period t.

The relationship between earnings management and discretionary accruals is that a higher level of discretionary accruals means a higher likelihood of earnings management.

2.3.6. Factors Influencing Earning Management

Earning management assessment is a complex process influenced by a variety of internal and external factors. These factors can be summarized as follows (Najla, 2022):

2.3.6.1. Internal factors

Organizational structure: The organizational structure is the basic framework within which the organization operates. The structure design affects the distribution of responsibilities and powers, the effectiveness of decision-making, and the efficiency of operations. Therefore, the optimal organizational structure contributes to better financial performance by facilitating coordination and control of activities.

Technology: Technology plays a critical role in improving efficiency and productivity. Choosing the right technology and effectively integrating it into processes helps reduce costs and increase revenues. However, technology requires significant investments and requires continuous modernization.

2.3.6.2 External factors

organizations today operate in environments shaped by multiple external forces that directly influence their financial outcomes. Among the most significant are:

- **Economic fluctuations** – Variations in interest rates, inflation, and shifts in monetary or fiscal policy can substantially impact production expenses and revenue streams.
- **Regulatory developments** – Amendments to tax, labor, and other relevant laws can alter the operational landscape and compliance requirements.
- **Technological advancement** – Rapid innovation demands that organizations swiftly integrate new tools and systems to maintain or enhance their competitive standing.
- **Social and cultural dynamics** – Shifts in societal values and consumer preferences often necessitate changes in marketing strategies and product positioning.
- **Competitive pressures** – Intense rivalry compels organizations to elevate quality standards and optimize costs to deliver value at attractive prices.

Given this complex interplay of factors, sustaining strong financial performance depends on an organization's ability to remain agile in responding to continual change, while effectively managing both internal capabilities and external pressures. Achieving this requires not only a resilient organizational structure and the strategic use of modern technology, but also ongoing monitoring of economic, regulatory, and social trends.

2.4 Theories Explaining Relationship between Internal Audit Quality and Earning Management

Douglas et al. (2009) found a positive link between the quality of internal auditing and a reduction in discretionary accruals, suggesting that an effective internal audit helps limit earnings management and improves the quality of financial reports.

Mubarak (2010) focused on examining the relationship between internal audit quality and earnings management in Saudi companies through a study of 35 firms. The findings showed a significant

negative correlation between the extent of internal audit work related to financial reporting and the level of earnings management. While the relationship wasn't statistically significant across all dimensions of internal audit quality, the study highlighted the important role internal audits play in preparing and presenting financial statements to curb earnings management.

Similarly, Hamdan and Abu Agila (2012) studied 45 listed industrial companies in Jordan from 2001 to 2006, looking into earnings management practices and the effect of audit quality on these practices and earnings quality. Their results, however, did not find a clear link between audit quality and reductions in earnings management or improvements in earnings quality within their sample.

2.4 Previous Empirical Studies:

Nguyen & Bui (2023): Impact of Internal Control on the Quality of Accounting Information at Enterprises Listed on the Stock Market in Vietnam

This study aimed to examine how internal control affects the quality of accounting information in companies listed on the Vietnam Stock Exchange. It adopted international accounting standards, including relevance, reliability, consistency, comparability, completeness, and simplicity. The research employed quantitative methods, distributing questionnaires to managers and senior accountants. A total of 193 valid responses were collected during the period 2021-2022. The findings revealed that internal control factors positively influence the usefulness of accounting information. Among these factors, the control environment had the greatest effect, followed by monitoring activities and risk assessment. Information, communication, and control variables showed comparatively smaller impacts.

Zhao (2022): Mutual Trust Influence on the Correlation between the Quality of Corporate Internal Control and the Accounting Information Quality Using Deep Learning Assessment

This paper begins with an overview of internal control and the quality of accounting information. It then explores the relationship between these two by applying a deep learning approach and proposing a specific modeling method. Using a descriptive analytical method, the study compared and analyzed financial data from various companies and institutions. The results showed that strengthening internal control improves the quality of accounting information. Additionally, the proposed model demonstrated a 92% accuracy in evaluating accounting information quality when tested with real case data.

Chhillar & Lellapalli (2022): Role of earnings management and capital structure in signaling early stage of financial distress: A firm life cycle perspective.

This study examined the impact of earnings management on the relationship between capital structure and company performance in APTA member countries. To test the hypotheses, earnings management was divided into nondiscretionary and discretionary accruals. Using data from 802 companies, the research found that the trade-off or pecking-order theory holds true when earnings management is absent. However, discretionary accruals were used to manipulate capital structure outcomes, which weakened its effect on firm performance.

Rizani et al. (2022): The Mediating Effect of Earnings Management on Financial Performance: The Importance of Good Corporate Governance.

Investigates the connection between financial performance, earnings management, and corporate governance in Indonesian listed banks between 2010 and 2015. It was

concluded that earnings management or the company's financial performance, is greatly impacted by excellent corporate governance. Reducing earnings management through increased managerial and institutional ownership may enhance financial performance. The study emphasized how crucial sound corporate governance practices are in reducing earnings manipulation and gaining accurate assessments of the company's performance.

Tulcanaza-Prieto & Lee (2022). Real Earnings Management, Firm Value, and Corporate Governance: Evidence from the Korean Market.

This study explores the relationship between real earnings management (REM), firm value (FV), and corporate governance (CG) in the Korean market. The results show that strong corporate governance practices effectively limit management's opportunistic use of REM. Furthermore, CG plays a crucial monitoring role in controlling such activities, helping to prevent declines in firm value linked to REM. Overall, the study highlights the important role of corporate governance in maintaining the integrity and reliability of financial reporting.

Vakulchyk et al. (2022): Methodical Approach to Determining the Quality of Accounting Data in Internal Audit

This study aimed to explore how internal audit tools can be used to evaluate the quality of accounting data. It also looked at how different internal audit areas relate to the associated accounting records. An outline of the internal audit process was presented, including typical information sources for various accounting items, such as cash documents, loans (short- and long-term), liabilities, assets, income, expenses, equity, and guarantees. The study highlighted the importance of choosing the right audit procedures based on the nature of each accounting item and the way it is recorded. It found that following a clear and consistent approach when selecting internal audit techniques can improve the accuracy and reliability of accounting and financial reports. This, in turn, helps make the information more useful for both internal and external decision-makers.

Qiubo, et al. (2020): Managerial ability and accounting information quality: A test on mediating effect of internal control quality.

This paper examines how managerial capacity affects the quality of accounting information, with a focus on the role of internal control as a mediator. In the context of the sharing economy, having reliable accounting information is crucial not only for the company's own growth but also for keeping the market running smoothly. The findings show two main points: first, that strong managerial skills are positively linked to both high-quality accounting information and effective internal control; second, that internal control partly explains this relationship. The study adds to the ongoing research in this area and offers practical suggestions for improving accounting information by strengthening both management practices and internal controls. These improvements may help businesses operate more efficiently and grow in a sustainable way.

Gamayuni, (2018): The effect of internal auditor competence and objectivity, and management support on effectiveness of internal audit function and financial reporting quality implications at local government.

Internal auditors working in both central and local government play a key role, but the effectiveness of the internal audit function still needs improvement. This study investigates how internal auditor competence, objectivity, and support from management influence the effectiveness of internal audits and how that, in turn, affects the quality of financial reporting. The research was carried out using a survey method with a descriptive-verification approach, targeting local governments on Java Island, Indonesia. The data were analyzed using partial least squares structural equation modeling (PLS-SEM). The results show that auditor competence, objectivity, and management support significantly improve the internal audit function. In addition, auditor competence, objectivity, and the overall effectiveness of internal auditing are shown to have a meaningful impact on the quality of financial reporting.

Zgarni et al., (2016). Effective audit committee, audit quality and earnings management Evidence from Tunisia.

Investigated how the effectiveness of the audit committee influences audit quality and earnings management, using data from 86 industrial firms in Tunisia and applying generalized least squares regression. The study found that companies with both an audit committee and an internal audit function showed lower levels of earnings management. It also observed that fewer meetings between the audit committee and internal auditors were associated with lower discretionary accruals. Additionally, the presence of an audit committee and internal audit function helped improve the overall quality of financial reporting. The study also noted that engaging a Big Four audit firm and maintaining an effective audit committee were linked to reduced earnings manipulation, based on data from 29 non-financial listed companies. Lastly, the findings suggested that both the audit committee's effectiveness and the length of the audit engagement can influence the extent of earnings management.

Schneider, A. (2013). Internal auditing and real earnings management.

The study focuses on investigating whether the presence and strength of internal audits influence real earnings management behavior. The study has conducted based on reviewing literatures related to the subject of the study. The findings indicated that internal audit had a statistically significant impact on production choices, reducing the likelihood of overproduction. Additionally, the effectiveness of internal audit varied, with smaller sample sizes associated with lower chances of overproduction. According to surveys, certain firms hesitated to sacrifice income for reduced taxes and a fairer distribution of earnings.

Prawitt et al., (2009). Internal Audit Quality and Earnings Management.

The objective of this study is to examine the relationship between the quality of internal audit and the preparation of financial reports and for that it utilized a unique database to examine the relationship between internal auditing quality and financial report preparation in business companies. They highlighted the scarcity of research focusing on internal auditing's impact on external financial reports. Internal audit activities and earning management were evaluated using six quality indicators for internal audit functions, considering their role in financial reporting. Earning management was assessed using six indicators, including abnormal accruals and meeting or barely surpassing analysts' earnings forecasts.

