



**Arab American University**  
**Faculty of Graduate Studies**

**The Impact of Audit Quality on Financial Performance:  
The Moderating Role of the Audit Committee Quality in  
Companies Listed on the Palestine Exchange**

By

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**This thesis was submitted in partial fulfillment of the  
requirements for the Master's degree in**

**Accounting & Auditing**

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## Thesis Approval

### **The Impact of Audit Quality on Financial Performance: The Moderating Role of the Audit Committee Quality in Companies Listed on the Palestine Exchange**

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This thesis was defended successfully on 21/2/2026 and approved by:

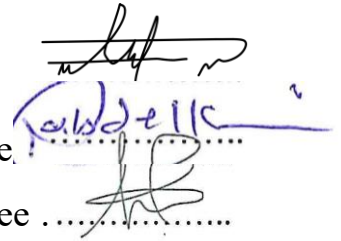
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## **Declaration**

I declare that this thesis was composed by me, and that the work contained herein is my own, except where it states otherwise by reference or acknowledgment, the work presented is entirely my own.

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## **Dedication**

I dedicate this thesis to my parents, whose unconditional love, constant support, and endless sacrifices have been the foundation of my success. May God grant them good health and a long life.

I also dedicate this work to my brother and sisters, for their encouragement, understanding, and presence throughout my academic journey.

A special dedication goes to my husband, for his patience, support, and belief in me. His encouragement has been a true source of strength and motivation.

This thesis is a small expression of my deep gratitude to you all.

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## **Abstract**

This study aims to examine the relationship between audit quality and the financial performance of companies listed on the Palestine Exchange (PEX), with particular emphasis on the moderating role of audit committee characteristics. The study focuses on firms operating in the financial, financial services, and investment sectors from 2019 to 2024.

Using panel data analysis and a fixed-effects regression model, the study investigates the impact of external audit quality and internal governance mechanisms on firm performance in an emerging market context. Financial performance is primarily measured using return on assets (ROA), while audit quality and audit committee characteristics are proxied using commonly applied measures in the corporate governance literature.

The empirical results reveal that audit quality has a statistically significant and positive effect on financial performance, supporting the view that high-quality auditing enhances the credibility of financial reporting, reduces information asymmetry, strengthens investor confidence, and contributes to long-term firm performance.

Regarding audit committee characteristics, the findings indicate that audit committee independence significantly strengthens the relationship between audit quality and financial performance. More independent audit committees are better positioned to oversee the audit process, safeguard auditor independence, and hold management accountable. In addition, the results highlight the critical role of audit committee members' financial expertise, as financially knowledgeable members are more capable of interpreting complex audit reports and engaging effectively with external auditors, thereby enhancing the benefits of audit quality. The study also finds that audit committee size and meeting frequency influence the strength of the relationship

between audit quality and firm performance, emphasizing the importance of both committee structure and active involvement.

Overall, the findings suggest that audit quality is a key driver of financial performance among Palestinian financial institutions, and that strong, independent, and financially competent audit committees significantly enhance its effectiveness. The study provides valuable implications for regulators, policymakers, and corporate stakeholders in Palestine and similar emerging markets by highlighting the importance of reinforcing audit quality and audit committee effectiveness to improve corporate governance and firm performance.

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**List of Abbreviations**

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Abbreviation	Stand for
AC	Audit Committee
AQ	Audit Quality
FP	Financial Performance
ROA	Return on Assets
ROE	Return on Equity
PEX	Palestine Exchange
B4	Big Four Audit Firms
ACIND	Audit Committee Independence
ACEXP	Audit Committee Financial Expertise
ACSIZE	Audit Committee Size
ACMEET	Audit Committee Meeting Frequency
LEV	Leverage
SIZE	Firm Size
OLS	Ordinary Least Squares
FE	Fixed Effects Model
CG	Corporate Governance
IFRS	International Financial Reporting Standards

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## **Chapter 1 General Framework of Study**

### **1.1 Introduction**

There is general agreement among scholars that the quality of financial reporting plays a significant role in the condition of capital markets, as it provides stakeholders with accurate information to make informed decisions. Therefore, the quality of the audit becomes a key factor in preserving the integrity and credibility of financial reports. The quality of the audit enhances financial transparency, minimizes risks, and fosters investor confidence, which in turn has a positive impact on the overall performance of firms (DeFond & Zhang, 2014). The Big Four audit firms, with PwC, Deloitte, EY, and KPMG being the leading players in this group, highlight the significance of the quality of audit since such firms are typically linked with more expertise, independence, and adherence to international standards, which contribute to the increase in the credibility of financial reporting (Francis & Yu, 2009). On the other hand, the downfall of Enron in 2001, which was audited by Arthur Andersen (one of the Big Five), shows how failure in audit can destroy investor confidence, undermine trust of people, and bring even the most prominent companies down, which is why high-quality and independent practices in auditing are critical emphasis (Healy & Palepu, 2003).

The audit quality role in a developing economy becomes even more crucial due to weak regulatory frameworks, ineffective enforcement mechanisms, and inadequate corporate governance initiatives. The emerging market, the Palestine Exchange (PEX), offers a fascinating perspective on the relationship between audit quality and financial performance. Firms listed on PEX are aware of complex operating environments characterized by political instability, economic

volatility, and limited access to international markets. Such circumstances require a high-quality of auditing in order to maintain financial credibility and market confidence (Abu Qa'dan & Suwaidan, 2019).

Generally, there are various dimensions used to define the quality of audits, including the technical capacity of auditors, their independence, and adherence to international auditing standards. Combined, these factors ensure that financial statements do not contain material misstatements and accurately reflect the company's financial position.

External auditing is also instrumental in alleviating information asymmetry between management and stakeholders, thereby leading to increased trust and investment (Francis, 2011). Nevertheless, the quality of the audit does not depend solely on the competence and independence of the auditors, but also on the company's governance framework. Specifically, the audit committee, a key element of corporate governance, regulates to a certain extent the quality of the audit and the level of responsibility.

Previous research indicates that audit committees that are independent, financially qualified, and have regular meetings are crucial in enhancing financial reporting and in harmonizing audit practices with international standards. Effective audit committees serve as a crucial bridge between external auditors and boards of directors, providing essential checks and balances (Li, Mangena, and Pike, 2012). Recent investigations give increasing evidence that audit committees reinforce the beneficial impacts of quality audits. For example, Taleb (2024) found that the quality of audit mediates the relationship between audit commissions and earnings management in Palestinian listed companies, indicating that audit commissions have an indirect impact on financial reporting quality by influencing auditors.

Similarly, Musallam (2020) found that the financial performance of Palestinian firms is positively related to the independence, size, and financial expertise of their audit committees. In larger emerging market settings, Alqatamin and Alqatamin (2024) found that the characteristics of audit committees significantly enhanced the quality of financial reporting. On the same note, Karim et al. (2024) demonstrated that the independence of the audit committee and expertise are the factors that lead to sustainable firm performance in the Bangladesh banking industry. These results collectively indicate a growing awareness that the relationship between audit quality and the effectiveness of the audit committee plays a significant role in determining the quality of a firm's performance. Although a rich body of literature exists, the quality of audit committees in the Palestinian context has not been widely researched, particularly as a moderator in the relationship between audit quality and financial performance.

This research aims to address this gap by examining the impact of audit quality on the financial performance of companies listed on the Palestine Exchange, with a particular focus on the moderating role of audit committee quality.

This study is informed by agency theory (Jensen & Meckling, 1976), which highlights the role of monitoring tools (including external audits and audit committees) in alleviating agency problems and minimizing information asymmetry between the managers and the shareholders. Based on this theoretical perspective, the research will have valuable implications for both the theoretical literature and the application of a corporate governance and financial reporting framework.

Academically, it broadens the body of literature regarding the audit quality-audit committee-financial performance nexus in a particular setting: an emerging market. In practice, it is informative for regulators, policymakers, and practitioners working in Palestine regarding the

necessity of enhanced regulations for audit committees, capacity building, and institutional changes to promote sustainability and resilience in the face of economic and political pressures.

## **1.2 Statement of the Problem**

Over the past few years, the financial performance of firms listed on the Palestine Exchange (PEX) has been significantly weak, which is a concern to investors, regulators, and policymakers. As stated in one of the Special Bulletins of the Palestine Economic Policy Research Institute (MAS, 2024), the aggregate net profits of PEX-listed companies in 2023 were US\$155 million, representing a 60 percent decrease from 2022. Among the 47 publicly traded companies, 11 incurred net losses, and some of them did not submit their financial reports on time. These findings suggest structural issues, including poor governance, competitiveness, and susceptibility to political and economic instability. On the same note, Saleh and Mansour (2024) found that over fifty percent of the non-banking corporations trading on the PEX were financially distressed. These results highlight the importance of understanding how mechanisms such as audit quality can enhance financial transparency, mitigate risks, and potentially optimize the financial performance of Palestinian companies.

Although much of the research in both developed and emerging markets has explored the impact of audit quality as a factor in enhancing firm performance (Ikhsan et al., 2024; Nguyen & Nguyen, 2024), its impact in the Palestinian context has not been thoroughly examined. Previous research on PEX companies has identified gaps in governance processes. Talalwa et al. (2024) also found that variables such as large board size, concentration of ownership in the hands of a family, and low independence negatively impact performance measures, including Return on Equity (ROE).

Notwithstanding such evidence, there has been little concern regarding how the quality of audit committees, in terms of independence, expertise, and active oversight, can moderate the relationship between audit quality and financial performance. This disjuncture constitutes the cardinal research issue, as although the quality of the audit is found to negatively impact the firm's performance in previous studies (Nguyen & Nguyen, 2024), the quality of such a relationship can be critically affected by the quality of audit committees in listed companies (Ikhsan et al., 2024). This problem must be addressed not only to enrich the academic literature but also to provide practical guidance to regulators and corporate boards in Palestine, thereby enhancing governance structures and rebuilding investor confidence. The audit committee is chosen as the target since it is the primary governance tool responsible for overseeing financial reporting and external audits.

An effective audit committee ensures the independence of auditors, compliance with international auditing standards, and effective oversight of management's financial decision-making. This effectiveness could reinforce the impact of audit quality on financial performance, thereby minimizing errors, fraud, and earnings management, which are significant problems in PEX-listed firms operating within unstable economic and regulatory environments (Saleh, & Mansour, 2024). To not only contribute to the body of academic literature, it is also necessary to address this gap and offer practical advice to regulators and corporate boards in Palestine to improve governance, transparency, and investor confidence.

The audit committee is chosen as the subject of interest because it is the primary governance structure responsible for regulating financial reporting and external auditing. Independent, international standards-based, and practical auditors are facilitated by a high-quality audit committee that ensures auditors are independent, follow international standards, and avoid misconduct in their oversight of management's financial decisions (Amara et al., 2025). Its

usefulness has the potential to enhance the influence of audit quality on financial performance, as it would minimize errors, fraud, and earnings management, which are common challenges in PEX-listed companies operating within a volatile economic and regulatory environment. It is necessary to fill this gap to enrich the academic literature and, at the same time, offer practical solutions to regulators and corporate boards in Palestine to strengthen governance, transparency, and investor confidence. Although numerous international and European studies have established that high-quality audits positively influence financial performance (e.g., DeFond and Zhang, 2014; Francis, 2011), other studies have found either adverse or negligible effects (e.g., Krishnan, 2005). The observation of this inconsistency, commonly referred to as mixed results, suggests that the connection between audit quality and financial performance is not yet as definitive in the literature. These conflicting results justify the introduction of a moderator, as it may represent the hidden factor that determines the nature of this relationship.

On the other hand, according to Baron and Kenny (1986), when a direct relationship is inconclusive, it can be inferred that other hidden or intervening variables may affect the outcome; thus, these should be examined as potential moderators. Here, the quality of the audit committee is presented as a possible moderating variable, suggesting that it may reinforce, undermine, or otherwise influence the impact of audit quality on financial performance through oversight, auditor independence, and the strengthening of governance mechanisms.

It is crucial to study this moderating role in the case of emerging markets, such as Palestine, where the practice of corporate governance is still evolving, and institutional elements can either amplify or mitigate the effects of audit quality on firm performance.

### 1.3 Study Questions

The study has two main questions. The first examines the direct relationship between audit quality and financial performance.

1- Does audit quality affect the financial performance of companies listed on the Palestine Exchange (PEX)?

The second investigates the moderating role of board characteristics in this relationship, from which four research questions are formulated.

2- Do Audit Committee characteristics moderate the relationship between Audit quality and financial performance?

2.1 Does Audit Committee independence moderate the relationship between Audit Committee quality and financial performance?

2.2 Do Audit Committee financial experts moderate the relationship between Audit Committee quality and financial performance?