This study takes focus on one of the concepts of earnings management, while we turn to contemporary definitions which adds value to our study.

Habbash et al., (2013). The effect of audit committee characteristics on earnings management.

The objective of this study identify A meta-analysis by Lin and Hwang (2010) revealed twelve major linkages between corporate governance and earning management. The study found a negative association between earnings management and Audit Committee characteristics, such as independence, size, expertise, and meetings. However, a favorable association was found between Committee members' shares and earning management. A strong positive link was found between business size and DAC, suggesting large corporations have higher earnings management and better profit control. It's unclear if audit committees or internal auditors can reduce earnings management, so further research is needed. A positive correlation was found between the establishment of an audit committee and earnings management in non-financial-listed Portuguese enterprises. also, this study (Habbash et al., 2013), for examines the impact of audit committee features on earnings management of FTSE 350 UK businesses. It focuses on the committee's independence and members' financial knowledge. Results show that financial knowledge and impartiality are crucial for limiting profits management. The study also proposes investigating the impact of multiple directorships of committee members on earnings management.

This study has observed interesting results which are precisely what questions can be asked about these results in our study in light of the fundamental differences.

Schroeder et al., (2005). Financial Accounting Theory and Analysis (8th ed.).

This study aimed to illustrate the role and impact of financial accounting in inflating the company's market value and increasing profits and for that it's explain Earning management is the management's attempt to influence the reported profit number in the near term to achieve self-interest. The administration has significant autonomy in accounting processes for preparing and presenting financial statements, which allows them to fulfill two key objectives. Firstly, to maximize the firm's market value, which is heavily influenced by analysts' expectations for quarterly profits. Management recognizes that failing to meet these expectations could lead to a decrease in the company's market value. Therefore, they focus on selecting accounting procedures that increase profits to meet analysts' predictions. The second goal is to implement accounting processes or policies that increase current-period revenues and decrease current-period costs to boost profits, as management compensation is often linked to established earnings.

The researcher's literature mostly focused on internal auditing, earning management, and governance, but did not explicitly examine the connection between internal audit and earning management practice.

This unique study, conducted in Palestine, examines the impact of internal auditing on earning management in non-financial companies listed on the Palestine Exchange, contrasting with previous research in terms of aims, population, sample, and statistical methodologies.

Abu Tafa, Husam (2009). The role of internal audit in improving the efficiency and effectiveness of financial investments is an "application study for companies listed on the Palestine Stock Exchange".

The objective of this study is to explore the relationship between a range of variables associated with the quality of internal audit and the efficiency and effectiveness of financial investments in companies registered on the Palestinian stock market.

focuses in particular on the internal auditor's role in this relationship. As an independent observer, the internal auditor plays a crucial role in assessing and developing internal control systems and identifying potential risks that may affect investment efficiency.

It found a correlation between these variables, so that internal audit would improve investment performance, and therefore concluded the importance of the internal auditor's role and the need to develop its process in international practice.

Hazem (2022). The Role of Modern Internal Auditing in the Sustainability of Companies Listed in the Stock Exchange.

The study sought to investigate how internal audit affects the ability of companies to achieve their long-term sustainability goals. The results of the study showed a close relationship between internal audit and sustainability. The study found that internal audit has an assurance role to ensure the company's adherence to international laws and standards and an advisory role to provide advice, guidance and guidance to companies in its work, and the efficiency of internal audit related to a number of determinants, including efficiency and freedom of action, objectivity and management's support for internal audit.

The study recommended strengthening the determinants to support the efficiency of internal audit and developing research to bridge the research gap.

All this is important for the role of internal audit in the growth and sustainability of companies. This study has worked to research Egyptian companies and our study seeks to investigate the impact of internal audit on the management of profits in Palestinian companies.

Mihret, et al., (2007). Internal audit effectiveness: an Ethiopian public sector case study.

The study aims to analyze the factors affecting the effectiveness of internal audit services. Through a case study of a large public sector higher educational institution in Ethiopia, this study explores how the quality of internal audit, management support, regulatory framework and audit profiles, as well as the interaction between these factors, affect the effectiveness of audit services.

The results showed that the variables of "internal audit quality" and "management support" have a significant impact on the effectiveness of internal audit. In other words, the higher the quality of audits and the stronger the administrative support, the more effective the audit. In contrast, researchers did not find a strong correlation between the other two variables (regulatory framework and audited features) and the effectiveness of the audit.

We limit that this study focuses on internal audit as a place of study, which gives it value in making it appear and highlight the influential determinants of internal audit and its remuneration, which helps our study in linking internal audit efficiency and earning management.

Fawzi (2020). Determinants of the management of profits for economic institutions under the Algerian financial and accounting environment.

This study aims to explore the phenomenon of earning management in the Algerian context, with a focus on identifying the factors influencing these practices and the mechanisms for their control. Through a comprehensive field study based on analysis of expert opinions in the field, the study was able to identify a range of elements that play a critical role in managing profits, such as the quality of the preparation of financial lists, the application of accounting principles, the presence of audit committees, and others. However, the results showed that the mechanisms proposed to regulate such practices, such as the accounting system and corporate governance, faced significant challenges in Algeria's environment, thereby reducing their effectiveness in reducing earning management practices.

The number of determinants in this study affecting the management of profits. One of the main determinants mentioned in the study was the internal reference and the

impact of its quality on the management of profits. We seek to deepen this relationship and consider the determinants of internal audit without merely the impact of its quality.

Sellami, M., & Adjaoud, F. (2010, May). The real management of results: the case of French companies.

This study aims to research the real management of profits in French companies and the impact of managers on them. And the study of earning management practices in listed French companies reveals that managers not only manipulate accounting benefits, but also influence operating cash flows through sales management. These results suggest that real earnings management plays a prominent role in management behaviors in French companies, adding a new dimension to our understanding of earning management practices.

We find that this study focuses on the French corporate sector and seeks to gain access to the best concepts of earning management and the determinants affecting it.

Douglas F. Prawitt; Jason L. Smith; David A. Wood. (2009). Internal audit quality and earnings management.

The study took research into the relationship between internal audit and earning management to the extent to which the quality of internal audit function affects financial reporting processes. Although internal auditors play an important role in this context, research into their effects on external financial reporting has remained limited. Using a unique dataset, we explore the relationship between the quality of internal audit function and earning management.

The study measured the quality of the internal audit function via a composite scale of six components, based on SAS No. 65, which guides external auditors in assessing the quality of internal audit and its role in financial reporting. Earning management was measured using two agents: abnormal benefits and inclination to meet or barely exceed analysts' profit expectations.

The results of the study indicate that there is a moderate correlation between the quality of the internal audit function and the level of earning management as measured by both agents.

And it seems like we're going to look at a wider range than Douglas, 2009, in the relationship between internal audit and earning management

Hamdan, & Abu Agila (2012). Audit quality in Jordan and its impact on profit management and quality.

The study aims to assess the prevalence of earning management practices in Jordanian industrial companies and the role of quality auditing in reducing such practices. The data of 45 companies have been analyzed for six years, and advanced statistical methods have been used to achieve the study's objectives. The results showed that Jordanian companies exercise remarkable earning management, negatively affecting the quality of profits declared. However, the study did not reveal any relationship between audit quality characteristics, such as the size and experience of the audit office, and the reduction of earning management practices, raising questions about the effectiveness of oversight mechanisms in Jordan's accounting environment.

Mubarak, El-Rufai Ibrahim (2010). The quality of internal audit activities and their role in reducing profit management practices is an applied study on the Saudi environment.

The study aimed to verify the impact of the quality of internal audit activities on the earning management practices of Saudi shareholding companies. Mubarak 2010 used a range of variables to measure the quality of internal audit, such as auditors' qualifications and experience, the workload of the audit section and its organizational independence. To estimate earning management, the change in Miller's ratio was used.

The results of the study showed a statistically significant reverse relationship between internal audit quality and earning management, meaning that higher audit quality reduces earning management practices. Specifically, the results indicated that the volume of audit work associated with financial reporting is the most influential factor in reducing these practices.

The study showed the impact of the relationship between internal audit and earnings management effectively on the Saudi corporate sector, which raises the question of the extent to which this sector is similar to the Palestinian non-financial corporate sector.

Mliji (2013). Impact of the quality of internal audit activities on the management and quality of profits as an input to improve the appropriateness and reliance on the financial statements of Saudi commercial banks: an applied theoretical study.

This study aimed to analyze the extent to which Saudi commercial banks registered in the stock market exercise earning management, as well as assess the quality of profits. The study also examined the impact of quality determinants of internal audit activities, such as scientific qualification, professional qualification, expertise, size of internal audit section, organizational independence and internal audit workbook, on reducing earning management practices and improving their quality, and sought to understand the impact of the quality of internal audit activities on the relevance and reliability of banks' financial statements.

To achieve these goals, the research relied on an applied study of 12 Saudi banks from 2008 to 2012, where two models were built that demonstrate the relationship between the determinants of the quality and quality of internal audit activities and earnings management. A survey was also conducted of a group of internal auditors, audit committee members, and auditors on the impact of internal audit activities on the appropriateness and reliability of financial statements.