2.3 Does Audit Committee size moderate the relationship between Audit Committee quality and financial performance?

2.4 Do Audit Committee meetings moderate the relationship between Audit Committee quality and financial performance?

## **1.4 Aim of the study**

1. To examine the effect of audit quality on the financial performance of companies listed on the Palestine Exchange (PEX).
2. To identify the role of Audit Committee characteristics in moderating the relationship between Audit Committee quality and financial performance.
  - 2.1 To identify the role of Audit Committee independence in moderating the relationship between Audit Committee quality and financial performance.
  - 2.2 To explore the role of Audit Committee financial experts in moderating the relationship between Audit Committee quality and financial performance.
  - 2.3 To examine the effect of Audit Committee size in moderating the relationship between Audit Committee quality and financial performance.
  - 2.4 To investigate the effect of Audit Committee meetings in moderating the relationship between Audit Committee quality and financial performance

## **1.5 Significance of the study**

### **1.5.1 Practical Significance**

The research has significant practical implications for the different stakeholders in the Palestinian context. Regulators and policymakers may use the findings to advise the Palestine Capital Market Authority and other supervisory authorities on strengthening governance structures, enhancing audit committee policies, and imposing stricter disclosure policies, which would help provide more protection to investors and promote market stability. For companies listed on the Palestine Exchange (PEX), the findings will enlighten corporate boards and audit committees on how audit quality and audit committee attributes, such as independence, size, expertise, and frequency of meetings, can contribute to enhanced financial performance and credibility.

Investors and shareholders will also gain a better understanding of the governance mechanisms, which will add transparency and improve performance, enabling them to make more informed investment decisions and build greater confidence in PEX-listed companies. Additionally, the study's findings can be utilized by external auditors and practitioners to enhance collaboration with audit committees, ensure independence, and improve audit quality, thereby fostering accountability and increasing trust in financial reporting. Overall, the research provides practical recommendations that enhance governance, transparency, and investor trust in Palestinian listed companies.

### **1.5.2 Theoretical Significance**

This study has significant theoretical implications for the academic literature in several ways. To start with, it fills a significant gap in research, as it presents empirical data in Palestine, where the linkage between audit quality and financial performance has been largely overlooked, despite its extensive coverage in developed and emerging economies. Second, it contributes to the development of the corporate governance theory by focusing not only on the direct impact of the quality of the audit on the performance of the firm but also analyzing how the nature of the audit committee, particularly its independence, financial expertise, size, and regularity of meetings, contributes to the occurrence of this relationship. Third, the research combines agency theory and stakeholder theory to underscore how audit quality and governance structure mitigate agency conflicts, monitor, and enhance accountability not only to shareholders but also to a broader group of stakeholders. Lastly, the research offers contextual richness, as the analysis is framed against the Palestinian market, which is highly unstable politically and economically, providing a rare insight into how audit practices operate in emerging and conflict-ridden settings. Overall, the study contributes to theoretical knowledge by explaining the relationship between audit quality, audit committee performance, and financial performance, and by identifying the institutional peculiarities of an emerging economy.

### **1.6 Scope of the study**

This paper is limited to companies listed on the Palestine Exchange (PEX). Specifically, it focuses on the financial industry, comprising banks, insurance firms, and investment firms, as they form the backbone of the Palestinian economy and are among the most regulated and transparent industries in terms of reporting and governance practices. The research was conducted between 2019 and 2024, a period purposefully selected to encompass the latest financial and governance trends in the context of high-level political and economic instability. The COVID-19 pandemic

and its effects on financial performance, investor confidence, and the contribution of governance mechanisms in emerging markets also fall within this timeframe, as the effects were overwhelming. The study focuses its attention on Palestine, a relatively underexplored context in which corporate governance systems are undergoing a phase of transition and corporations are confronted by a unique set of challenges, including political risk, economic instability, and weak enforcement structures.

This makes the scope contextually, as well as temporally relevant, and thus the results will capture the reality of financial reporting and governance within a fragile and emerging market context.

## 1.7 Definition of terms

To conduct this study, the following key terms are defined as follows:

In addition, **the quality of audits conducted by an auditor must meet the requirements of international auditing standards. Consequently, the financial statements should be free of material misstatements and accurately reflect the company's financial status.**

- **Audit Committee Quality:** How the audit committee is functioning in the role of conducting its oversight, based on its characteristics, which include independence, financial expertise, size, and frequency of meetings.
- **Independence of the audit committee:** The degree to which the audit committee members are not under the influence of the management and free of conflicts of interest so that they can objectively control the financial reporting and audit process.

- **Audit Committee Financial Experts:** Audit committee members who possess specialized information on accounting, finance, or auditing, and as such, improve the quality of the monitoring of financial reporting by the audit committee.
- **Audit Committee Size:** The size of the audit committee in terms of the number of members can affect its effectiveness, because having a diverse range of perspectives and spreading workloads may enhance the performance of the audit committee.
- **Audit Committee Meetings:** How often the audit committee meets to discuss financial reports, deal with auditors, and supervise compliance and governance practices.
- **Financial Performance:** profitability and financial health of a firm, which is usually measured based on financial indicators like Return on Assets (ROA).

## 1.8 Organization of the study

This thesis is organized into five chapters. Chapter One introduces the study, presenting the background, problem statement, research questions, aims, significance, scope, and key definitions. Chapter Two reviews the relevant literature on audit quality, audit committee characteristics, corporate governance, and financial performance, while also discussing the theoretical frameworks of agency theory and stakeholder theory, and developing the research model and hypotheses. Chapter Three outlines the research methodology, encompassing the research design, sample selection, data sources, variable measurement, and statistical techniques employed to test the hypotheses. Chapter Four presents the data analysis and results, including descriptive statistics, correlation analysis, regression models, and hypothesis testing, followed by interpretation. Finally, Chapter Five provides the discussion and conclusion, summarizing the main findings, highlighting implications for theory and practice, acknowledging study limitations, and offering recommendations for policymakers, practitioners, and future research.

## **Chapter 2 Theoretical Framework and Hypothesis Development**

### **2.1 Introduction**

The chapter reviews previous studies on audit quality, firm performance, and audit committee characteristics in order to establish a robust conceptual and theoretical foundation for the research. It articulates how these variables have been identified, measured, and correlated in prior literature, particularly within the context of the Palestine Exchange (PEX) and other emerging markets. Furthermore, this chapter introduces the concept of firm performance alongside its principal financial and market indicators and discusses how audit quality fosters increased transparency and governance. It also examines characteristics of the audit committee, such as independence, financial expertise, size, and meeting frequency, as essential mechanisms that enhance audit quality and subsequently improve the firm's performance.

Two theories, namely Agency Theory and Resource Dependence Theory, serve as the foundational frameworks for this review. The former underscores the monitoring function of audits and audit committees, while the latter regards the expertise and independence of audit committees as critical resources that contribute to improved decision-making and organizational performance.

Finally, the chapter reviews the empirical literature in Palestine and other regions to identify similarities, differences, and gaps in the existing body of research. This comprehension underpins the development of research hypotheses, which subsequently guide the later stages of the study.

## **2.2 Conceptual Background**

### **2.2.1 Firm Performance**

The performance of the firm constitutes a significant indicator of the success of the company's operations, financial performance, and stakeholder value. It reflects the utilization of resources by the firm to achieve its objectives. Financial metrics are the most prevalent measures of performance, including Return on Assets (ROA), Return on Equity (ROE), Tobin's Q, and Earnings per Share (EPS) (Nguyen & Nguyen, 2024).

Recent research emphasizes that financial performance depends not only on internal factors such as efficiency and innovation but also on external governance mechanisms, including audit quality and corporate oversight (Alqatamin & Alqatamin, 2024). Corporate performance is a critical determinant of sustainability, transparency, and investor confidence in emerging economies (Musallam, 2020).

Return on Assets (ROA) is employed in this study to assess a firm's performance, as it encapsulates both profitability and asset efficiency in generating earnings. Historically, ROA has been a reliable indicator of financial performance and has been extensively utilized in the academic literature (Karim et al., 2024).

### **2.2.2 Audit Quality**

Audit quality pertains to the extent to which an audit accurately identifies and documents material misstatements in a company's financial statements (Francis, 2011). It encompasses technical competence, independence, adherence to international standards of auditing, and compliance with ethical standards by the auditor. High audit quality ensures that financial statements present a true and fair view of the company's financial position, thereby fostering stakeholder confidence and reducing information asymmetry (DeFond & Zhang, 2014). Recent

studies (Ikhsan et al., 2024; Nguyen & Nguyen, 2024) indicate that audit quality significantly influences firm performance by minimizing earnings management, enhancing financial transparency, and facilitating smoother decision-making processes. However, other researchers argue that this relationship is context-dependent and may vary across different institutional environments, particularly in emerging markets such as Palestine, where governance tools and systems are still in development.

### **2.2.3 Audit Committee Characteristics**

Audit committees are one of the core pillars of corporate governance that provide transparency, accountability, and reliability of financial reporting. They serve as a crucial connection point among the board of directors, management, and external auditors and help to efficiently conduct the financial reporting process and internal control environment of the company. The structure and certain qualities of an audit committee, including independence, financial knowledge, size, and frequency of meetings, are significant determinants of the efficiency of the audit committee, which should be able to check on the management and protect the interests of the shareholders.

Empirical research underscores the significance of these characteristics in influencing corporate performance, particularly within emerging markets where governance frameworks are still in the process of development. Fariha et al. (2021) demonstrated that audit committee attributes, notably independence and financial expertise, are crucial in enhancing corporate performance through improved oversight and reduced agency costs. Similarly, Zraiq and Fadzil (2018), in their study conducted in Jordan, provided evidence indicating that well-structured and operational audit committees positively affect firm profitability and efficiency. They also observed that a practical audit committee framework contributes to improved decision-making and oversight effectiveness. Collectively, these findings suggest that when audit committees possess an appropriate

combination of independence, expertise, adequate size, and regular responsibilities, they reinforce financial control and amplify the positive influence of external audits on firm performance.

The importance of the audit committee is particularly emphasized in emerging economies, where institutional enforcement and investor protections might be inadequate. Independence and expertise are essential for addressing governance shortcomings by ensuring that external auditors maintain objectivity and that financial statements faithfully represent the company's circumstances. Consequently, the structure and functioning of the audit committee go beyond mere procedural governance requirements, acting as crucial elements that impact the quality of auditing and corporate performance.

#### **2.2.3.1 Audit Committee Independence**

Audit committee independence pertains to the extent to which its members are free from managerial influence and personal or financial ties that could compromise their objectivity. Typically composed of non-executive members, they are devoid of financial or audit decision-making conflicts or biases. Their independence facilitates the challenging of management decisions, the objectivity of financial judgments, and safeguards against external auditor opinions being swayed by management. According to Saleh and Mansour (2024), independence enhances auditor autonomy, transparency, and the credibility of financial statements.

The significance of independence is founded on its capacity to improve effective supervision and safeguard shareholders' interests. Independent audit committees are less likely to be unduly influenced in uncovering irregularities, enforcing ethical standards, and ensuring compliance with

regulatory guidelines. This assertion is supported by empirical evidence; for instance, Karim et al. (2024) have identified a positive correlation between committee independence and firm performance, as independent committees strengthen monitoring mechanisms, accountability, and the overall quality of governance. In essence, independence signifies that the audit committee can perform its supervisory functions without bias, thus serving as a crucial safeguard for the integrity of the audit process and financial stability.

#### **2.2.3.2 Audit Committee Financial Expertise**

Financial expertise: This pertains to members possessing professional qualifications, experience, or knowledge in accounting, finance, or auditing. An appropriate level of expertise equips the committee to interpret complex financial statements, assess risk exposures, and communicate effectively with external auditors. Members with financial backgrounds are capable of identifying anomalies, challenging management's accounting decisions, and ensuring that audit outcomes are properly addressed. According to Alqatamin and Alqatamin (2024), the inclusion of financially skilled individuals enhances the technical capacity of the committee and facilitates more informed decision-making.

Financial expertise encompasses more than mere technical skills and has been demonstrated to enhance the quality of audits as well as investor confidence. Research conducted by Musallam (2020) and Ikhsan et al. (2024) indicates that the effectiveness of audit committees comprising financial experts is superior, particularly in their capacity to detect earnings manipulation, improve internal controls, and establish transparent disclosure practices. This, in turn, reduces information asymmetry between management and shareholders and contributes to improved financial performance. Therefore, financial knowledge is not merely a ritual but a practical necessity to

ensure that audit committees fulfill their essential roles of monitoring and advising the organization.

### **2.2.3.3 Audit Committee Size**

An audit committee consists of members responsible for overseeing audit and financial activities, as evidenced by the size of the committee. The committee's size may influence its effectiveness in fulfilling oversight responsibilities. A larger audit committee can offer a broader spectrum of perspectives, diverse expertise, and shared workload among members, thereby enhancing the depth and quality of discussions. With multiple viewpoints and skills, more comprehensive evaluations of audit issues can be achieved, ultimately improving the quality of decisions, as suggested by Nguyen and Nguyen (2024).

The size of the committee, however, presents a dual effect. Smaller committees may lack the necessary diversity and capacity to manage workload effectively, whereas excessively large committees can become inefficient, encounter coordination issues, and experience delays in decision-making. Consequently, the relationship between committee size and firm performance is not linear; moderately sized committees tend to yield the most favorable results. An appropriate committee size enhances the significance of specialization and efficiency, as well as the ability to communicate, participate, and be held accountable by members. Therefore, it is crucial to determine the optimal number of audit committee members in a manner that promotes high-quality governance and effective oversight.