The study showed that the quality of internal audit activities negatively affects earnings management practices, meaning better audits help reduce such practices. These activities also improve the accuracy and reliability of financial statements. Based on these results, the study recommended that Saudi commercial banks improve internal audit quality by setting clear criteria for selecting auditors, focusing on their qualifications and experience. It also suggested issuing audit standards to regulate internal audit procedures and clearly define their responsibilities, which would

strengthen their role in limiting earnings management and ensuring trustworthy financial reports.

We believe this study highlights the important role internal auditing plays—not just as a control mechanism but also as a way to increase transparency and trust in financial reporting, helping to reduce harmful earnings management.

This research adds valuable insight into the connection between earnings management and internal audit quality in the Saudi banking sector. Our study aims to build on this by comparing it with the international context and by examining non-financial institutions in Palestine.

Based on previous research, we notice that earlier studies have examined parts of the topic related to our study. Some have explored similar issues but used different samples or variables, which has led to varying results. This motivates us to investigate the relationship between internal audit quality and earnings management specifically in non-financial companies in Palestine, to identify any differences compared to past studies.

It is also important to mention that while some research has been conducted on samples from Palestine, those studies focused on variables that are entirely different from ours.

2.5. Summary of Previous Studies

#	Title	Year	Purpose	Variables	Methodology	Results
1	Impact of Internal Control on the Quality of Accounting Information at Enterprises Listed on the	2023	to demonstrate the impact of internal control on the quality of accounting information in companies listed on the Vietnam Stock Exchange	International accounting standards were adopted: relevance, reliability, consistency, comparability, completeness and	Quantitative research methods were used through questionnaires sent to managers and senior accountants in	The findings indicate that internal control components positively influence the relevance and usability of accounting information. Among these components, the control environment exerted the

	Stock Market in Vietnam			ease of understanding. Quality of Accounting information	institutions. The sample size was 193 questionnaires valid for the period 2021-2022.	greatest influence, followed by monitoring activities and then risk assessment. In contrast, the elements related to information, communication, and control exhibited the weakest effects in comparative terms.
2	Mutual Trust Influence on the Correlation between the Quality of Corporate Internal Control and the Accounting Information Quality Using Deep Learning Assessment	2022	To evaluate the relationship between internal control and accounting information quality based on deep learning and proposes a specific modeling method.	Mutual Trust. Quality of Corporate Internal Control. Accounting Information Quality	The descriptive analytical approach was adopted, by comparing and analyzing the financial data of a number of companies and institutions.	Strengthening an institution's internal controls related to accounting information plays a pivotal role in enhancing the overall quality of that information. Based on the practical case analysis conducted in this study, the proposed model demonstrated the capability to assess the quality of accounting information with an accuracy rate of 92%.
3	Role of earnings management and capital structure in	2022	How earnings management affects the connection between capital	Capital structure. Earnings Management: nondiscretionary	Descriptive, quantitative, analyzing the financial data	The trade-off, or pecking-order, hypothesis describes the link between capital structure and firm

	signaling early stage of financial distress: A firm life cycle perspective.		structure and company performance.	and discretionary accruals.	from 802 companies	performance when earnings management is not present. However, the use of discretionary accruals to influence capital structure outcomes was found to diminish the strength of this relationship, thereby weakening its effect on overall firm performance.
4	The Mediating Effect of Earnings Management on Financial Performance: The Importance of Good Corporate Governance	2022	To describe the connection between financial performance, earnings management, and corporate governance in Indonesian listed banks between 2010 and 2015.	Financial performance. Earnings management. Corporate governance	Descriptive, quantitative, data analyzed for financial data during the period of 2010-2015.	The study found that robust corporate governance significantly affects the extent of earnings management, which in turn shapes a firm's financial performance. Strengthening managerial and institutional ownership can help curb earnings manipulation, thereby improving overall financial outcomes. These findings underscore the importance of adopting sound governance

						practices as a means to limit earnings management and ensure more accurate evaluations of corporate performance.
5	Real Earnings Management, Firm Value, and Corporate Governance: Evidence from the Korean Market.	2022	Identifying the relationship between real earnings management (REM), firm value (FV), and corporate governance (CG) in the Korean market.	Real earnings management (REM). Firm value (FV). Corporate governance (CG).	Descriptive, quantitative, data analyzed for financial data during the period of 2016-2021	The results reveal that effective corporate governance (CG) practices substantially limit the impact of opportunistic real earnings management (REM) by management. Furthermore, CG serves as a key monitoring mechanism that restrains such activities, thereby helping to preserve firm value from the adverse effects of REM. Overall, the study emphasizes the essential role of corporate governance in maintaining the accuracy, credibility, and trustworthiness of reported financial information.

6	Methodical Approach to Determining the Quality of Accounting Data in Internal Audit	2022	To reveal the methodological approach to determining the quality of accounting data using the tools of the internal audit system, as well as to establish the relationship of the subject areas of internal audit with the relevant accounting records.	Quality of accounting data. Internal audit.	The study presents an internal audit algorithm for accounting data, detailing the information sources associated with each category of accounting items. These categories include cash documentation, both long- and short-term loans, settlements, current and long-term liabilities, non-current assets and financial investments, as well as expenses, revenues, equity, and collateral.	The study concludes that consistently applying the proposed methodological framework for selecting analytical procedures in internal auditing contributes to producing high-quality accounting and financial reports. Furthermore, this approach enhances the informational value of such reports, enabling both internal and external stakeholders to make more informed management decisions.
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7	The Effect of Audit Quality on Reducing Earnings Management Practices: An Applied Study to Palestinian Banks - Public Shareholding.	2021	To investigate the existence of the earnings management practices of the public shareholding Palestinian banks listed in Palestine Exchange (PEX), and tests the impact of auditing quality factors represented by the audit fees, audit size (Big 4), size of bank and leverage ratio of bank on reducing the earnings management practices.	Earnings management practices. Auditing quality factors.	In this study, the researcher applied the Modified Jones Model, which is designed to assess total accruals as a means of evaluating earnings management practices. The analysis was conducted on a sample comprising six publicly listed banks in Palestine over the period 2014–2016.	The findings indicate that the public shareholding banks engaged in earnings management throughout the study period. Moreover, the results show varying degrees of association between the components of audit quality and the level of earnings management.
8	Managerial ability and accounting information quality: A test	2020	To reveal the relationship between managerial capacity and accounting	Managerial ability. Accounting information quality.	Descriptive, quantitative, data analyzed for financial data of the companies	Results found that (1) managerial capacity is significantly positively related to the quality of accounting information and the effectiveness of

	on mediating effect of internal control quality.		information quality: A test of the mediating effect of internal control quality.	Internal control quality.	between 2010-2018.	internal control; and (2) the effectiveness of internal control has a significant partial mediating effect on the relationship between the two.
9	The effect of internal auditor competence and objectivity, and management support on effectiveness of internal audit function and financial reporting quality implications at local government.	2018	To study the impact of internal auditor competence, objectivity, and management support on the effectiveness of the internal audit function, and its impact on the quality of financial reporting.	Internal auditor competence, objectivity. Management support. Internal audit function. The quality of financial reporting.	This study employed a survey methodology with a descriptive-verification approach, targeting local government entities on Java Island, Indonesia. The primary data collected were analyzed statistically using Partial Least Squares Structural Equation Modeling (PLS-SEM).	The study demonstrates that the effectiveness of the internal audit function is strongly influenced by the competence and objectivity of internal auditors, as well as the level of support provided by management. In addition, it finds that auditor competence, objectivity, and the overall effectiveness of the internal audit function significantly contribute to enhancing the quality of financial reporting.

10	Effective audit committee, audit quality and earnings management Evidence from Tunisia.	2016	To examine the relationship between the effectiveness of the audit committee and audit quality and profit management.	The effectiveness of the audit committee. Audit quality. Profit management.	Descriptive, quantitative, data analyzed for financial data from 86 industrial enterprises using generalized least squares regression.	The findings reveal that the presence of both an audit committee and an internal audit function is associated with reduced levels of earnings management. Moreover, a lower frequency of meetings between the audit committee and internal auditors was linked to decreased discretionary accruals. The establishment of these governance mechanisms has also been shown to improve the quality of financial reporting.
11	Internal auditing and real earnings management	2013	Investigating whether the presence and strength of internal audits influence real earnings management behavior.	Internal Auditing. Real earnings management.	The study has conducted based on reviewing literatures related to the subject of the study.	The results show that internal auditing exerts a statistically significant influence on production decisions, contributing to a lower probability of overproduction. The degree of its effectiveness, however, differed across cases, with smaller sample

						sizes linked to a reduced likelihood of excessive production. Survey responses also revealed that some companies were reluctant to forgo revenue in exchange for lower tax liabilities and a more equitable distribution of profits.
12	Internal Audit Quality and Earnings Management.	2009	To examine the relationship between the quality of internal audit and the preparation of financial reports and for that it utilized a unique database to examine the relationship between internal auditing quality and financial report preparation in business companies.	Internal Audit Quality. Earnings Management.	Qualitative, Literature Review.	The study emphasized the limited number of investigations examining how internal auditing influences external financial reporting. It evaluated internal audit activities and earnings management by applying six quality indicators for internal audit functions, with a particular focus on their contribution to financial reporting. Earnings management was measured through six criteria, including abnormal accruals and the tendency to meet or