### **2.2.3.4 Audit Committee Meeting Frequency**

Meeting frequency pertains to the interval at which the audit committee convenes to review financial statements, evaluate internal control effectiveness, and engage with auditors. Regular meetings exemplify the committee's proactive engagement and commitment to overseeing the

company's financial health and risk management continuously. According to Taleb (2024), frequent meetings facilitate members in staying informed about operational progress, identifying potential issues promptly, and ensuring that management responds promptly to auditors' recommendations.

High-quality reporting and stringent control measures have been associated with frequent audit committee meetings, although their impact on performance appears to be context-dependent. While some studies have identified a positive correlation between meeting frequency and financial reporting performance, Karim et al. (2024) observe a negative relationship between meeting frequency and firm performance in Bangladeshi banks, potentially attributable to congestion costs or the likelihood that committees convene more frequently due to underlying issues. Collectively, these findings suggest a nonlinear relationship: increasing meeting frequency from infrequent to moderately regular intervals can enhance audit quality and governance; however, excessively high meeting frequency may be linked to diminished performance. Accordingly, we consider meeting frequency as a moderating variable that can strengthen the AQFRQ channel and exert a neutral influence on AQFP, provided it remains within an optimal range.

## **2.3 Theoretical Framework**

Two primary theories explain the connection between audit quality, audit committee features, and company performance:

### **2.3.1 Agency Theory**

The agency theory (Jensen & Meckling, 1976) posits that increased monitoring reduces agency costs and diminishes information asymmetry. Within the scope of this study, the monitoring mechanism that regulates earnings management and enhances report credibility is high audit

quality (AQ), which, in turn, should lead to improved firm performance (FP). This relationship is corroborated by recent empirical research conducted in emerging markets: in Jordan, factors such as auditor size, specialization, and tenure are positively associated with ROA, ROE, and EPS, thereby indicating a performance advantage derived from enhanced auditing practices.

Monitoring performance, however, depends on governance arrangements concerning the audit. Research indicates that when audit committees (ACs) are operational, audit reports are more timely and decision-relevant (e.g., reduced audit report lag, which influences market valuation), demonstrating that governance can enhance the flow of audit evidence into the valuation process and outcomes (Indonesia evidence) (Corporate governance - audit report lag study, 2025).

Complementary findings show that AC effectiveness is linked to higher AQ and lower earnings management, aligning with the agency theory prediction that increased oversight improves audit discipline (intercountry evidence) (Bawuah, 2024).

A recent discovery in Palestine indicates that the reporting of Key Audit Matters (KAMs), a visible indicator of audit quality, is influenced by the characteristics of the Audit Committee (AC) and the audit firm. This finding implies that improved governance over audit practices contributes to more informative reporting, which in turn serves as a precursor to enhanced market evaluations and performance. (Joudeh & Aqel, 2024).

Implication for this study: Agency theory anticipates a positive relationship between AQ and FP. Specifically, since ACs increase monitoring, higher-quality ACs (characterized by independence, expertise, size, and frequency of meetings) will strengthen the AQ-FP relationship by safeguarding auditor independence and ensuring strict compliance with audit findings.

### 2.3.2 Resource Dependence Theory

Resource Dependence Theory (Pfeffer & Salancik, 1978) conceptualizes boards and committees as providers of essential resources—expertise, legitimacy, and external linkages—that organizations require to gather and process information. In our model, a high-quality Audit Committee (AC) provides accounting and auditing expertise, legitimacy with auditors and regulators, and the capacity to act on audit evidence, thereby transforming Audit Quality (AQ) into actionable governance that can enhance Financial Performance (FP). Recent research explicitly examines AC leadership and effectiveness through Resource Dependence Theory (RDT) and finds that more effective AC chairs are associated with improved firm performance, supporting the notion that governance bodies supply valuable external resources.

Evidence, from a meta-analytic or cross-market perspective consistent with Resource Dependence Theory (RDT), indicates that providing higher quality reporting and disclosure—primarily driven by external auditing and audit committees—reduces information asymmetry and leads to improved market outcomes and performance. Enhanced attributes of audit committees are correlated with higher financial reporting quality (FRQ) in emerging-market contexts (Alqatamin & Alqatamin, 2024), more comprehensive and decision-useful audit disclosures (KAMs) (Joudeh & Aqel, 2024), and the pertinence of sustainability disclosures that facilitate the transfer of governance capacity into the firm's performance (Alodat et al., 2023).

At the committee-design level, financial expertise and adequate size are associated with diminished constraints on earnings management and the enhancement of reporting mechanisms—methods through which audit signals are transformed into actionable and performance-related signals. Evidence from Palestine and adjacent markets demonstrates that the effectiveness of audit committees, including expertise and size, correlates with increased organizational performance

and reduced manipulation (Musallam, 2020). Furthermore, these factors interact with ownership structures in shaping earnings management strategies (Saleh & Mansour, 2024) and augment Financial Reporting Quality (FRQ) when committees are adequately resourced and possess higher technical qualifications (Alqatamin & Alqatamin, 2024). Additionally, findings from Bangladesh suggest that independence and size are associated with improved performance, which may support the resource-provision mechanism emphasized by the Resource Dependence Theory (RDT) (Karim et al., 2024).

Implication for this study: According to the Resource Dependence Theory (RDT), the quality of External Assurance (AC) functions as a moderator, enhancing the transformation of Assurance Quality (AQ) into Financial Performance (FP) by providing expertise, legitimacy, and connections that increase the usability of audit findings. This effect is corroborated by regional evidence and is supported by recent studies focusing on performance and reporting quality.

## **2.4 Empirical Literature Review**

### **2.4.1 Audit Quality and Firm Performance**

Research findings regarding the influence of audit quality (AQ) on firm performance (FP) exhibit varying degrees of consistency across different markets and temporal horizons. In the context of an emerging market, as demonstrated by Nguyen and Nguyen (2024), audit quality—evaluated through Big Four affiliation and governance capacity—has been shown to improve profitability and market valuation for listed Vietnamese firms, thereby supporting the information-asymmetry reduction channel. Their panel analysis indicates that the anticipated ROA/ROE gains are economically meaningful when AQ is high.

McGowan (2024) explores the advancements within Palestine by analyzing the pathways from auditing to performance through the lens of reporting quality. Regarding the mediating role of audit quality—measured by metrics such as audit fees or auditor size—in the relationship between audit committee effectiveness and earnings management in PEX firms, Taleb (2024) suggests that higher audit quality is associated with reduced earnings management. This association, in turn, reinforces the absence of opportunism in reporting and indicates a hierarchy of transparency that may be pertinent to FP. Consequently, although earnings management remains Taleb's primary outcome variable, the underlying pathway indicates that audit quality enhances the financial information available to investors and boards.

Evidence from the sectoral context of Palestinian banks (2024) on audit quality factors, including the association of the Big Four or audit fees with lower earnings management, further supports the view that audit quality (AQ) enhances perceptions of effective controls. This, in turn, adds credibility and transparency to financial statements, which are essential but not solely sufficient for improving performance. The findings in this body of literature reaffirm the role of audit quality in enhancing performance through the reduction of manipulation.

However, not all studies consistently observe positive performance outcomes. In other industries and emerging contexts, AQ-FP links are often not statistically significant or depend on specific circumstances to be relevant. These findings indicate that contextual factors and governance structures may influence the returns on investments in high-quality audits. Such variations prompt further investigation into moderators that could amplify or diminish AQ's effects on FP.

2.4.2.1 Moderating Role of Audit Committee Characteristics.

#### **2.4.2.1 Audit Committee Independence**

Empirical research indicates that the independence of the audit committee is a crucial factor in enhancing corporate governance and attaining favorable firm outcomes. Independent audit committees—defined as those composed of members free from management influence and economic ties—are more effective in fostering objective oversight of external audit engagements, thereby increasing the reliability of financial reports. In markets such as the PEX and comparable contexts, independence enables an audit committee to transform high-quality audits into decision-useful information, ultimately leading to improved firm performance. Furthermore, independent members support auditor independence, mitigate management encroachment, and promote greater transparency—collectively contributing to the production of more credible financial statements.

Recent regional studies support these findings. For example, Al-Jalahma (2022) highlighted the importance of independence within audit committees, noting that autonomous audit committees at listed companies in Bahrain notably positively impacted firm performance—especially when they were supported and empowered to oversee internal and external audits without executive interference. The research showed that independent audit committees improve governance effectiveness, increase investor confidence, and boost profitability and firm valuation. Similarly, Al Farooque, Buachoom, and Sun (2019) found that the independence of boards and audit committees influences financial performance by improving monitoring quality and accountability, based on research in Thailand. Evidence from Palestine and other emerging markets suggests that independence is a key mechanism for reducing the impact of audit quality on firm performance.

Since independence protects governance and moderates the relationship between audit quality and corporate performance, it acts as a safeguard for auditing. It defends auditors against managerial pressures often faced by accountants and internal teams, ensuring that auditors prioritize the interests of shareholders. Essentially, independent audit committees promote

enhanced collaboration with external auditors by improving audit quality, which in turn reinforces the connection between audit quality and financial performance.

#### **2.4.2.2 Audit Committee Financial Expertise**

Financial expertise is a crucial attribute of an effective audit committee because it provides members with both the technical knowledge and professional judgment needed to oversee complex accounting and auditing issues. Members with backgrounds in accounting, finance, or auditing are better at interpreting financial statements, evaluating audit results, and communicating effectively with management and external auditors. This expertise also strengthens the committee's ability to identify irregularities, scrutinize management decisions, and ensure transparency and compliance in financial reporting. Research conducted in developing markets, including Palestine, shows that financial expertise improves the effectiveness of audit committees by reducing earnings management and increasing audit quality.

Empirical evidence from various regional contexts corroborates the importance of financial expertise and its essential role in enhancing corporate outcomes. Al Lawati and Hussainey (2021) demonstrated that the presence of audit committee members possessing financial expertise contributes to the improvement of corporate financial decision-making quality, as these members provide superior oversight of risk management and offer more informed perspectives on audit-related matters. Furthermore, Chaudhry, Roomi, and Aftab (2020) identified that the expertise of audit committee chairs has a direct and positive influence on firm performance, suggesting that capable leadership enhances governance and strategic decision-making within the committee. Similarly, Alqatamin and Alqatamin (2024) observed that audit committees characterized by

greater financial expertise and increased meeting frequency demonstrate higher levels of financial reporting quality and improved monitoring capabilities.

Overall, the studies show that financial expertise is a legitimizing trait and a crucial moderating factor that strengthens the link between audit quality and corporate performance. By giving audit committees the necessary knowledge to accurately interpret audit signals and adjust their governance actions accordingly, financial expertise helps unlock the full potential of auditing to improve performance based on audit insights.

#### **2.4.2.3 Audit Committee Size**

The size of the audit committee is a critical structural attribute that significantly impacts its overall effectiveness and capacity for oversight. A larger audit committee potentially incorporates a wider range of expertise, diverse perspectives, and professional experience, augmenting deliberations and monitoring activities' quality. Regarding Palestinian listed companies, Musallam (2020) noted that larger audit committees generally achieved superior financial performance, as increased membership allowed for workload distribution, reduced oversight gaps, and enhanced decision-making quality. These findings align with a broader body of international research indicating that an optimal group size fosters cognitive diversity and improves governance outcomes.

Similarly, Zhou, Owusu-Ansah, and Maggina (2018) examined Greek publicly traded companies and found that the audit committee size is positively and significantly linked to firm performance, especially when committee members have complementary expertise and are actively involved in governance. They suggest that having an adequate number of members improves information sharing, increasing the audit committee's ability to handle complex audit and financial

issues. However, the advantages of committee size are not limitless. Altin (2024), through evidence from multiple countries in a meta-analysis, observed that small improvements in committee size generally support better financial oversight and audit quality, while also recognizing the risks of overly large audit committees, such as coordination problems, accountability concerns, and decision-making delays when the committee becomes too large.

Consequently, the relationship between the size of the audit committee and firm performance seems to be non-linear: performance improves up to a certain point as committee size increases, then further increases result in reduced effectiveness and a decline in performance. As a moderating factor, slightly larger audit committees may strengthen the link between audit quality and firm performance by boosting their oversight capabilities. Additionally, spreading monitoring responsibilities among more members might enhance the overall effectiveness of the audit committee's oversight. However, as more members are added, the marginal benefit of including additional individuals is likely to decrease. Therefore, audit committees should aim to find an optimal balance between inclusiveness and operational efficiency.

#### **2.4.2.4 Audit Committee Meeting Frequency**

The frequency of meetings acts as a practical sign of the audit committee's level of oversight and involvement in governance activities. More frequent meetings indicate a proactive and attentive committee focused on financial reporting, risk management, and compliance. By meeting more often, members can regularly monitor the company's financial health, identify emerging risks, and ensure that both internal and external audit recommendations are properly followed. Thus, our emphasis on meeting frequency is based on its importance as a key indicator of the audit

committee's ability to maintain the integrity of the audit process and ultimately improve the company's overall performance.