						slightly exceed analysts' earnings forecasts.
13	The effect of audit committee characteristics on earnings management.	2013	To identify A meta-analysis by Lin and Hwang (2010) revealed twelve major linkages between corporate governance and earning management.	Audit committee. Earnings management	Qualitative, Meta Analysis.	The results indicate a negative relationship between earnings management and certain audit committee attributes, including independence, size, expertise, and meeting frequency. In contrast, a positive relationship was observed between the shareholdings of committee members and earnings management. The findings also reveal a strong positive association between firm size and discretionary accruals (DAC), suggesting that larger companies tend to engage more in earnings management while maintaining stronger profit control. However, the evidence remains inconclusive regarding whether audit committees or internal

						auditors effectively reduce earnings management, highlighting the need for further investigation. Additionally, a positive correlation was identified between the presence of an audit committee and earnings management in non-financial listed companies in Portugal.
14	Financial Accounting Theory and Analysis (8th ed.)	2005	To illustrate the role and impact of financial accounting in inflating the company's market value and increasing profits and for that it's explain Earning management is the management's attempt to influence the reported profit number in the	Financial accounting. Company's market value Earning management.	Qualitative, Literature Review.	The administration has significant autonomy in accounting processes for preparing and presenting financial statements, which allows them to fulfill two key objectives. Firstly, to maximize the firm's market value, which is heavily influenced by analysts' expectations for quarterly profits. Management recognizes that failing to meet these expectations could lead to a decrease in the

			near term to achieve self-interest.			company's market value.
15	The role of internal audit in improving the efficiency and effectiveness of financial investments is an "application study for companies listed on the Palestine Stock Exchange	2009	To explore the relationship between a range of variables associated with the quality of internal audit and the efficiency and effectiveness of financial investments in companies registered on the Palestinian stock market. focuses in particular on the internal auditor's role in this relationship.	Quality of internal audit. The efficiency and effectiveness of financial investments	Descriptive, quantitative, data analyzed for financial data from 33 companies	It found a correlation between these variables, so that internal audit would improve investment performance, and therefore concluded the importance of the internal auditor's role and the need to develop its process in international practice.
16	The Role of Modern Internal Auditing in the Sustainability of Companies Listed in the	2022	To investigate how internal audit affects the ability of companies to achieve their long-term	Internal audit. Ability of companies to achieve their long-term	Descriptive, quantitative, data analyzed for financial data from 25 companies.	The findings reveal a strong link between internal auditing and corporate sustainability. The study identified two primary roles for internal audit: an

	Stock Exchange.		sustainability goals	sustainability goals.		assurance function that verifies compliance with international laws and standards, and an advisory function that offers recommendations and guidance to support organizational operations. The effectiveness of internal auditing was found to depend on several key factors, including operational efficiency, autonomy, objectivity, and the level of management support provided to the internal audit function.
17	Internal audit effectiveness: an Ethiopian public sector case study.	2007	To analyze the factors affecting the effectiveness of internal audit services.	Internal audit.	Quantitative, Questionnaire, A case study of a large public sector higher educational institution in Ethiopia.	The results indicate that both <i>internal audit quality</i> and <i>management support</i> exert a significant influence on the effectiveness of internal auditing. In essence, higher audit quality coupled with stronger administrative backing leads to more effective audit

						outcomes. Conversely, the study found no strong association between the other two variables—regulatory framework and characteristics of the audited entity—and audit effectiveness.
18	Determinants of the management of profits for economic institutions under the Algerian financial and accounting environment.	2020	To explore the phenomenon of earning management in the Algerian context, with a focus on identifying the factors influencing these practices and the mechanisms for their control.	Earning management. Financial control.	Qualitative, Analytical approach, using interviews with expert opinions in the field.	The results showed that the mechanisms proposed to regulate such practices, such as the accounting system and corporate governance, faced significant challenges in Algeria's environment, thereby reducing their effectiveness in reducing earning management practices.
19	The real management of results: the case of French companies.	2010	To research the real management of profits in French companies and the impact of managers on them.	Real management of profits	Descriptive, quantitative, data analyzed for financial data from 55 French companies in the period	The study reveals that managers not only manipulate accounting benefits, but also influence operating cash flows through sales management.

					between 2000-2008.	
20	Internal audit quality and earnings management.	2009	To identify the relationship between internal audit and earning management to the extent to which the quality of internal audit function affects financial reporting processes.	Internal audit. Earning Management.	The study measured the quality of the internal audit function via a composite scale of six components, based on SAS No. 65, which guides external auditors in assessing the quality of internal audit and its role in financial reporting. Earning management was measured using two agents: abnormal benefits and inclination to meet or barely exceed	There is a moderate correlation between the quality of the internal audit function and the level of earning management as measured by both agents.

					analysts' profit expectations.	
21	Audit quality in Jordan and its impact on profit management and quality	2012	To assess the prevalence of earning management practices in Jordanian industrial companies and the role of quality auditing in reducing such practices.	Earning management practices. Quality of Audit.	Descriptive, quantitative, data analyzed of 45 companies have been analyzed for six years, and advanced statistical methods have been used.	The findings indicate that Jordanian companies engage in notable earnings management, which adversely impacts the quality of reported profits. However, the study found no significant link between audit quality attributes—such as the size or experience of the audit firm—and the mitigation of earnings management practices. This raises concerns regarding the effectiveness of oversight mechanisms within Jordan's accounting framework.
22	The quality of internal audit activities and their role in reducing profit management practices is an	2010	To verify the impact of the quality of internal audit activities on the earning management	Quality of internal audit. Earning management	Descriptive, quantitative, data analyzed of 20 companies for five years.	The results showed a statistically significant reverse relationship between internal audit quality and earning management, meaning that higher audit quality

	applied study on the Saudi environment.		practices of Saudi shareholding companies.			reduces earning management practices. Specifically, the results indicated that the volume of audit work associated with financial reporting is the most influential factor in reducing these practices.
23	Impact of the quality of internal audit activities on the management and quality of profits as an input to improve the appropriateness and reliance on the financial statements of Saudi commercial banks: an applied theoretical study.	2013	To analyze the extent to which Saudi commercial banks registered in the stock market exercise earning management, as well as assess the quality of profits.	Earning management. Quality of profits: scientific qualification, professional qualification, expertise, size of internal audit section, organizational independence and internal audit workbook	Descriptive, quantitative, data analyzed for 12 Saudi banks from 2008 to 2012, where two models were built. A survey was also conducted of a group of internal auditors, audit committee members and auditors.	The study found that the quality and quality of internal audit activities have a positive impact on earning management practices and that these activities contribute to the appropriateness and reliability of financial statements.

2.6. Comments on Previous Studies

In light of the review of previous studies presented above, it has become clear that most of the previous studies addressed the main axes addressed by the current study. Several studies addressed the axis of internal audit quality in companies, government institutions and banks, as a number of studies addressed the axis of return on investment as a result of internal auditing, the quality of accounting information and the impact of internal auditing on the company's operational and market risks, such as the study (Vakulchyk et al., 2022). What distinguishes the current study from previous studies: Many researchers have conducted studies aimed at identifying the impact of internal auditing on the quality of the accounting information provided, while this study presents the impact of the quality of internal audit on the earning management ways adopted by non-financial companies.

The study addressed two characteristics of accounting information separately and in detail, which were not adopted by previous studies, namely the honest representation and appropriateness of accounting information, and the impact of applying internal audit standards on these two characteristics and the earnings management.

Third: The current study was distinguished from previous studies in that the study community consisted of internal auditors and accountants in the non-financial shareholding companies of in the West Bank.

Schneider, A. (2013) has examined the relationship between internal audit and earnings management, However, the current research builds upon this foundation by exploring the intricate interplay between corporate governance, capital structure, and earnings management, offering a more comprehensive understanding of the factors affecting earnings management practices in Palestine.

The current study benefited from the previous studies that were presented in several aspects, the most important of which is formulating the study problem based on topics that were not addressed by previous studies or were lacking, as well as in terms of building the theoretical framework for the current study. In addition, previous studies were utilized in the field of objectives and importance of the current study in light of what it will provide to the field of scientific knowledge

and subsequent studies on the subject of the study. The most important benefit of previous studies for the current study is the method of analyzing the data collected from the non-financial companies.

Chapter Three: Methodology

3.1 Research Design

This study is considered as a social science study and its methodology depending on a mixed-methods approach (quantitative and qualitative), and it is classified as exploratory research with a panel data, and the study Information about the variables will be obtained from the annual reports of companies listed on the Palestine Stock Exchanges during the years 2018-2023 , also the interview form was developed to measure the internal audit quality variable and was administered to specialists in the field (Brooks., 2008)

3.2 Population and Sample

Study Population and Sample for the Dependent Variable:

This research aimed to study the impact of Internal Audit Quality on Earning Management for Non-Financial Companies Listed on the Palestine Exchange during a period extending from 2018 to 2023, and therefore the study population includes all companies listed on the Palestine Exchange during the study period.