This perspective is substantiated by evidence from the Middle East and North Africa. In a study conducted by Khudhair, Al-Zubaidi, and Raji (2019), the researchers observed that firms with more frequent audit committee meetings demonstrated higher quality in audit and governance processes. They asserted that increased meeting frequency facilitates greater opportunities for communication between auditors and directors, thereby enhancing transparency and expediting corrective measures. Furthermore, in an investigation of publicly traded companies in Bahrain, Al-Jalahma (2022) identified a positive and statistically significant correlation between the number of audit committee meetings and organizational performance. Al-Jalahma concluded that corporations with audit committees convening at least quarterly are better positioned for early detection of reporting irregularities, prompt resolution of audit issues, and fostering greater confidence among investors through enhanced disclosure practices.

Overall, these findings indicate that the frequency of meetings functions as a significant moderating variable in the relationship between audit quality and corporate performance. Regular meetings promote closer engagement of audit committees with both employees and auditors. Such frequency enhances information flow and strengthens monitoring mechanisms whereby audit quality contributes to improved financial outcomes. In essence, consistent and well-structured meetings enable audit committees to effectively execute their oversight responsibilities, ensuring that audit recommendations are implemented into actions that uphold governance and performance in a timely manner.

#### **2.4.2.5 Additional Interaction Evidence from Palestine**

Besides the immediate moderating effect of audit committee characteristics on firm performance, recent Palestinian studies offer additional evidence of interaction based on governance traits, which support the theoretical framework of this research. For example, Sleem (2024) examined how audit committee characteristics impact the level of voluntary disclosure among Palestine Exchange-listed companies and found that independence, expertise, and meeting frequency positively influence disclosure transparency. Likewise, Taleb (2024) explored the moderating role of audit quality in the relationship between audit committee traits and earnings management, concluding that audit quality acts as a key mediator through which effective audit committees enhance financial reporting reliability.

Furthermore, Madi et al. (2023) examined the synergistic effect of board and audit committee properties on financial performance and found that committees comprising independent and financially skilled members exert a substantial positive influence on corporate performance through the establishment of effective monitoring. Previously, Musallam (2020) also demonstrated that well-structured audit committees lead to improved financial and governance performance in Palestinian firms, emphasizing the importance of committee composition in creating value. Consistent with these findings, Saleh and Mansour (2024) further explained that foreign ownership mediates the relationship between audit committee busyness—measured by multiple directorships—and earnings management, highlighting how audit committee characteristics interact with other governance mechanisms to influence reporting outcomes.

Collectively, this evidence underscores the intricate role of audit committees within the Palestinian context. It demonstrates that their characteristics do not directly influence performance and reporting quality but rather interact dynamically with other governance factors. These findings highlight the significance of examining the audit committee's role as a moderator in the relationship between audit quality and firm performance among companies listed on the Palestine Exchange.

## **2.5 Hypotheses Development**

### **H1: Audit Quality → Firm Performance**

The preceding empirical studies present mixed findings regarding the direct correlation between audit quality (AQ) and firm performance (FP). Although the majority of research has identified a positive correlation, suggesting that high-quality audits enhance profitability, transparency, and market value (Nguyen & Nguyen, 2024; Taleb, 2024), some scholars have observed no significant relationship between the two variables, particularly within the context of emerging markets where institutional enforcement and market value-creating mechanisms remain underdeveloped. Agency Theory posits that successful audits mitigate information asymmetry and reduce agency costs, thereby increasing their utility in decision-making and fostering investor trust, which should consequently lead to improved performance.

Conversely, in environments characterized by weak institutional frameworks, research indicates that the benefits of audit quality may be diminished in cases of inadequate supervision or high associated costs. Additionally, Resource Dependence Theory suggests that enhancements in performance are attainable through increased audit quality, which provides the necessary expertise and legitimacy for auditors or audit committees to take appropriate actions on audit findings.

Combined, theory and empirical evidence indicate a positive correlation between audit quality and firm performance.

**H1:** There is a significant positive influence of audit quality on the performance of the firms.

## **H2: Moderating Role of Audit Committee Characteristics**

Empirical and theoretical investigations underscore that the independence, financial expertise, size, and meeting frequency of audit committees (ACs) can enhance the relationship between audit quality and corporate performance. Independent audit committees enable objective oversight and further strengthen auditor independence, thereby elevating the quality of financial reporting (Al-Jalahma, 2022; Al Farooque et al., 2020). Financial experts possess the technical acumen to interpret audit evidence and convert these insights into governance activities that foster transparency and profitability (Al Lawati & Hussainey, 2021; Chaudhry et al., 2020).

The optimal size of a committee can facilitate the inclusion of diverse perspectives and the distribution of responsibilities, thereby enhancing audit oversight without inducing coordination inefficiencies (Musallam, 2020; Zhou et al., 2018; Altin, 2024). Likewise, committees that convene with greater frequency tend to exhibit higher levels of engagement and more prompt resolution of audit issues, which ultimately contributes to improved audit quality and financial performance (Khudhair et al., 2019; Al-Jalahma, 2022). In accordance with Agency Theory, these attributes augment the effectiveness of monitoring; meanwhile, Resource Dependence Theory suggests that such attributes furnish the necessary expertise and legitimacy to translate audit insights into tangible firm-level benefits.

Accordingly, the following hypotheses are proposed:

### **Main Hypothesis**

#### **H2:**

Audit committee characteristics positively moderate the relationship between audit committee quality and financial performance.

### **Sub-Hypotheses**

#### **H2.1:**

Audit committee independence positively moderates the relationship between audit quality and financial performance.

#### **H2.2:**

Audit committee financial expertise positively moderates the relationship between audit committee quality and financial performance.

#### **H2.3:**

Audit committee size positively moderates the relationship between audit committee quality and financial performance.

#### **H2.4:**

Audit committee meeting frequency positively moderates the relationship between audit committee quality and financial performance.

## 2.6 Conclusion

The chapter offered a comprehensive overview of the fundamental concepts, theories, and empirical findings pertinent to audit quality (AQ), firm performance (FP), and the attributes of the audit committee (AC) within the context of companies listed on the Palestine Exchange (PEX). Firm performance was assessed through metrics of profitability and efficiency, specifically measured by Return on Assets (ROA). Audit quality was acknowledged as a vital governance mechanism that bolsters the credibility of financial reporting. The attributes of the audit committee—namely independence, financial expertise, size, and meeting frequency—were identified as essential factors that contribute to the enhancement of audit effectiveness.

Drawing upon Agency Theory and Resource Dependence Theory, the chapter is articulated, indicating that rigorous audits and effective governance structures mitigate agency issues, promote transparency, and enable efficient decision-making. The overall empirical evidence suggests a positive yet context-dependent relationship between Audit Quality (AQ) and Financial Performance (FP), wherein audit committees play a significant moderating role.

Five hypotheses were thus formulated: one which investigates whether the quality of auditing has a direct impact on the performance of firms (H1), and four which seek to establish whether AC independence, expertise, size, and frequency of meetings (H2a-H2d) serve as moderating factors in this relationship. The subsequent chapter elaborates on these insights by presenting the research design, variables, and methodology employed to empirically test these hypotheses within the Palestinian context.

## **Chapter 3 Research Methodology**

### **3.1 Introduction**

This chapter delineates the research methodology employed to examine the influence of Audit Quality (AQ) on Firm Performance (FP), as well as how the characteristics of the Audit Committee (AC)—including independence, financial expertise, size, and meeting frequency—mediate the relationships between Audit Quality and firm performance listed on the Palestine Exchange (PEX). The research adopts a quantitative, explanatory panel-data approach to quantify and analyse the hypothesized relationships discussed in preceding chapters. This methodology is consistent with empirical studies conducted in comparable emerging markets and aligns with theoretical frameworks grounded in Agency Theory and Resource Dependence Theory. Furthermore, this chapter elaborates on the research design, sample and population selection, data sources, variable measurement, model specification, estimation procedures, diagnostic tests, and robustness checks that substantiate the validity of the findings.

### **Data and Selection**

This research focuses on companies listed on the Palestine Exchange (PEX), particularly those operating in the financial sector, including banks, insurance companies, and investment firms. These sectors are chosen for their crucial role in the Palestinian economy and their regulation by the Palestine Capital Market Authority (PCMA) and the Palestinian Monetary Authority (PMA). Due to their substantial disclosure obligations, external audits, and audit committees, the financial sector provides a suitable context for examining the relationship between audit quality and financial outcomes, as well as the moderating effect of audit committees (Musallam, 2020;

Alqatamin & Alqatamin, 2024). Firms in this sector are governed by frameworks that require transparency, accountability, and compliance with international standards such as the International Financial Reporting Standards (IFRS) and the International Standards on Auditing (ISA) (Francis, 2011; DeFond & Zhang, 2014). External audit quality acts as a key verification mechanism, boosting the credibility of financial statements and reducing information asymmetry between management and shareholders (Francis & Yu, 2009). Furthermore, the audit committee, a core element of corporate governance, plays a vital role as a control body responsible for overseeing financial reporting quality, ensuring auditor independence, and ensuring compliance with regulatory standards (Li, Mangena, and Pike, 2012; Karim, Rahman, and Uddin, 2024).

The financial industry has been selected in accordance with the study's primary aim, as these entities possess relatively complex reporting systems and well-established audit committees. This provides an appropriate context to examine the moderating effect of audit committee quality. Audit committee attributes, such as independence, financial expertise, committee size, and meeting frequency, are critical factors influencing governance effectiveness. Empirical evidence indicates that these attributes affect the relationship between audit quality and firm performance (Zraiq & Fadzil, 2018; Al-Jalahma, 2022; Musallam, 2020).

The significance of external auditing and audit committees is particularly pronounced in Palestine, where the institutional and legal frameworks are underdeveloped. The establishment of robust audit committees ensures the effectiveness of the external audit process, enhances the internal control system, and contributes to improved financial outcomes (Taleb, 2024; Madi et al., 2023). Therefore, this study focuses on the financial sector to examine the relationship between audit quality and audit committee quality, which influence financial performance in a developing, regulated market environment.

This paper examines financial institutions listed on the Palestine Exchange (PEX) from 2019 to 2024, encompassing banks, investment companies, and insurance firms. These institutions form the core of the Palestinian financial sector, which is crucial for promoting economic growth, facilitating business financing, and maintaining overall financial stability. The selection of the financial sector is based on its status as the most regulated and transparent segment of the market, subject to stringent oversight by the Palestine Capital Market Authority (PCMA) and the Palestinian Monetary Authority (PMA).

The final sample of the study includes twenty-seven (27) organisations listed on the Palestine Exchange, representing the three main sectors of the Palestinian financial system. The sample consists of eight (8) banks, twelve (12) investment companies, and seven (7) insurance companies. This provides a comprehensive and balanced perspective on the financial sector in Palestine, encompassing the characteristics and governance practices of various types of financial institutions operating within the same regulatory and economic framework.

The selection was based on two primary criteria:

1. Availability of complete financial and governance information for the period from 2019 to 2024.
2. They needed to have been operating, meaning that no mergers, acquisitions, or closures took place during the course of the study.

Data were collected from audited annual reports and corporate governance disclosures, as well as from the official databases of the Palestine Exchange (PEX) and the Palestinian Monetary Authority (PMA). The data encompassed audit quality variables (auditor type, auditor tenure, and audit fees), audit committee quality variables (independence, financial expertise, committee size,

and number of meetings), and financial performance variables (return on assets (ROA)). Firm size and leverage were also included as control variables to enhance the robustness and reliability of the analysis.

All companies chosen for inclusion surpass the inclusion criteria to ensure the data collected is consistent, comprehensive, and representative of the financial sector in Palestine. Since the focus was on the financial sector, the sample was uniform in terms of its regulatory environment, reporting standards, and governance frameworks, enabling an accurate evaluation of the impact of audit quality on financial performance, as well as the moderating influence of audit committee quality on this relationship.

This study covers the years 2019–2024, which encompasses the most recent period of financial and governance development in the Palestinian market, characterized by enhanced disclosure requirements, a growing emphasis on the quality of external audits, and a strengthened role of audit committees in promoting corporate accountability and transparency.

Table (3.1) summarises the sample

<b>#</b>	<b>COMPANY NAME</b>	<b>SECTOR</b>
<b>1</b>	Bank of Palestine	Commercial Bank
<b>2</b>	Arab Islamic Bank	Non-Commercial Bank
<b>3</b>	Palestine Islamic Bank	Non-Commercial Bank
<b>4</b>	The National Bank	Commercial Bank
<b>5</b>	Al Quds Bank	Commercial Bank
<b>6</b>	Palestine Investment Bank	Commercial Bank

<b>7</b>	Safa Bank	Commercial Bank
<b>8</b>	Palestine Securities Exchange (PEX)	Financial Services
<b>9</b>	National Insurance Company	Insurance
<b>10</b>	Al Mashreq Insurance	Insurance
<b>11</b>	Al Takaful Palestinian Insurance	Insurance
<b>12</b>	Al Ahlia Insurance Group	Insurance
<b>13</b>	Al Alamiya United Insurance	Insurance
<b>14</b>	Palestine Insurance Company	Insurance
<b>15</b>	Tamkeen Palestinian Insurance	Insurance
<b>16</b>	Palestine Development & Investment Co. (PADICO)	Investment
<b>17</b>	Union Construction and Investment Co.	Investment
<b>18</b>	Arab Palestinian Investment Company (APIC)	Investment
<b>19</b>	Palestine Industrial Investment Co.	Investment
<b>20</b>	Palestine Investment & Development Co.	Investment
<b>21</b>	Arab Investors Co.	Investment
<b>22</b>	Jerusalem Real Estate Investment Co.	Investment
<b>23</b>	Al Aqaria Commercial Investment Co.	Investment
<b>24</b>	Palestine Real Estate Investment Co.	Investment
<b>25</b>	Arkaan Real Estate Co.	Investment
<b>26</b>	SANAD Construction Resources Co.	Investment
<b>27</b>	AMLAK Real Estate & Trade Co.	Investment

### **3.3 Measurement of the Variables**

#### **3.3.1 Dependent Variable: Financial Performance**

The effectiveness of companies listed on the Palestine Exchange (PEX) is evaluated using the Return on Assets (ROA) metric, which indicates a firm's ability to generate earnings from its total assets. In governance and accounting research, the ROA is regarded as a reliable indicator of managerial efficiency and profitability, as it reflects both operational effectiveness and resource utilisation efficiency within financial institutions (Musallam, 2020; Karim et al., 2024).

#### **3.3.2 Independent Variable: Audit Quality**

Audit quality refers to the extent to which material misstatements in the financial statements are identified and reported by external auditors. It is measured using two proxies that are commonly employed in prior research on PEX and similar emerging markets (Taleb, 2024). This study focusing on Auditor Type (Big Four vs. Non-Big Four): This is a dummy variable, with 1 indicating the company is audited by a Big Four firm (PwC, Deloitte, EY or KPMG) and 0 indicating otherwise (Taleb, 2024).

#### **3.3.3 Moderating Variable: Audit Committee Quality**

The operationalization of the audit committee's quality is predicated upon four characteristics, which are quantifiable and frequently referenced in Palestinian and regional scholarly literature as indicators of the robustness of oversight and the effectiveness of governance.

##### **1. Audit Committee Independence (ACIND):**

This is a ratio of independent, non-executive members of the audit committee to the total audit committee members. Increased autonomy implies enhanced supervision and diminished control by the manager (Zraiq & Fadzil, 2018)

## **2. Audit Committee financial expertise (ACEXP):**

This measures the proportion of audit committee members who are professionals in accounting, finance, or auditing. These skills enable the committee to analyse audit results and ensure the accuracy of financial reports (Musallam, 2020)

## **3. Audit Committee Size (ACSIZE):**

This is defined as the total number of members of the audit committee, or the number of members who can provide adequate coverage and offer diverse perspectives within the committee (Karim et al., 2024).

## **4. Frequency of Audit Committee Meeting (ACMEET):**

This measures the number of meetings held by the audit committee within a given fiscal year. Frequent meetings indicate active involvement in governance and proficiency in liaising with external auditors (Madi et al, 2023).

Table (3.2) variable measurement

Variable	Variable Symbol	Measurement Method	Common References
Financial Performance	ROA	Net Income ÷ Total Assets	Musallam (2020); Karim et al. (2024)
Audit Quality	AQ	Big Four dummy + Audit Fees	Francis & Yu (2009); Taleb (2024)
Audit Committee Independence	ACIND	Independent Members ÷ Total Members	Zraiq & Fadzil (2018)
Audit Committee Expertise	ACEXP	Financially Qualified /Members ÷ Total Members	Musallam (2020)
Audit Committee Size	ACSIZE	Number of Members	Karim et al. (2024)
Audit Committee Meetings	ACMEET	Number of Meetings per Year	Li et al. (2012); Madi et al. (2023)

### 3.3.4 Study Models

This study presents five statistical models. The first model examines the direct relationship between audit quality and ROA. The other models represent the moderating role of each audit board characteristic in the relationship between audit quality and ROA. These are as follows:

#### Model 1: Direct Relationship

$$ROA_{it} = \beta_0 + \beta_1 AQ_{it} + \beta_2 Controls_{it} + \mu_i + \varepsilon_{it}$$

#### Model 2: Moderation by AC Independence (ACIND)

$$ROA_{it} = \beta_0 + \beta_1 AQ_{it} + \beta_2 ACIND_{it} + \beta_3 (AQ_{it} \times ACIND_{it}) + \beta_4 Controls_{it} + \mu_i + \varepsilon_{it}$$

#### Model 3: Moderation by AC Expertise (ACEXP)

$$ROA_{it} = \beta_0 + \beta_1 AQ_{it} + \beta_2 ACEXP_{it} + \beta_3 (AQ_{it} \times ACEXP_{it}) + \beta_4 Controls_{it} + \mu_i + \varepsilon_{it}$$

#### Model 4: Moderation by AC Size (ACSIZE)

$$ROA_{it} = \beta_0 + \beta_1 AQ_{it} + \beta_2 ACSIZE_{it} + \beta_3 (AQ_{it} \times ACSIZE_{it}) + \beta_4 Controls_{it} + \mu_i + \varepsilon_{it}$$

**Model 5: Moderation by AC Meeting Frequency (ACMEET)**

$$\text{ROA}_{it} = \beta_0 + \beta_1 \text{AQ}_{it} + \beta_2 \text{ACMEET}_{it} + \beta_3 (\text{AQ}_{it} \times \text{ACMEET}_{it}) + \beta_4 \text{Controls}_{it} + \mu_i + \varepsilon_{it}$$

**Notes:**

- $\mu_i$  represents firm-specific fixed effects.
- $\varepsilon_{it}$  is the idiosyncratic error term.
- Controls include firm-level control variables, which are Firm Size (FSIZE) and Leverage (LEV).

## Chapter 4 Finding and Discussion

### 4.1 Introduction

The analytical approach taken by the study due to its quantitative orientation is a descriptive one and it is utilized in testing the hypothesis of the impact of quality of audit on the financial performance of companies that are listed on the Palestinian Stock Exchange between years 2019 and 2024. The major sources of the secondary data include annual financial reports and corporate governance reports, which are the basis of the analysis. Statistical tests were performed to assess the positive or negative relationship between audit quality and financial outcomes, and this would make it possible to test the hypothesis, as well as obtain a full picture of the findings.

#### Table 1 illustrates the distribution of the study sample:

Table (1): Distribution of the Study Sample (n = 27)

No.	Sector	Number of Companies	Sample Companies	Company Excluded from the Study
1	<b>Banking and Financial Institutions</b>	<b>8</b>	<b>8</b>	
2	<b>Investment Companies</b>	<b>12</b>	<b>12</b>	
4	<b>Insurance Companies</b>	<b>8</b>	<b>7</b>	<b>Trust International Insurance Company</b>
<b>Total</b>		<b>28</b>	<b>27</b>	<b>1</b>

*Source: Prepared by the researcher based on the Palestine Exchange website (2025).*

This study covers a sample of 27 companies listed on the Palestine Exchange, operating in the financial, financial services, and investment sectors. The analysis covers the period from 2019 to

2024. Based on this, the theoretical sample size is 162 company years, calculated by multiplying the number of companies (27) by the number of years (6).

No missing or incomplete data were found, which lead to the exclusion of any records for company years, and all observations met the data availability criteria. As a result, 162 annual observations were used as the final analytical sample. Table 3.2 shows the theoretical sample size, the number of excluded observations, and the final sample used in the empirical analysis.

Table (4.1): Selection of the Study Sample

Theoretical sample size (27 companies × 6 years)	162
(Less) observations with missing data	0
Final sample	162

The study model, as shown in the following figure, depicts the dependent variable, independent variable, moderating variables, and, lastly, the control variables, namely firm size and Financial Leverage.

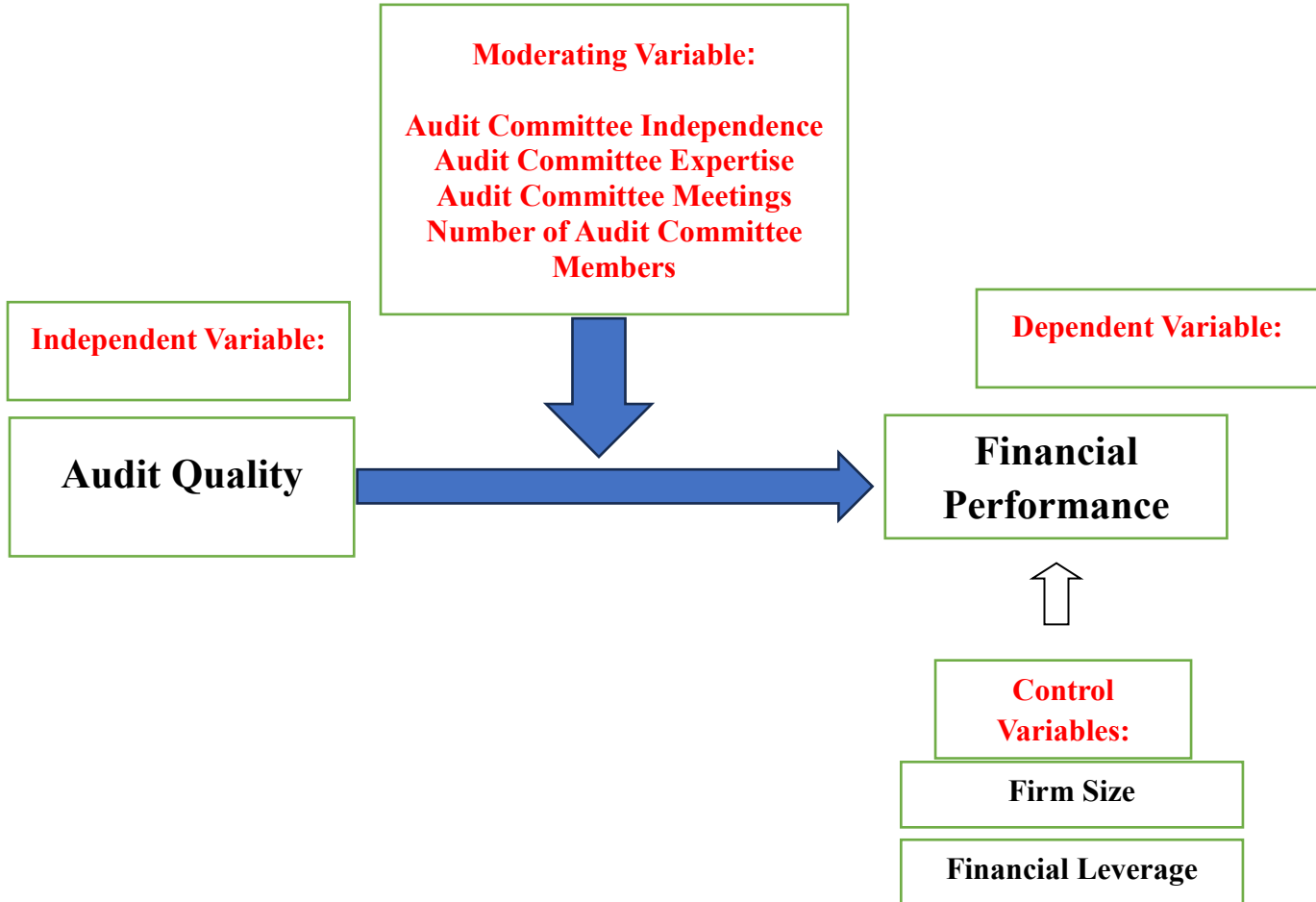


Figure 1: Study Model

## 4.2 Procedures in the study

When calculating the study variables, the researcher used the steps outlined below:

1. Gathering financial data from the financial statements of firms listed on the Palestine Exchange in finance, financial services, and investment from 2019 to 2024.
2. Create a table listing independent, dependent, moderating, and control variables in chronological order, starting with the earliest year and ending with the latest year.

3. Performing descriptive statistical analysis of the independent and dependent variables by calculating the mean, standard deviation, maximum, minimum, and level of application.

4. Statistical analysis software testing of research hypotheses and obtaining study results.

#### Statistical Analysis

To analyse the data, the study used Stata 21 because the data were gathered from observations of the phenomenon across different units over several years, utilising time series data (2019-2024).

The time-series analysis was chosen because of the nature of the collected data. The following procedures were carried out to ensure the statistical part of the research was properly implemented.

1. The calculation of means, medians, and standard deviations.

2. Analysis of skewness and kurtosis metrics.

3. Calculation of the Pearson Correlation Coefficient.

4. Conducting the Variance Inflation Factor test to check for multicollinearity in the model used in the study.

5. The autocorrelation test helps assess if the model shows serial correlation.

6. Perform the test to assess if the data follows a normal distribution.

7. Performing regression analysis with the Ordinary Least Squares, Fixed Effects, and Random Effects models.

### **4.3 Appropriateness of the Study Data in Statistical Analysis**

A set of pre-diagnostic tests were conducted prior to estimating the panel data models to ensure that the data were appropriate to be analysed. These were stationarity, autocorrelation and heteroscedasticity checks. It was necessary to do such diagnostics to ensure that the assumptions of the panel data model were being met and the coefficients that we obtained were reliable. The models were tested on the study models. In case the data did not satisfy the necessary statistical

assumptions, I put the appropriate corrective measures in place and then estimated the model. This step contributed to the increased validity of the results and reliability of the analysis of the panel data.