Country	Palestine		
Sector	Selected sample	excluded	population
Services	8	1	9
Industry	11	0	11
Investment	10	2	12
Total	29	3	32

On the other hand, the study sample is (29 companies listed on PEX), and it is selection depends on certain conditions:

- (1) The companies must be listed on the stock exchange during all years of the study (2018-2023),
- (2) All annual reports must be published, accessible and obtain all information related to the variables of the study.

The companies for which data were not provided for all years were deleted , such as ISH company in the services sector also AMLAK and ARKAAN companies in the investment sector.

Study Population and Sample for the Independent Variable:

Within the framework of this study, we selected 29 internal auditors representing 29 non-financial companies listed on the Palestine Stock Exchange, so that one internal auditor was chosen from each company, and their job titles varied between internal auditor, internal audit manager, and audit assistant, which reflects a diversity of professional levels and experiences . But for external auditors, one external auditor is appointed for each listed company , it is important to know that some external auditors provide their services to more than one listed company, which means that one external auditor may be responsible for auditing several companies.

In other words , data was collected from 29 internal auditors working in non-financial companies listed on the Palestine Stock Exchange . In addition, data on the external auditors associated with these companies was analyzed, as the following table shows the distribution of external auditors and the number of companies they audited (frequency):

No.	External Auditor Name	Frequency
1	Ernst & Young - Middle East	12
2	Maayeh	4
3	Talal Abu-Ghazaleh & Co. International	2
4	Mundher Al-Bandak	1
5	Al-Tarifi Auditing Firm	1
6	Deloitte & Touche (Middle East)	1
7	PricewaterhouseCoopers Palestine Limited	2
8	BDO Accounting and Auditing	1

9	Faraj & Nashwan and Partners Auditing Firm	1
10	HLB BS Auditing Firm	2
11	Badr Al-Deen Certified Public Accountants	1
12	Alfa International for Informatics Research Company	1

The quality of internal audit was measured through interviews with the external and internal auditors of non-financial companies listed on the stock exchange , these auditors answered questions related to the internal audit function in the companies they work with, in addition to the opinions regarding the internal auditors of listed companies. Since listed companies do not include independent audit firms, data on internal audit quality was collected through interviews with external auditors working in accredited audit offices and firms, in addition to the opinions of internal auditors in listed companies , this approach aims to achieve a more objective and comprehensive assessment of internal audit quality, as external auditors provide an independent view of internal audit efficiency, while internal auditors provide direct details of actual internal practices , so integrating the opinions of internal and external auditors enhances the accuracy of the assessment by combining internal knowledge of internal audit within companies, and the objective view provided by external auditors, providing a balance in assessing the quality of internal audit and its impact on earnings management.

During the data collection process, the Arab Hotels Corporation was excluded due to the lack of a management structure or actual internal audit department, despite its listing on the stock exchange , and interviews were conducted with auditors in proportion to the sample size, meaning 29 responses were collected through the interviews.

Data Collection Methods

The study relies on both **primary and secondary data sources**:

The data included primary and secondary data in this research, about the independent variables (Internal Auditors' Objectivity and Internal Auditors' Competency), we relied on distributing a questionnaire and interviews to professionals and practitioners in the field of auditing to measure

the quality of internal auditing, but for the dependent variable (Earnings Management), we depending on secondary sources of data that was collected from the published financial statements of non-financial companies listed on the Palestine Stock Exchange during the years 2018-2023.

Primary Data:

Annual financial reports of the sampled companies, obtained from the PEX website.

Interviews conducted with external auditors to assess the internal audit function within the companies.

Secondary Data:

Previous studies, academic journals, books, and other published reports relevant to the research topic.

Research Tools

Financial Data Analysis: Used to measure the impact of the independent variable (Internal Audit Quality) on the dependent variable (Earnings Management).

Structured Interviews: Conducted with external and internal auditors to evaluate internal audit practices, aligning with the study's hypotheses and variables.

3.3 Variables and Their Measurement

In order to test the study hypothesis outlined in the previous chapter, it is important to provide a testable proxy for variables, we relied on previous literature and references in developing proxy variables, and all variables in our models are based on previous literature. There are three types of variables, including dependent variables, independent variables, and control variables.

Dependent variable

The dependent variable in this study is earnings management, which is estimated by the method of the modified Jones Model, which measures the overall accruals, and divides those accruals to Discretionary Unexpected Portions, and Non-Discretionary Expected Portions. Jones Model is widely used for estimating earnings management in the previous literatures. It is an extension of the original Jones Model, which was developed by Jones (1991) and Dechow et al, (1995-1996). The Modified Jones Model includes an additional variable for accounts receivable accruals (AR_{it}), which helps to control for the effects of changes in accounts receivable on total accruals (Jones, 1991; Chen et al., 2007).

To measure earnings management by Modified Jones Model, four steps will be conducted in this study as following:

5. Estimate the total accruals value: they are estimated according to the income statement approach to reduce errors and bias when estimating accruals, and income is measured to reduce errors and bias when estimating accruals, which is measured according to the equation as follows:

$$TA_{it} = NI_{it} - CFO_{it} \quad (1)$$

In which:

- ✓ TA_{it} : indicates the company A's total accruals in period 1 and represents the difference between net income before extraordinary items and net flows Cash from operating activities based on the statement of changes in financial position.
- ✓ NI_{it} : the company's net operating income | In period 1.
- ✓ CFO_{it} : Net cash flow from the company's operating activities | In period 1

6. Estimate the regression coefficient β_1, β_2 and β_3 value according to the equation 2:

$$\frac{TA_{it}}{A_{i,t-1}} = \beta_1 * \frac{1}{A_{i,t-1}} + \beta_2 * \frac{\Delta REV_{it} - \Delta AR_{it}}{A_{i,t-1}} + \beta_3 * \frac{PPE_{it}}{A_{i,t-1}} + e_i \quad (2)$$

7. Estimate nondiscretionary accruals value (NDA) according to the equation 3:

$$NDA_{it} = \beta_1 * \frac{1}{A_{i,t-1}} + \beta_2 * \frac{\Delta REV_{it} - \Delta AR_{it}}{A_{i,t-1}} + \beta_3 * \frac{PPE_{it}}{A_{i,t-1}} + e_i \quad (3)$$

8. Determine the accrual discretionary value according to equation 4:

$$DA_{it} = \frac{TA_{it}}{A_{i,t-1}} - NDA_{it} \quad (4)$$

Where:

TA_{it} : is the total accruals in year t for firm i.

NI_{it} : is the Net income in year t for firm i.

CFO_{it} : is the Net cash flow from operations in year t for firm i.

$A_{i,t-1}$: is the Total assets for firm i in period $t-1$.

REV_{it} : is the Revenue for firm i in period t .

PPE_{it} : is the Net property, plant, and equipment for firm i in period t .

AR_{it} : is the Accounts receivable accruals for firm i in period t .

The relationship between earnings management and discretionary accruals is that a higher level of discretionary accruals means a higher likelihood of earnings management.

Independent variables

For internal audit quality, we designed a questionnaire for auditors as a proxy of internal audit quality divided into two aspects the first is about Internal Auditor's Objectivity using 10 questions, and the second for Internal Auditor's Competency using 12 questions, additionally, there were demographic questions. After collecting the data, we coded it into numbers as follows:

The question to which the answer was (not applicable) was given a value of 0, otherwise 1. Regarding the demographic questions, the numbers were distributed according to the relative importance of the answer. The most influential and effective characteristic was given the highest value, then the lowest value for the least influential, including experience, professional certification, etc.

After coding, an arithmetic mean was created for the responses and a collective variable was constructed for all questions by collecting the demographic variables each time with one of the axes of the questionnaire (the independent variables). Then an arithmetic mean was created for the independent variable and each individual value was divided by the mean (data scaling) in order to make the auditors' responses in the questionnaire characterized by comprehensiveness and accuracy in the analysis (DeVellis., & Thorpe.,2021; from the author)

Control variables

Profitability

Is measured by dividing the net income by the total assets, and the profitability is calculated by dividing net income by total assets, providing a measure of how efficiently a company uses its assets to generate profit (Okoye et al. 2017).

Company Size

Company size is determined using the natural logarithm of total assets. This approach helps normalize the data, especially when comparing companies of varying sizes (Rahim., 2017).

3.4 Data Analysis Techniques

This empirical study follows the regression panel data approach, this approach of research depends on merging the cross-sectional and time series analysis, and is adopted in cases that have data comprising both time series such as (years) and cross-sectional elements such as (companies). In our study, based on the nature of research there are two types of panel data approaches can be adopted such as fixed effects estimation and random effects estimation using STATA software (Brooks, 2008).

Pooled OLS Estimation

is a simple regression model that assumes no individual or time-specific effects, and it treats all observations as independent and ignores differences across entities (e.g., firms), so this method is used when there is no significant variation between entities or over time. However, it may lead to biased estimates if unobserved factors influence the dependent variable (Stock & Watson.,2017; Stock & Watson.,2007).

Fixed Effects Estimation:

This method is used to analyze panel data (data over time for the same entities, such as companies or countries), fixed effects focus on differences within each entity by removing the effects of time-invariant characteristics (such as location or industry), and it assumes that each entity has unique characteristics that could influence the dependent variable, and these differences are fixed over time, finally the goal is to study the impact of variables that change over time within each entity (Brooks, 2019;Wooldridge, 2009).