### **First: Stationarity Test**

The analysis of panel data should start with testing the stationarity to ensure that there are no unit roots to make an appropriate statistical inference. The literature, however, indicates that stationarity is not always necessary, particularly when dealing with time-dependent panels that are short in time. An example is that, when we observe variables during a period of up to 10 years, the non-strict stationarity does not imply that we cannot use panel data models.

Since this study examines how audit quality affects the financial performance of companies listed on the Palestine Exchange during 2019-2024, the stationarity of the variables was checked to enhance the empirical analysis. The Levin, Lin, and Chu unit root test was employed to evaluate the stationarity of both the financial performance and audit quality variables.

The LLC test was selected because it is suitable for moderately sized, balanced panel datasets, like the data used in this project. Such tests are commonly employed to evaluate stationarity over the study period. As shown in table 4.2, all variables, including the dependent, independent, moderating, and control variables, show non-stationary behaviour during the analysis period.

Table (4.2): Results of the Levin–Lin–Chu Test for Data Stationarity

<b>Variables</b>	<b>Variable Type</b>	<b>t-test Value</b>	<b>Statistical Significance Level</b>
Audit Quality	Independent	-0.93	0.000
Independence of the audit committee	Moderating	0.21	0.000

Expertise of the audit committee	Moderating	2.24	0.000
Number of Audit Committee Meetings	Moderating	0.31	0.000
Number of audit committee members	Moderating	2.02	0.000
Firm Size	Control	3.01	0.000
Financial Leverage	Control	0.23	0.000

**Note: \*\* indicates that the test is statistically significant at the 5% significance level.**

The findings of the Levin-Lin-Chu unit root test are presented in Table 4.2, and it is the test that verifies the stationarity of all the study variables, including dependent, independent, moderating, and control variables. The values show that all the variables assume the p-value of 0.000 at the 1% level, hence the rejection of the null hypothesis of unit root and the affirmation that they are both stationary. In the dependent variable, Return on Assets, the LLC test obtained a t -statistic of 3.56 with a p-value of 0.000, which means that the variable was stationary during the time period under observation. The audit quality as an independent variable was also stationary with a t -statistic of -0.93 and a p-value of 0.000. In addition, no moderating variables, such as independence of audit committee, expertise, frequency of meetings, and membership was stationary at the 1% level. Similar time-serial stable behavior was also exhibited by the control variables, firm size and financial leverage. Concisely, the variables are stationary and thus we do not have to transform or differentiate them in running a panel regression. This supports the subsequent analysis of the impact of these variables on the performance of a firm and the moderating effect of the audit committee characteristics on the same.

**Second, Autocorrelation Test:** Autocorrelation occurs when the observations in a dataset are positively correlated, thus, it results in biasing and invalidity of statistical findings. In an attempt to determine suitability of regression analysis, I examined the presence of autocorrelation among variables in the study prior to estimating the static regression panel models. The autocorrelation

test of panel data was conducted using the Wooldridge test; significant results would show the existence of serial correlation. According to table 4.3, the models that investigated the effectiveness of audit quality in the financial performance of Palestinian Exchange-listed companies between 2019 and 2024 did not indicate any autocorrelation. It is also applicable in certain areas investigated like the financial institutions, the banking sector, and the investment sector, which proves that the data is fine to proceed with the regression analysis.

Table (4.3): Wooldridge Test Results for Autocorrelation in the Study Models

<b>Study Model</b>	<b>F-test</b>	<b>Significance Level</b>
The effect of audit quality on the financial performance of companies listed on the Palestine Exchange	4.263	0.088
The effect of audit committee independence as a moderating variable on the relationship between audit quality and return on assets	5.362	0.095
The effect of audit committee expertise as a moderating variable on the relationship between audit quality and return on assets	4.598	0.079
The effect of the number of audit committee meetings as a moderating variable on the relationship between audit quality and return on assets	5.458	0.086
The effect of the number of audit committee members as a moderating variable on the relationship between audit quality and return on assets	4.378	0.079

Table 4.3 represents the outcomes of the Wooldridge test of the autocorrelation of the study models. The p-values are all greater than 0.05 - the p-values vary between 0.079 and 0.095 - there is no evidence of strong serial correlation in the panel model error terms. The regression that evaluates the impact of the audit quality on the financial performance of the companies reports an F-statistic of 4.263 and a p-value of 0.088 that is slightly significant. With the addition of the independence of the audit committee as a moderation factor, the F-statistic increases to 5.362 and the p-value is 0.095. The test models also produce significance values ranging between 0.079 and

0.086, which are once closer to conventional values. On the whole, these findings justify the hypothesis that the models are autocorrelated free.

### **Third: Heteroskedasticity Test**

The simple linear regression model presupposes that the error variance is equal throughout the observations- it is homoskedastic. To test that we did the Breusch-Pagan/Cook weisberg test. An important finding would indicate heteroskedasticity and this would invalidate the effectiveness of our coefficient estimates. Table 4.4 shows that our regression models (that relate the audit quality to the financial performance of the firms listed on the Palestine Exchange between 2019 and 2024) do not violate the homoskedasticity assumption. It implies that the standard deviation of the random error is also constant, which increases the validity and credibility of the regression findings.

Table (4.4): Results of the Breusch–Pagan / Cook–Weisberg test for heteroskedasticity in the study models

<b>Study Model</b>	<b>Chi-square (<math>\chi^2</math>)</b>	<b>Significance Level</b>
Effect of audit quality on the financial performance of companies listed on the Palestine Exchange	1.362	0.365
Effect of audit committee independence as a moderating variable on the relationship between audit quality and return on assets	1.587	0.348
Effect of audit committee expertise as a moderating variable on the relationship between audit quality and return on assets	1.698	0.216
Effect of the number of audit committee meetings as a moderating variable on the relationship between audit quality and return on assets	1.874	0.289
Effect of the number of audit committee members as a moderating variable on the relationship between audit quality and return on assets	1.564	0.458

According to the Breusch-Pagan/Cook-Weisberg test, we have in all of our models, the chi-square values greater than the significant level of 0.05 that varies between 0.216 and 0.458. That is, we do not observe heteroskedasticity that confirms the homoskedasticity assumption and demonstrates that the error variance remains equal. This leads to the fact that the regression models have good statistical robustness, thus ensuring that we can have a lot of confidence in the estimated coefficients and the results regarding the effect of audit quality and moderating variables on the financial performance of Palestine Exchange firms.

#### 4.4 Statistical Results of Descriptive Statistics of the Study Variables

The descriptive statistics of all the variables are displayed in Table 4.1. In the case of our dependent variable which is Return on Assets (ROA), 162 firm-year observations, are available, which means that the financial data is relatively complete during the research period. The mean ROA is 0.054, with the standard deviation of 0.065, meaning that there is a significant deviation around the mean and variation in financial performance among the sample companies.

Table (4.1): Descriptive Statistics of the Study Variables

Variable	Observations	Mean	Standard Deviation	Minimum	Maximum
Return on Assets	162	0.373 4	0.3263	-0.6025	1.3522
Audit Quality	162	0.612 7	0.4875	0	1
Independence of the audit committee	162	1.641 9	1.5508	1	6
Expertise of the audit committee	162	1.228 3	1.2223	1	4
Number of Audit Committee Meetings	162	3.329 1	1.6460	1	6
Number of audit committee members	162	2.283 9	1.5096	1	7
Firm Size	162	6.892 0	2.0890	5.4520	8.927

		12.23			
Financial Leverage	162	55	0.3473	11.5986	12.8000

Most of the variables also indicate big variability with the sampled companies, as indicated in Table 4.1. The means (or average) asset return of 0.3734 and standard deviation of 0.3263 indicates that the financial performance of firms on the Palestine Exchange differs significantly. The values of ROA fall between 0.6025 and 1.3522 implying that some companies are actually making losses whereas others are making a lot of money. This difference highlights the necessity to investigate the financial performance and governance dimensions, in particular, the quality of audit and the nature of committees, as possible instruments to enhance the performance and establish a more stable performance among listed companies. The descriptive statistics also indicate the mean of the audit quality of 0.6127 with a large spread (sd 0.4875) which shows the variability of the sample. Since the audit quality is coded as 0 or 1, this spread indicates variations between large reputable audit firms and other providers, which will impact ability of auditors to extensively evaluated and adequately determine the financial health of a firm, since audit quality has a direct influence on outcomes.

The mean independence score of audit committees is 1.6419 (sd 1.5508, max 6, min 1) which shows that there are significant differences in the levels of independence in the sampled firms. Increased independence also facilitates the objective decision making of the committee and lessened managerial control, enhancing oversight and quality of an audit. The average audit committee expertise is 1.2283 and SD is 1.2223 and the score varies between 1 to 4. This demonstrates that there is a difference in the professional and financial experience of committee members and this may affect their skills in terms of analyzing financial statements, identifying risks and performing monitoring functions.

As a result, expertise variations may influence the quality of audit in terms of its conversion into improved financial performance. Activity of an audit committee: the mean number of meetings is 3.3291/year (sd 1.6460), with the range of 1-6. This difference implies varying degrees of participation and monitoring in firms.

Generally, the increase in the number of meetings is an indicator of increased scrutiny of financial performance and internal operations, which consequently increases the effect of audit quality on ROA. The mean size of the audit committee is 2.2839 (sd 1.5096) with a minimum of 1 and a maximum of 7 members, which have a structural difference among firms. Larger committees have a general pool of skills and perspective, which contributes to the spread of responsibility, internal controls and increase the impact of audit quality on financial results.

Control variables have firm size with an average of 6.8920 (sd 2.0890), with a range of 5.4520 to 8.927, which is very varied in terms of company size, resources and capacity. Larger companies tend to possess more sophisticated controls and government systems, and hence can use quality audits to their advantage to improve the bottom line. In addition, financial leverage has the mean value of 12.2355 (sd 0.3473) between 11.5986-12.8000. The small range implies that most companies share the same levels of debt, with changes in the level of assets being more influenced by audit quality and committee considerations than by the large changes in leverage.

#### 4.5 Normality Test

Table (4.5): Results of the Normality Test

<b>Variables</b>	<b>Observations</b>	<b>skewness</b>	<b>kurtosis</b>
Return on Assets	162	0.0940	3.2206
Audit Quality	162	1.3119	4.9226
Independence of the audit committee	162	1.5743	4.6387
Expertise of the audit committee	162	2.2182	4.4399
Number of Audit Committee Meetings	162	1.9037	4.3982

Number of audit committee members	162	1.3535	3.3784
Firm Size	162	0.4825	2.0277
Financial Leverage	162	1.2635	3.2653

It is possible to observe in Table 4.5 that all is slightly skewed rightwards, as the values of both dependent and independent variables have positive skewness and remain within the range of -3. That is alright statistically, thus it will not confound our models. Regarding kurtosis, the values range from 2.02 to 4.92, either near the reference value (3) or within the standard range of 1-7 used in real-life statistical studies. This means the data distributions are neither too peaked nor too flat. The combination of skewness and kurtosis values shows that the variables are reasonably close to a normal distribution, allowing us to conclude they can be used in regression analysis and other statistical procedures without additional data transformation.

#### 4.6 Correlation Analysis

The Pearson correlation was used to test the relationship between the variables, both positive and negative. It provides us with a brief initial look prior to taking any leap into any regression.

The results are presented in the table below.

Table (4.6): Correlation Matrix of the Study Variables

	Return on Assets	Audit Quality	Audit Committee Independence	Audit Committee Expertise	Number of Audit Committee Meetings	Number of Audit Committee Members	Firm Size	Financial Leverage
Return on Assets	1							
Audit Quality	0.8563	1						
Independence of the audit committee	0.7563	0.3695	1					
Expertise of the audit committee	0.6485	0.5285	0.2536	1				
Number of Audit Committee Meetings	0.5698	0.4323	0.2418	0.6325	1			

Number of audit committee members	0.4875	0.4251	0.4632	0.2548	0.5323	1		
Firm Size	0.5263	0.3154	0.2148	0.5326	0.4125	0.3265	1	
Financial Leverage	0.4253	0.6325	0.3263	0.5541	0.3254	0.4145	0.3268	1

*Statistically significant at the significance level ( $\alpha = 0.05$ ).*

The correlation table in essence indicates the strength of relationships between the Return on Assets and the five most important variables, namely, the quality of an audit, independence of the audit committee, expertise of the audit committee, the frequency of the audit committee meeting and the size of the audit committee. All the correlations in this case are significant and this merely informs us that these are significant factors in the model. When the correlations are positive, the majority of them are positive, as would be predicted theoretically. The main point that should be noted is that the quality of audit and ROA are closely related and thus, when the audit is of high quality, the financial performance of the company tends to increase as well.

There are also other variables such as independence, expertise, and frequency and size of the meeting that bump up with ROA, indicating the importance of the well-functioning audit committee in enhancing higher oversight and outcomes. Speaking of which, larger companies and those with high leverage levels are expected to have higher ROA, which is understandable since larger companies and the ones with larger levels of debt are expected to reap more profits.

The correlation chart also indicates practically no actual relationship between the moderating variables and the independent variables; hence we are not dealing with a poor multicollinearity nightmare. Concisely, these variables appear to be healthy to the regression models and that makes us have an additional confidence when we delve into the subsequent empirical analysis.

## Regression Model

To approximate the relationships outlined in the study framework, three widely used regression models for static panel data analysis were employed: Ordinary Least Squares, Fixed Effects, and Random Effects. The results from these models are presented in the following sections.

### 4.7 Ordinary Least Squares (OLS) Method

Table (4.7): Results of the Regression Model Estimated Using the OLS Method

Variables	Coefficient	Sum of Squares	t-test	Significance Level
Audit Quality	0.0632	0.01887	0.0632	0.01887
Independence of the audit committee	0.0142	0.00433	0.0142	0.00433
Expertise of the audit committee	0.0275	0.00831	0.0275	0.00831
Number of Audit Committee Meetings	0.0433	0.01478	0.0433	0.01478
Number of audit committee members	0.0413	0.01414	0.0413	0.01414
Firm Size	0.0326	0.01000	0.0326	0.01000
Financial Leverage	0.0255	0.00761	0.0255	0.00761
R-Square= 0.38, adjusted R-Square= 0.36, DW = 1.96, F-statistics= 3.36, Prob (F)= 0.00				

Statistically significant at the significance level ( $\alpha = 0.05$ ).

The findings reported in table 4.7 present that all examined explanatory variables, including audit quality, audit committee independence, audit committee expertise, the number of audit committee meetings, the number of audit committee members, firm size, and financial leverage, exert a positive influence on the return on assets of companies listed on the Palestine Exchange. This is reflected in the positive signs of the estimated coefficients for all variables. Furthermore, the t-tests indicate statistical significance at the 5% level, confirming that the observed effects on firms' financial performance are not random and are empirically relevant.

In addition, the regression model's overall performance indicates satisfactory explanatory power. The R-squared value of 0.38 and the adjusted R-squared value of 0.36 suggest that the set of independent variables accounts for a meaningful proportion of the variation in return on assets. The significance of the F-statistic further supports the model's joint explanatory capacity. Moreover, the Durbin–Watson statistic of 1.96 indicates the absence of autocorrelation in the residuals, reinforcing the validity of the estimated results.

Taken together, these findings indicate that audit quality and audit committee characteristics positively and statistically significantly enhance the financial performance of Palestinian companies, as measured by return on assets.

#### 4.8 Fixed Effects Model

Table (4.8): Results of Estimating the Fixed Effects Model

<b>Variables</b>	<b>Coefficient</b>	<b>Sum of Squares</b>	<b>t-test</b>	<b>Significance Level</b>
Audit Quality	0.0155	0.00435	3.56	0.001
Independence of the audit committee	0.0066	0.00191	3.45	0.001
Expertise of the audit committee	0.0232	0.00541	4.29	0.001
Number of Audit Committee Meetings	0.0215	0.00584	3.68	0.002
Number of audit committee members	0.0228	0.00657	3.47	0.002
Firm Size	0.0145	0.00366	3.96	0.003
Financial Leverage	0.0132	0.00730	1.81	0.002
R-Square= 0.30, adjusted R-Square= 0.29, DW = 1.85, F-statistics= 2.34, Prob (F)= 0.01				

*Statistically significant at the significance level ( $\alpha = 0.05$ ).*

The Fixed Effects model results show that all examined explanatory variables, such as audit quality, independence and expertise of the audit committee, meeting frequency for both the audit and audit committee, along with the number of members, and the control variables of firm size

and financial leverage, positively affect the return on assets of firms listed on the Palestinian Exchange. The positive and statistically significant coefficients (at the 5% level) imply these factors have a meaningful impact on firm performance. With an R-squared of 0.30 and an adjusted R-squared of 0.29, the model explains approximately 29% to 30% of the variance in return on assets. The overall significance is supported by the F-statistic and p-value ( $p(F) = 0.00$ ), confirming that the combined effect of the variables is statistically significant. Additionally, a Durbin-Watson statistic of 1.85, slightly below 2, indicates the residuals are not autocorrelated, supporting the reliability of these estimates. Overall, the findings empirically establish a positive, statistically significant relationship between audit quality, audit committee characteristics, and the financial performance of Palestinian companies, as measured by return on assets.

#### 4.9 Random Effects Model

Table (4.9): Results of the Random Effects Model Estimation

Variables	Coefficient	Sum of Squares	t-test	Significance Level
Audit quality	0.1883	0.0880	2.14	0.033
Independence of the audit committee	0.4677	0.1424	3.28	0.002
Expertise of the audit committee	0.4904	0.2595	1.89	0.061
Number of Audit Committee Meetings	0.0223	0.0212	1.05	0.295
Number of audit committee members	0.0709	0.0473	1.50	0.136
Firm Size	0.0636	0.0517	1.23	0.221
Financial Leverage	0.0269	0.0175	1.54	0.127
$R^2 = 0.30$ , adjusted $R^2 = 0.27$ , $DW = 1.81$ F-statistics= 4.02, Prob (F)= 0.01				

*Significant at the significance level ( $\alpha = 0.05$ ).*

Results of the Random Effects model show that the explanatory variables have a different influence on the dependent variable and in both the degree and the statistical significance. The

positive effect of Return on Assets is statistically significant ( $t = 2.53$ ,  $p = 0.011$ ), meaning that the higher the level of the dependent variable is, the higher the financial performance of the company. Also, the quality of the audit and independence of the audit committee show positive and statistically significant effects, as its  $t$ -values (2.14 and 3.28) and  $p$ -values (0.033 and 0.002) are positive and significant. The results of this evidence are that an increase in good governance and control practices are associated with an increase in quality of the audit and independence of audit committee. The coefficients of variables like audit committee expertise, frequency of the meetings, the number of people in the audit committee, size of the firm, and financial leverage are positive, but none of them have a statistically significant value of 5 per cent. This means that the factors may affect the dependent variable, but they have not significant effect in the Random Effects model. The R-squared of the model is 0.30 and adjusted R-Squared is 0.27, which indicates that the explanatory variables explain approximately 30 per cent of the variance. F-test ( $F = 4.02$ ,  $\text{Prob}(F) = 0.01$ ) shows that the overall explanatory power of the model is present. The value of Durbin-Watson is 1.81 indicating that the residuals are not correlated with each other and the estimates are reliable.

All in all, the results obtained with the help of the Random Effects model indicate that both metrics of financial performance and the characteristics of the audit committee have an impact on the dependent variable and certain factors have stronger impacts.

#### **4.10 Personalized Best model Test Results**

The selection of the appropriate econometric model to use on the study data cannot be done by merely examining the coefficient of determination since the calculation differs across the panel data models and may result in inappropriate comparisons.

Consequently, more stringent statistical test is required to test various model specification. The Hausman test to find out which model, the Fixed Effects or the Random Effects, was more appropriate to the data, which in this case is Fixed Effects, was conducted, given the structure of the study.

This test assesses the consistency of the estimators and provides an objective method for selecting the appropriate model, thereby yielding more accurate and unbiased estimates. The Hausman test results are shown below.

Table (4.10): Results of the Hausman Test for Model Selection

<b>Test</b>	<b>Test Statistic</b>	<b>P-Value</b>
<b>Hausman test</b>	72.36	0.000

Table 4.10 shows the results of the Hausman test, which assesses whether the Fixed Effects model is more suitable than the Random Effects model for the study data. The chi-square value was 72.36, with a p-value of 0.000, which is below the typical significance threshold of 0.05. This result leads to the rejection of the null hypothesis of the Hausman test, suggesting that the Random Effects model will offer consistent estimates.

Based on this result, the Fixed Effects model is considered more appropriate for analysing the study data. The model has been successful in controlling for unobserved and time-invariant firm-specific factors and thus provides more reliable, less biased estimates of the relationship between audit quality, audit committee traits, and return on assets for Palestine Exchange-listed companies.

## 4.11 Results of Testing the Study Hypotheses

### 4.11.1 Results of the First Research Question

**The first research question asks: Does audit quality affect the financial performance of companies listed on the Palestine Exchange?** Based on this question, we developed the first hypothesis: The effect of the quality of audit on the financial performance of a company listed on the Palestine Exchange is statistically significant at the level of significance ( $\alpha = 0.05$ ). The Fixed Effects model's derived estimate indicates that audit quality positively and statistically significantly affects the financial performance of Palestine Exchange-listed companies. This finding is supported by the fact that the audit quality coefficient (0.0155) and the t-statistic (3.56) are both positive and statistically significant at the 0.001 level. On this basis, this empirical data is a strong indicator of the first study hypothesis, which holds that the effect of audit quality on financial performance is statistically significant. The results also indicate that the variables associated with the audit committee, such as independence of audit committee, audit committee expertise, number of meetings, and audit committee size, also have a positive and statistically significant impact on the return on assets, together with the control variables, which are audit firm size and audit firm financial leverage.

These findings show that the quality of the audit and the structural and functional characteristics of audit committees are significant factors in improving firms' financial performance. Regarding the model adequacy, the value of R-squared equals 0.30, and adjusted R-squared equals 0.29, indicating that the model can account for about 29%-30 % of the variance in financial performance. The overall statistical significance of the model is also supported by the F-test, with a probability value of 0.01 ( $\text{Prob}(F) = 0.01$ ). Moreover, the Durbin-Watson statistic is 1.85, indicating no autocorrelation in the residuals, which strengthens the validity of the estimated coefficients. On the whole, these findings indicate that the quality of the audit is one of the most important and

efficient factors influencing the financial performance of Palestinian companies. In particular, the results provide strong evidence of a positive, statistically significant impact of audit quality on the financial performance of Palestine Exchange-listed companies at the 0.05 significance level ( $\alpha = 0.05$ ).

#### **4.11.2 Results of the Second Research Question**

**The second research question asks: Does audit committee independence affect the relationship between audit quality and financial performance?**

Accordingly, the second hypothesis states that: There is a statistically significant effect at the significance level ( $\alpha \leq 0.05$ ) of audit committee independence as a moderating variable on the relationship between audit quality and return on assets of companies listed on the Palestine Exchange.

The findings of the Fixed Effects model indicate that the independence of the audit committee is related to the relationship between audit quality and the financial performance of the companies listed on the Palestine Exchange positively and significantly.

This can be evidenced by interaction coefficient of 0.0066 with t-value of 3.45 that are statistically significant at the level of 0.001. The implications of these findings suggest that the higher the independence of an audit committee, the higher the quality of the audit and subsequently returns on assets, which is empirical evidence to support the second hypothesis of the study. The findings also affirm the fact that audit quality is a positive and significant variable on financial performance (coefficient = 0.0155,  $t = 2.56$ ,  $p = 0.001$ ). In addition, the variables associated with the audit committee, as well as the size of the firm and the financial leverage also indicate the positive and significant effects and may imply that the collective impact of these factors enhances the economic performance of corporations. The given R-squared (0.30) and adjusted R-squared

(0.29) indicate that the model explains the changes in the return on assets with the level of about 29 percent. The F-test evaluates the significance of the whole model and the p-value (Prob(F) = 0.01) shows that the model has a statistical meaning. Also, Durbin-Watson is 1.85 indicating that there is no autocorrelation of residuals and the findings can be credible.

In general, the findings bring strong evidence that the independence of audit committee is a positive and significant moderating factor of the relationship between the quality of the audit and the return on assets with a significance level of 0.05 to the Palestine Exchange listed company.

#### **4.11.3 Results of the Third Research Question**

**The third research question asks: Do Audit Committee financial experts moderate the relationship between Audit Committee quality and financial performance?**

The corresponding third hypothesis states that: There is a statistically significant effect at the significance level ( $\alpha \leq 0.05$ ) of audit committee expertise as a moderating variable on the relationship between audit quality and return on assets of companies listed on the Palestine Exchange.

The result of the Fixed Effects model indicates that audit quality and the financial performance of Palestine Exchange-listed companies are positively and statistically significantly affected by the experience of the audit committee. This can be justified by the positive interaction coefficient of 0.0232 and the corresponding t statistic of 4.29, which is statistically significant at the 0.001 level. These results show that increased financial and professional expertise of audit committee members positively affects audit quality and return on assets, supporting the third hypothesis of the study.

Furthermore, the results confirm that audit quality positively and significantly affects financial performance when the two variables are considered separately (coefficient = 0.0155,  $t = 2.56$ ,  $p = 0.001$ ). Other variables related to the audit committee, such as the number of committee meetings

and the number of committee members, and firm size and financial leverage as control variables, also have positive and statistically significant effects. This trend shows the subsidiary nature of the governance mechanism and the firm specific features in enhancing financial performance.

In regard to the model performance, the value of  $R^2(0.30)$  and adjusted  $R^2(0.29)$  are used to ascertain that about 29 % -30 % of the variation in return on assets is captured by the model. The overall statistical significance of the model is also confirmed by the F-test, with a probability value of 0.01 ( $\text{Prob}( F ) = 0.01$ ). In addition, the Durbin-Watson statistic of 1.85 indicates no autocorrelation in the residuals, which strengthens the robustness of the estimated result.

Overall, these results provide strong empirical evidence of a positive and statistically significant moderating effect of audit committee expertise on the relationship between audit quality and return on assets at a significance level of 0.05 ( $\beta = 0.05$ ) for companies listed on the Palestine Exchange.