Random Effects Estimation

Random effects assume that the variations across entities are random and uncorrelated with the independent variables. This method considers both within-entity and between-entity variations, making it more efficient if the assumption of no correlation holds true. It is useful when the unique

characteristics of each entity are considered random and not fixed (Brooks, 2019;Wooldridge, 2009).

Choosing between Fixed Effects and Random Effects Model

The Fixed Effects (FE) is used when individual characteristics (e.g., company traits) affect the dependent variable and are correlated with the independent variables , and it focuses on changes within entities over time. But the Random Effects (RE) is used when individual characteristics are random and uncorrelated with the independent variables , so it allows for variation across entities and is more efficient when the assumption holds. Finally , Choosing between theme must use Hausman Test, so if the p-value < 0.05 → Use FE; and if p-value > 0.05 → Use RE , if (RE) is chosen it must be used Breusch-Pagan LM Test, so If p-value < 0.05 → Use RE; if p-value > 0.05 → Use Pooled OLS (Brooks, 2019;Wooldridge, 2009).

Data revision

To achieve the research objectives, we refined the data by standardizing the currency to the dinar (JD) for the financial data of the selected companies, this is because the currencies differ between companies, which may distort the results , there was missing data for the year 2023 for PALAQAR company in the services sector, and the missing data was processed using the **TREND** function in Excel based on data from previous years.

Chapter Four: Results

Introduction

This chapter presents the findings of the study based on the data collected and analyzed to explore The Impact of Internal Audit Quality on Earning Management for Non-Financial Companies Listed on the Palestine Exchange. It includes descriptive statistics, reliability tests, correlation analysis, and regression results to examine the relationship between internal audit quality and earnings management in non-financial companies listed on the Palestine Exchange , the results are interpreted in light of the research objectives and hypotheses, explaining the impact of internal auditors' objectivity and competency on earnings management. Additionally, diagnostic tests such as multicollinearity, normality, heteroskedasticity, and model selection tests are discussed to ensure the robustness and validity of the findings.

4.1 Descriptive Analysis

The descriptive analysis provides an overview of the variables used in the study, including their characteristics such as central tendency (mean, median), dispersion (standard deviation), and range (minimum and maximum values), this analysis is based on 145 observations over six years (2018-2023), for all independent, dependent and control variables .

Variable	Mean	p50	Min	Max	SD
EarningMan~t	0.01	0.01	0.30	0.45	0.10
InternalA~cy	1.00	1.04	0.68	1.28	0.17
InternlAud~y	1.00	0.96	0.75	1.28	0.17
InternalA~ty	1.00	1.02	0.73	1.25	0.14

Profitabil~y	0.03	0.04	0.19	0.20	0.06
CompanySize	7.51	7.55	5.88	8.94	0.66

for Earnings Management The mean value is 0.008, with a median (p50) of 0.007, indicating that the data is fairly centered around these values, and the minimum value is -0.305 and a maximum value is 0.448, Internal Audit Quality (Internal Auditors Objectivity and Internal Auditors Competency) Both variables have a mean value of 1.000, with close medians of 0.960 and 1.042, respectively , also the standard deviations are 0.171 and 0.172, indicating relatively low variability in the internal audit quality measures, the collective variable for internal audit quality shown a mean value of 1 , a median of 1.02 , the minimum and maximum values is 0.7. , 1.25 respectively and the standard deviation is 0.14, The mean Profitability is 0.035, with a median of 0.042, showing that most firms in the sample operate at low profitability levels and the standard deviation of 0.058 indicates some variation, while the range (-0.189 to 0.195) reflects the presence of both losses and profits , finally the Company Size has an average (logarithmic transformation of total assets) of 7.505, with a median of 7.549, the small standard deviation (0.655) suggests moderate variability in company sizes, with a range from 5.881 to 8.944.

4.2 Corelation Matrix

the correlation analysis or Pearson test is used to explore the problem of multicollinearity that may be existing between the variables, this problem may appear when the independent variables are related to each other, which may lead to distortion of the results regression (Hair et al., 2010).

Table () shows the correlation matrix results .

	Earnin~t	Int~vity	Inter~cy	Int~lity	Profit~y	Compan~e
EarningMan~t	1					
InternalA~cy	0.0058	0.8596*	1			
InternlAud~y	-0.0075	1				
InternalA~ty	-0.0086	0.8877*	0.9387*	1		
Profitabil~y	0.3813*	0.0562	0.0904	0.0682	1	

CompanySize	-0.0476	-0.0108	-0.044	-0.0426	0.1381	1
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According to the results shown in the table, several results appear regarding the relationship of the variables to each other . According to the sign, the positive relationship indicates a positive relationship between the two variables, while the negative sign indicates an inverse relationship. It appears that there is a high positive relationship between Internal Auditors Objectivity and Internal Auditors Competency, as they generally represent Internal Audit Quality, in other words, the Objectivity of Internal Auditors is strongly and positively correlated with Competency of Internal Auditors (0.8596), which is statistically significant, indicating that these two measures of internal audit quality are closely related, on the other side the correlation between internal audit quality proxy is highly positive with Internal Auditors Competency because they leading to the role of internal audit quality , also there is a Positively correlated between Earning Management and Profitability (0.3813), indicating that higher profitability may be associated with increased earnings management practices, and there is a negatively correlated with Company Size (-0.0476), though the correlation is weak and insignificant, suggesting minimal impact of company size on earnings management.

4.3 Variance Inflation Factor (VIF)

Variable	VIF	1/VIF
InternlAud~y	3.85	0.260
InternalAu~y	3.88	0.258
Profitabil~y	1.03	0.969
CompanySize	1.03	0.974
Mean VIF	2.45	

The Variance Inflation Factor (VIF) is used to test multicollinearity in regression , the multicollinearity appears when two or more independent variables are highly correlated in a

regression model , In this study results indicate there is no multicollinearity problem in the model because the values for all variables are less than 5 (James., 2013; James., 2023).

4.4 Regression Analysis

The regression analysis is the final level of research for testing the hypothesis, in this test we will examine the impact of Internal Audit Quality on Earning Management by determining the coefficient values and the related P-values for the significance level.

It should be noted that the auditor quality variable remained constant over the five-year period (2018–2023) because the same audit team was retained, so the identical value was used throughout the analysis.

The basic diagnostic tests the study to choose the preferred model for the current study.

Test	P-Value	Interpretation
Normality Test	0	The data does not follow a normal distribution (violation of the normality assumption).
Heteroskedasticity Test	0.1525	There is no evidence of heteroskedasticity (variance is homoscedastic).
Hausman Test (FE vs RE)	0.1007	No sufficient evidence to prefer the Fixed Effects model over the Random Effects model.
Breusch and Pagan Lagrangian Multiplier Test	0.1229	No strong evidence to support the use of the Random Effects model.

The statistical tests provide the following information, the normality test (Prob > chi2 = 0.0000) indicates that the data does not follow a normal distribution, the heteroskedasticity test (Prob > chi2 = 0.1525) indicates that there is no evidence of heteroskedasticity so the variance of the residuals is homoscedastic, and for the regression model tests the Hausman test (Prob > chi2 = 0.1007) shows no sufficient evidence to prefer the Fixed Effects model over the Random Effects model, Lastly the Breusch and Pagan Lagrangian Multiplier test (Prob > chibar2 = 0.1229) indicates no strong evidence to support the use of the Random Effects model.

Statistical Information	Value
Number of observations	145
F-statistic	6.51
Significance level (Prob > F)	0.0001
R-squared	0.1568
Adjusted R-squared	0.1327

The number of observations is (145) this refers to the number of data points used in the analysis , the F-statistic is (6.51) which measures the overall significance of the regression model with a Significance level (Prob > F) (0.0001) so the p-value less than 0.05 for the F-statistic indicates that the regression model is statistically significant.

R-squared (0.1568) , this value preset the proportion of the variance in the dependent variable that is explained by the independent variables in the model , In this case about 15.7% of the variation in earnings management is explained by the internal audit quality and control variable in the model.

Variable	Coefficient (β)	P > t	Significance (P- Value)	Comment on Impact
InternalAuditorsCompetency	-0.0176	0.840	Not significant	No significant impact on earnings management.
InternlAuditorsObjectivity	-0.0025	0.977	Not significant	No significant impact on earnings management.
Profitability	0.6736	0.000	Significant	Positive, significant impact on earnings management.
CompanySize	-0.0155	0.188	Not significant	No significant impact on earnings management.
Constant (_cons)	0.1214	0.230	Not significant	Intercept of the model.

Interpretation of findings

Based on the results, its observable that some variables have a significant impact on earnings management, while others do not show a notable effect.

Internal Auditors' Objectivity: The coefficient for internal auditors' objectivity is -0.0025 with a P-value of 0.977 and that indicating this variable has a negative sign and does not significantly affect earnings management, this present that the objectivity of internal auditors may not contribute an important role in influencing earnings management decisions, also means that the internal audit function may not be effective in reducing earnings manipulation.

Internal Auditors' Competency: in the same, the coefficient for internal auditors' competency is -0.0176 with a P-value of 0.840 that's indicating there is no significant impact on earnings management also the sign is negative, this suggests that despite the potential importance of auditor competence it does not appear to directly influence earnings management practices.

Based on the results of the current study, the coefficients of the variables show a negative sign but are not statistically significant, so when comparing these results with previous studies, we note some agreements and differences, for example, Studies such as Zgarni et al. (2016), Schneider (2013), Prawitt et al. (2009), Habbash et al. (2013) and Mubarak (2010) addressed the effect of internal audit quality and characteristics on earnings management, and their results showed that this effect is negative and statistically significant, these results are consistent with our current study in terms of negative sign, but differ in the level of statistical significance.

On the other hand, the study of Hamdan & Abu Agila (2012) indicated that audit quality characteristics do not affect earnings management which is consistent with the results of the current study in terms of the lack of sufficient evidence on the effect of audit quality on earnings management.

In summary, there is agreement with previous studies in the general direction of the negative effect, but the difference lies in the level of statistical significance, as the current study did not show a statistically significant effect, unlike some other studies.

Profitability: On the other hand, profitability shows a significant positive impact on earnings management the coefficient is 0.6736 with a P-value of 0.000, this result is consistent with the expectation that more profitable companies may be more likely to interring in earnings management, this positive relationship indicates that companies with higher profits may have greater incentives to manage earnings.

Company Size: The coefficient for company size is -0.0155 and the P-value is 0.188 that indicating that company size does not have a significant impact on earnings management, according to this result may suggest that both large and small companies face similar challenges and incentives when it comes to earnings management, with other factors playing a more prominent role in shaping their financial reporting behavior.

Hypothesis Testing

In further analysis, we use one independent variable at a time in the model , to exploring the single effect of each independent variable , so the below table presents the results of two regression models, each incorporating a single independent variable related to internal audit quality (either Internal Auditors' Competency in Model 1 or Internal Auditors' Objectivity in Model 2) with the control variables (Profitability and Company Size).

Hypothesis 1:

Alternative Hypothesis (H₁): Internal auditors' Objectivity has a significant negative impact on earnings management.

Model 1		
Variable	Coefficient (β)	P > t
InternalAuditorsObjectivity	-0.02	0.69
Profitability	0.67	0.00
CompanySize	-0.02	0.19
Constant (_cons)	0.12	0.24
R-squared	0.1566	
F-statistic	8.73	
Prob > F	0	

The Internal Auditors' Objectivity presents a negative coefficient (-0.02) with a high p-value (0.69) indicating no statistically significant effect on the dependent variable . Similar to Model 1 , Profitability shows a strong positive impact with a coefficient of approximately 0.67 and a p-value

of 0.000 , confirming statistical significance . in the same the company Size also exhibits a small negative coefficient (-0.02) with a p-value of 0.19 , which is above 0.05 meaning its effect is not statistically significant.

in the same, the hypothesis that internal auditors' Objectivity negatively impacts earnings management is not supported by the findings, as the variable shows no significant effect , this suggests that improving auditors' Objectivity may not be sufficient to prevent earnings manipulation without addressing other factors.

In other words , the results are consistent with the hypotheses in the negative sign only , but there is no statistically significant evidence.

R-squared values in both models is (~0.1568 and 0.1566) , indicating that about 15.7% of the variance in the dependent variable is explained by the independent variables.

F-statistics (8.74 and 8.73) with a **Prob > F of 0** confirm that both models are statistically significant overall .

Hypothesis 2:

Alternative Hypothesis (H₂): Internal auditors' Competency has a significant negative impact on earnings management.

Model 2		
Variable	Coefficient (β)	P > t
InternalAuditorsCompetency	-0.020	0.655
Profitability	0.674	0.000
CompanySize	-0.016	0.185
Constant (_cons)	0.121	0.227
R-squared	0.1568	
F-statistic	8.74	
Prob > F	0	

According to the table results, the Internal Auditors' Competency presents a negative coefficient (-0.020) with a high p-value (0.655) , which means there is no statistically significant effect on the

dependent variable . Profitability has a strong positive impact , with a coefficient of approximately 0.67 and a p-value of 0.000 indicates statistical significance . However , Company Size shows a small negative coefficient (-0.016) with a p-value of 0.185, which is above 0.05 meaning its effect is not statistically significant.

The hypothesis that internal auditors' Competency has a significant negative impact on earnings management is not supported by the results , so the lack of statistical significance for this variable suggests that internal auditors' objectivity does not directly influence earnings management .

The final section of the analysis includes an internal audit quality proxy analysis based on the third and fourth hypothesis .

Statistical analysis of the two additional hypotheses shows that internal audit quality has no significant effect on earnings management when considering company size or profitability as control variables . In addition , the basic regression test for the internal audit quality variable did not show good statistical results.

Basic Model		
Variable	Coefficient (β)	P > t
InternalAuditQuality	-0.006	0.918
Constant (_cons)	0.014	0.815
R-squared	0.01	
F-statistic	0.9182	
Prob > F	0.9182	

Hypothesis 3:

Alternative Hypothesis (H₃): There are differences in the effect of audit quality on earnings management due to company size.

Model 1		
Variable	Coefficient (β)	P > t
InternalAuditQuality	-0.008	0.899
CompanySize	-0.007	0.568

Constant (_cons)	0.070	0.543
R-squared	0.0024	
F-statistic	0.17	
Prob > F	0.8443	

In the basic model and Model 1, the coefficient of internal audit quality (β) appears to be negative but insignificant ($P > 0.05$) . Company size did not show any significant effect on earnings management as $P > 0.05$, and the R-squared value in the two models is very low , indicating that the model does not explain a large proportion of changes in earnings management.

According to the results of this hypothesis, the P value is > 0.05 for both internal audit quality (0.899) and company size (0.568) , which means that the effect is not statistically significant, and this can be interpreted as there is not sufficient statistical evidence to reject the null hypothesis , which indicates that company size does not modify the relationship between internal audit quality and earnings management.

Hypothesis 4:

Alternative Hypothesis (H₄): There are differences in the effect of audit quality on earnings management due to profitability.

Model 2		
Variable	Coefficient (β)	P > t
InternalAuditQuality	-0.03	0.66
Profitability	0.65	0.00
Constant (_cons)	0.01	0.85
R-squared	0.1466	
F-statistic	12.19	
Prob > F	0	

In Model 2, the internal audit quality coefficient (β) is still not significant ($P > 0.05$) . Profitability is the only variable that has a significant effect on earnings management ($P = 0.00$), which indicates

that profitability plays a significant role in earnings management regardless of the quality of internal audit , the R-squared value is higher in this model (0.1466), which means that including profitability in the model improved the interpretation of changes in earnings management.

According to the results of the fourth hypothesis, the P-value was > 0.05 for internal audit quality (0.66), while profitability has a strong significant effect ($P = 0.00$), and this can be explained by the fact that the P-value for audit quality is greater than 0.05 , so there is no evidence that internal audit quality affects earnings management when profitability is included in the model, but profitability itself has a strong effect, which means that more profitable companies may be more involved in earnings management.

Chapter Five: Discussion

5.1 Introduction:

this chapter summarizes the results of the current study, which aimed to investigate the impact of internal audit quality on earnings management for non-financial companies listed on the Palestine Exchange. Additionally , we provide a discussion of the results in relation to the hypotheses, research questions, and objectives, as well as future insights and research ideas.

5.2 Discussion

This study investigated the impact of internal audit quality on earnings management , and we used two variables as proxies for internal audit quality such as Internal Auditors' Objectivity and Internal Auditors' Competency, additionally we included two control variables are Profitability and Company Size.

According to the first hypothesis that said internal auditors' Competency has a significant negative impact on earnings management, the results indicate a negative effect of Internal Auditor Competency on earnings management; however, this effect is not statistically significant. The second hypothesis that said Internal auditors' Objectivity has a significant negative impact on earnings management also the results indicate a negative effect of Internal Auditor Objectivity on earnings management with no statistically significant effect, in comparison with prior empirical literature that investigated the impact of internal audit quality on earnings management and found a statistically significant negative impact of internal audit quality on earnings management, as evidenced by studies such as Zgarni et al. (2016), Schneider (2013), Prawitt et al. (2009), Habbash et al. (2013) and Mubarak (2010) , we conclude that the fundamental impact of internal audit quality on earnings management is inherently negative under nature conditions, and the results may be affected by sample size or country-specific circumstances. In other words, the similarity between the current study and previous studies lies in the negative sign of internal audit quality; however, we did not find statistically significant evidence.

The analysis includes a new proxy for internal audit quality from the same data to measure the internal audit quality variable to investigate the third and fourth hypotheses that said (There are

differences in the effect of internal audit quality on earnings management due to company size and profitability). Additionally, the model includes the internal audit quality variable with one control variable at a time. The results indicate that the control variables do not change the effect of internal audit quality on earnings management. Specifically, when firm size or profitability are included, the relationship remains negative and not statistically significant. Notably, the model incorporating profitability as a control variable shows a statistically significant effect of profitability on earnings management, these results align with a study by Alkdai & Hanefah (2012) that investigates the relationship between audit committee characteristics and earnings management, the control variables, such as firm size and profitability, do not change the basic results for the independent variable but contribute to a stronger correlation. only Profitability provides a positive effect with statistically significant evidence, this means that highly profitable companies may be more related to earnings management practices. only Profitability provides a positive impact with statistically significant evidence in this model, but firm size does not provide statistically significant effect for both models,

5.3 Conclusion

The findings indicate a negative impact of internal audit quality on earnings management, but it is not statistically significant. Additionally, firm size and profitability do not play a role in changing or affecting the impact of internal audit quality on earnings management. However, only profitability has a positive effect with statistically significant evidence, which may suggest that profitable companies have incentives to engage in earnings management practices.