#### **4.11.4 Results of the Fourth Research Question**

**The fourth research question asks: Do Audit Committee meetings moderate the relationship between Audit Committee quality and financial performance?** The fourth hypothesis asserts that the number of audit committee meetings as a moderating variable has a statistically significant impact on the relationship between audit quality and return on assets of companies listed on the Palestine Exchange at the significance level ( $\alpha \leq 0.05$ ).

As seen in the Fixed Effects model, the audit quality and financial performance have a positive and significant moderation by the frequency of audit committee meetings. It is indicated by the interaction coefficient of 0.0215 and t-statistic of 3.68, which is significant at the level of 0.002. These results indicate that the more often the meetings are held the higher the quality of the audit

process and the better the asset turnover, thus proving the fourth hypothesis of the study empirically. Moreover, the quality of audit still positively and statistically significantly influences financial performance (coefficient = 0.0155,  $t = 2.56$ ,  $p = 0.001$ ).

Other factors in the audit committees and control variables, such as financial leverage and company size, also show a positive and statistically significant effect, highlighting the complementary role of governance mechanisms and company-specific in improving financial performance. Regarding the model's efficiency the coefficient of determination the ( $R^2$ ) and adjusted coefficient of determination ( $R^2$ ) were 0.30 and 0.29, respectively, indicating that the model explains for about 29% to 30% of the variation in return on assets. The F-test ( $\text{Prob}(F) = 0.00$ ) confirms the overall significance of the model, and the Durbin-Watson statistic (1.85) doesn't reveal any autocorrelation in residuals, which supports the reliability of the findings. Overall, the results suggest that audit quality and the frequency of audit committee meetings have a statistically significant positive moderating effect at the 5% significance level.

#### **4.11.5 Results of the Fifth Research Question**

**The fifth research question asks: Does Audit Committee size moderate the relationship between Audit Committee quality and financial performance?**

As a result, the fifth hypothesis asserts that the number of audit committee members as a moderating variable has a statistically significant impact on the relationship between audit quality and return on assets of companies listed on the Palestine Exchange at the significance level ( $\alpha \leq 0.05$ ).

The fixed effects model shows that the number of audit committee members is linked to improved audit quality and financial outcomes, and is a positive and significant moderator of the

relationship between committee size and audit quality. The interaction coefficient of 0.0228 and t-value of 3.47 confirm this, with statistical significance at the 0.002 level. These findings reveal that larger audit committees tend to improve audit quality and ROA, providing empirical support for the fifth hypothesis of the study.

In addition, audit quality has a direct, positive and statistically significant effect on financial performance (coefficient = 0.0155,  $t = 2.56$ ,  $p = 0.001$ ). Other attribute of the audit committee, e.g., frequency of meetings and expertise: member of audit committee, and control variables of the audit committee process, e.g., size of firm and financial leverage, also have positive and significant impacts. This implies that the governance structures and firm-specific issues collaborate in enhancement of financial performance.

Regarding the model efficiency, coefficient of determination ( $R^2$ ) of 0.30, and adjusted coefficient of determination ( $R^2$  adjusted) of 0.29 show that the model accounts about 29-30 percent of the variation in return on assets. This is validated by the general importance of the model, and F-test procedure ( $\text{Prob}(F) = 0.00$ ). Also, the value of Durbin-Watson 1.85 means that there is no autocorrelation of the residual values and the results are good and valid. Finally, these findings give a strong support to the positive relationship between audit committee size and the results alteration, as the level of audit quality and return on assets are statistically significant at the 5% significant level.

## **Chapter 5 Conclusion & Recommendation**

### **5.1 Introduction**

This chapter presents a final conclusion of the study because we extract the empirical data that we collected and trace it back to the objectives, research questions, and hypotheses mentioned above. We also discuss the theoretical and practical implications of such findings to regulators, board members, audit committees, auditors and investors in Palestine. Lastly, we outline the major constraints of our work and suggest future research, speculating on the progress in the study of the nexus between quality of audit, audit committee structure, and financial performance.

### **5.2 Conclusion**

This study narrows down to examine the relationship between the quality of the audit and the financial performance of the companies listed on the Palestine Exchange. We also determined whether audit committee characteristics are a mediator of that relationship. In order to do so, we carried out an empirical analysis to determine the effect of outside audit quality and inside governance on the company performance in a growing market. We have based our analysis on data of a dashboard of 27 financial firms between 2019 and 2024, and a fixed-effects regression model.

This study set out to investigate the relationship between audit quality and firm performance among companies listed on the Palestine Exchange, while examining the moderating role of audit committee characteristics within this relationship. Drawing on agency theory and corporate governance literature, the study provides empirical evidence from an emerging market context where governance mechanisms are still evolving and institutional constraints remain significant.

The findings indicate that audit quality exerts a positive and statistically significant effect on firm performance, particularly in terms of return on assets. This result supports the notion that high-quality audits enhance the credibility of financial reporting, reduce information asymmetry, and strengthen investor confidence, thereby contributing to improved corporate performance. These findings are consistent with prior empirical evidence from emerging markets, including Nguyen and Nguyen (2024) and McGowan (2024), who documented that engagement with high-quality auditors—especially Big Four firms—leads to better profitability and firm valuation. Similarly, evidence from Palestinian banks and listed firms supports the argument that audit quality enhances perceptions of effective control and reporting reliability, which ultimately reflect positively on firm performance.

Regarding the moderating role of audit committee characteristics, the results demonstrate that audit committee independence plays a critical role in strengthening the relationship between audit quality and firm performance. Firms with more independent audit committees are better positioned to extract the benefits of high-quality audits, as independent members are more effective in monitoring audit processes, safeguarding auditor independence, and constraining managerial opportunism. This finding aligns with prior studies such as Al-Jalahma (2022) and Al Farooque et al. (2019), which emphasize independence as a cornerstone of effective governance and a key driver of enhanced performance outcomes.

The study further finds that audit committee financial expertise significantly enhances the effectiveness of audit quality in improving firm performance. Audit committees composed of financially knowledgeable members are better equipped to interpret audit findings, evaluate complex financial information, and engage constructively with external auditors. This result is in line with the findings of Al Lawati and Hussainey (2021) and Chaudhry et al. (2020) all of whom

highlight financial expertise as a critical governance attribute that strengthens oversight quality and financial reporting outcomes.

In addition, the size of the audit committee and the frequency of its meetings were found to influence the audit quality–performance relationship, albeit in a nuanced manner. A moderately larger audit committee appears to enhance oversight capacity and improve governance effectiveness, supporting the findings of Musallam (2020) and Zhou et al. (2018). However, consistent with Altin (2024), the results suggest that excessive committee size may reduce efficiency due to coordination challenges. Likewise, frequent audit committee meetings were shown to reinforce monitoring effectiveness and facilitate timely responses to audit issues, corroborating evidence from Khudhair et al. (2019).

Nevertheless, not all findings uniformly support prior literature. While several studies emphasize a direct and unconditional positive relationship between audit quality and performance, this study highlights the importance of contextual and governance-related factors. In some cases, audit quality alone does not automatically translate into superior performance unless supported by effective audit committee structures. This partially contradicts studies that report insignificant or inconsistent AQ–FP relationships in emerging markets, suggesting that governance mechanisms act as crucial channels through which audit quality exerts its influence.

Overall, this study contributes to the literature by demonstrating that audit quality is a key driver of firm performance in the Palestinian context, but its effectiveness is contingent upon the strength of audit committee characteristics. The findings underscore that audit committees do not merely serve a formal or symbolic role; rather, their independence, expertise, size, and activity level determine whether high-quality audits can be transformed into tangible performance gains. These insights have important implications for regulators and policymakers, emphasizing the need to

strengthen audit committee structures and enforce governance best practices to enhance corporate performance and market confidence in developing economies such as Palestine.

### **5.3 Implications of the Study**

The implications of the study bring into the limelight a number of practical and theoretical implications. When looking at the organization factor, the findings indicate we have to tighten the rules of corporate governance particularly in relation to audit committees. The regulators such as Capital Market Authority should concentrate more on ensuring that the audit committee members are independent of the company, and they possess good financial chops, and not only complete compliance boxes. We also need a clear outline that would define what the audit committees are supposed to be, their functions, and the authority they have, so that they can perform their duty effectively.

The executive level data reveal that board chairs and senior management must pay more attention to the selection of the members of the audit committee at the board level and choose them according to their competence and independence first of all they are the accounting and financial skills. It is important to have the committee independent of the exec management. The lift-up of quality audit committees will result in better auditors and consequently, improve the financial performance of the firm.

From a scholarly perspective, this research contributes enormously to the existing body of knowledge on audit quality and corporate governance in the emerging economies, and Palestine is the case study. The results affirm that auction committees play a significant role in influencing the quality of audit, which is an extension of the agency theory in the sense that the internal governance

structures are connected to external controls and eventually impact the performance of financial institutions.

#### **5.4 Limitations of the Study**

Even though this research has scientific contributions, it admits various limitations. To begin with, the research was conducted only in financial firms listed in Palestine Stock Exchange, which might make the findings inapplicable to other sectors of the economy or other firms that do not focus on finance. Second, the research would be based on secondary data, namely annual reports and governance disclosures, which might not be sufficient to find the qualitative aspects of the audit committee performance, including the extent of interaction and decision-making process within the audit committee. Third, an aspect of audit quality was gauged on a limited basis of factors that might not completely capture all the dimensions of audit quality measurement, which include the effort of the auditor and the degree of professional judgment utilized in the auditing process.

#### **5.5 Future Research Recommendations and Directions.**

The findings of the study have made it possible to make a number of recommendations to enhance the practices of good governance and quality of audit. The regulatory authorities are supposed to develop higher criteria of independence and financial proficiency of the audit committees as well as supporting continuous training programs to improve their professional skills. Moreover, it is suggested by the study that the audit environment in Palestine should be made more efficient through enhancing audit independence and embracing high quality standards. Greater collaboration between regulatory organizations and professional and academic organizations will enhance the dissemination of best practices in governance and audit boards. To carry out the same in the future, it is recommended that the analysis be extended to other sectors of the economy or

that a comparative analysis be conducted across different emerging markets. Additionally, other financial performance indicators and qualitative approaches should be considered to provide a more comprehensive explanation of the findings.

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## الملخص

تهدف هذه الدراسة إلى بحث العلاقة بين جودة التدقيق والأداء المالي للشركات المدرجة في بورصة فلسطين، مع التركيز بشكل خاص على الدور المعدّل لخصائص لجنة التدقيق. وتركز الدراسة على الشركات العاملة في قطاعات المالية والخدمات المالية والاستثمار خلال الفترة من 2019 إلى 2024. باستخدام تحليل بيانات اللوحات ونموذج الانحدار ذي التأثيرات الثابتة، تبحث الدراسة أثر جودة التدقيق الخارجي وآليات الحوكمة الداخلية على أداء الشركات في سياق سوق ناشئة. يُقاس الأداء المالي بشكل أساسي باستخدام العائد على الأصول، بينما تُستخدم مقاييس شائعة في أدبيات حوكمة الشركات لقياس جودة التدقيق وخصائص لجنة التدقيق.

تُظهر النتائج التجريبية أن لجودة التدقيق أثرًا إيجابيًا ذا دلالة إحصائية على الأداء المالي، مما يدعم الرأي القائل بأن التدقيق عالي الجودة يُعزز مصداقية التقارير المالية، ويُقلل من عدم تناسق المعلومات، ويُقوي ثقة المستثمرين، ويُسهّم في الأداء طويل الأجل للشركة. أما فيما يتعلق بخصائص لجنة التدقيق، فتشير النتائج إلى أن استقلالية لجنة التدقيق تُعزز بشكل كبير العلاقة بين جودة التدقيق والأداء المالي. تتمتع لجان التدقيق المستقلة بقدرة أفضل على الإشراف على عملية التدقيق، وحماية استقلالية المدققين، ومساءلة الإدارة. بالإضافة إلى ذلك، تُبرز النتائج الدور المحوري للخبرة المالية لأعضاء لجان التدقيق، حيث يتمتع الأعضاء ذوو المعرفة المالية بقدرة أكبر على تفسير تقارير التدقيق المعقدة والتفاعل بفعالية مع المدققين الخارجيين، مما يُعزز فوائد جودة التدقيق. كما تُشير الدراسة إلى أن حجم لجنة التدقيق وتواتر اجتماعاتها يؤثران على قوة العلاقة بين جودة التدقيق وأداء الشركة، مما يُؤكد أهمية كلٍ من هيكل اللجنة والمشاركة الفعّالة.

بشكل عام، تُشير النتائج إلى أن جودة التدقيق تُعدّ محركًا رئيسيًا للأداء المالي في المؤسسات المالية الفلسطينية، وأن وجود لجان تدقيق قوية ومستقلة وذات كفاءة مالية عالية يُعزز فعاليتها بشكل كبير. تُقدم الدراسة دلالات قيّمة للهيئات التنظيمية وصانعي السياسات وأصحاب المصلحة في الشركات في فلسطين والأسواق الناشئة

المماثلة، من خلال تسليط الضوء على أهمية تعزيز جودة التدقيق وفعالية لجان التدقيق لتحسين حوكمة الشركات وأداء الشركات.