5.4 Recommendations

Based on the findings of this research, we provide several recommendations to enhance internal audit quality and mitigate earnings management practices among non-financial companies listed on the Palestine Exchange:

enhance auditor competency by investing in continuous professional development and training programs to improve the skills and knowledge of internal auditors.

ensure auditor objectivity by Implementing measures to maintain the independence and objectivity of internal auditors , such as establishing clear reporting lines and safeguarding against conflicts of interest.

implement robust corporate governance practices through adopting International Standards , and align internal audit practices with globally recognized standards to enhance credibility and effectiveness.

integrate advanced analytical tools by utilizing data analytics to analyze large volumes of financial data , improving the detection of anomalies and potential earnings management activities.

investing in audit software by adopting specialized audit software to streamline audit processes , enhance accuracy, and reduce manual errors.

5.5 Future Studies

Future studies in the field of earnings management and internal audit quality may use more specific measurements for earnings management, as there are multiple alternative measurement methods. Additionally, using different measurements for internal audit quality could yield varying results. Future research could also include more control variables and a moderating variable , such as studying the role of governance in this relationship. Furthermore, analyzing sectors separately and conducting studies in different countries could provide deeper insights and results.

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Appendices

Appendix # 1: Questionnaire

استمارة مقابلة



أثر جودة التدقيق الداخلي على إدارة أرباح في الشركات غير المالية المدرجة في بورصة فلسطين

المشاركون الأعزاء،

نشكركم على المشاركة في هذا الاستبيان، وهو جزء من رسالة ماجستير ضمن برنامج المحاسبة والتدقيق في
على إدارة الأرباح الجامعة العربية الأمريكية وتهدف هذه الرسالة الى دراسة أثر جودة التدقيق الداخلي
للشركات غير المالية المدرجة في بورصة فلسطين". علما بان اجابتم سيتم التعامل معها بسرية ولن تستخدم
الا لأغراض البحث العلمي فقط.

نشكركم على تعاونكم.

إعداد: راما الخوaja

إشراف: د. أكرم رحال

القسم الأول: المعلومات الديموغرافية

1. العمر: 29-22 39-30 49-40 50 فما فوق.
2. الخبرة العملية: 5-1 سنوات 6-10 سنوات 11-15 سنة 16 سنة فأكثر.
3. الشهادات المهنية: CPA CIA CMA CFA غير ذلك/ الرجاء
التحديد:
4. المسمى الوظيفي: مدقق مدقق رئيسي مشرف تدقيق مدير تدقيق

القسم الثاني: التدقيق الداخلي

الرقم	الفقرة	ينطبق	لا ينطبق
<p>أولاً: موضوعية واستقلالية المدققين الداخليين</p> <p>خلال تدقيقكم على الشركات المساهمة هل العبارات التالية تنطبق على المدققين الداخليين فيها</p>			
1	يقوم المدققين الداخليين في الشركة بأداء مهامهم باستقلالية كاملة دون تدخل من إدارة الشركة.		
2	يُسمح لموظفي التدقيق الداخلي بمراجعة مختلف المعاملات المالية والإثباتات المالية التي يريدها.		
3	تعزز سياسة الشركات موضوعية المدققين الداخليين		
4	يتبع قسم التدقيق الداخلي لسلطة الإدارة العليا في الهيكل التنظيمي للشركة.		
5	يقدم المدققون الداخليون تقاريرهم إلى الإدارة العليا بشكل دوري.		
6	يتمتع موظفو التدقيق الداخلي بحرية الوصول إلى جميع المعلومات التي تعتبر ذات صلة.		
7	يقوم المدقق الداخلي في الشركة بوضع السياسات والإجراءات الكفيلة في توجيه نشاط التدقيق الداخلي.		
8	يتسم تقرير المدقق الداخلي بالموضوعية وغير متحيز لجهة معينة.		
9	يكون تقرير المدقق الداخلي دقيقاً وخالياً من الأخطاء.		
10	يقوم المدقق الداخلي بالتأكد من حيادية وموضوعية المعلومات المحاسبية قبل البدء بعملية التدقيق الداخلي.		

ثانياً: إمكانات المدققين الداخليين

1	موظفو التدقيق الداخلي يمتلكون المعرفة اللازمة للقيام بمسؤولياتهم.
2	تشجع الشركة موظفي التدقيق الداخلي على التطوير المهني المستمر.
3	يمتلك مدير التدقيق الداخلي في الشركات شهادات مهنية في مجال التدقيق أو المحاسبة.
4	بعض موظفي دائرة التدقيق الداخلي حاصلين على شهادات مهنية في مجال التدقيق أو المحاسبة.
5	تعين الشركة فقط مراجعين داخليين حاصلين على مؤهلات في مجال المحاسبة والتدقيق.
6	موظفي قسم التدقيق الداخلي لا يخضعون لتدريب داخلي منتظم في التدقيق.
7	جميع موظفي قسم التدقيق الداخلي في الشركة لديهم خبرة في التدقيق الداخلي.
8	المدققين الداخليين يحافظون على علاقات مرضية مع الموظفين الآخرين في الشركة.
9	تعزز الإدارة العليا كفاءة أقسام التدقيق الداخلي.
11	موظفو التدقيق الداخلي يتمتعون بالكفاءة المهنية اللازمة.
12	إن تخصيص موظفين من إدارات أخرى للعمل كمدققين داخليين يؤثر على الكفاءة المهنية للمدققين الداخليين.

Appendix # 2: List of Arbitrators

Tariq Darabee	Mohammed Zaid
Zahran Draghmeh	Saleem Al-Khafash
Mohammed Abu Sharba	Abdel Fattah Salah

أثر جودة التدقيق الداخلي على إدارة الأرباح للشركات غير المالية المدرجة في بورصة فلسطين

إعداد: راما منذر فؤاد الخواجا

أسماء لجنة الإشراف:

د. أكرم رجال

د. نصر عبد الكريم

د. محمد تلالوه

الملخص باللغة العربية

هدفت هذه الدراسة إلى تحليل تأثير جودة التدقيق الداخلي على إدارة الأرباح في الشركات غير المالية المدرجة في بورصة فلسطين خلال الفترة من 2018 إلى 2023. جُمعت البيانات باستخدام منهجين نوعي وكمي لتقييم مؤشرات جودة التدقيق الداخلي. استخدم الباحثون نموذج جونز المُعدّل لتحليل التقارير المالية للشركات غير المالية كمياً، كما استُعين بالاستبيانات والمقابلات لجمع بيانات نوعية من مدققين داخليين وخارجيين حول مؤشرات جودة التدقيق الداخلي. بلغ عدد الشركات غير المالية المشمولة بالدراسة 29 شركة (بمجموع 145 سنة-شركة مالية). وشملت متغيرات الضبط كلاً من حجم الشركة وربحيته.

أظهرت النتائج أن موضوعية وكفاءة المدققين الداخليين لم يكن لها تأثير ذو دلالة إحصائية على إدارة الأرباح ($p > 0.05$ لكليهما). ومع ذلك، لوحظ وجود علاقة سلبية طفيفة لكنها غير كافية لإثبات علاقة معنوية بين جودة التدقيق الداخلي وإدارة الأرباح. كما تبين أن حجم الشركة لم يؤثر بشكل كبير على إدارة الأرباح، في حين ظهرت علاقة إيجابية بين الربحية وإدارة الأرباح (EM) (بقيمة استحقاق تقديرية > 0.001)، مما يشير إلى أن الشركات ذات معدلات الربحية الأعلى تميل إلى الانخراط أكثر في الاستحقاقات التقديرية.

أظهرت نتائج نموذج الانحدار العام أن التأثير الأساسي يعود إلى الربحية، بينما لم تفسر مؤشرات جودة التدقيق الداخلي جانباً كبيراً من التغيرات في إدارة الأرباح. وقد تعود هذه النتائج إلى خصوصية السوق الفلسطينية وبيئة الحوكمة فيها.

ولمكافحة ظاهرة إدارة الأرباح (EM)، توصي الدراسة بضرورة تطوير أطر حوكمة شركات أكثر صرامة لضمان امتثال أفضل للمعايير الدولية. ونظراً للدور الكبير الذي تلعبه الربحية في مستويات إدارة الأرباح، توصي الدراسة أيضاً باستخدام تحليلات بيانات أكثر تقدماً، إلى جانب تطوير برامج تهدف إلى الكشف عن ممارسات

التدقيق غير المرغوب فيها، خاصة في الشركات ذات الربحية العالية. كما توصي الدراسة بأن تركز الأبحاث المستقبلية على استكشاف مقاييس بديلة لجودة التدقيق الداخلي وإدارة الأرباح، بالإضافة إلى دراسة تأثير متغيرات حوكمة أخرى على إدارة الأرباح.

الكلمات المفتاحية: جودة التدقيق الداخلي، ادارة ارباح ، بورصة فلسطين ، الربحية ، الحوكمة.