



**Arab American University**

**Faculty of Graduate Studies**

**Department of Administrative and Financial Sciences**

**Ph.D. Program in Accounting and Finance**

**The Impact of IFRS 9 Adoption on Financial Reporting  
Quality of the Palestinian Banking Sector: The Moderating Role  
of Audit Committee Attributes**

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**This Dissertation Was Submitted in Partial Fulfilment of the  
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Accounting and Finance**

**Palestine, February / 2025**

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**Dissertation Approval**




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Palestine, February / 2025

## Declaration

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

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## **Dedication**

I dedicate my Ph.D. Dissertation

To whom I carry his name with pride, who gave me strength, love, generosity, and tenderness. To whom I derived from him my pride and strength, who taught me determination and perseverance no matter the difficulties. To the one whose knowledge I follow and whose footsteps I walk in. Who has the first and last credit for this achievement to my dear and precious father, Numan Al-Assad Al-Qaddoumi.

To whom her prayers, satisfaction and love were the secrets of my success, who taught me and encouraged me to persevere, succeed and excel throughout my life. To the one who gave what cannot be returned, the smile of life and the secret of existence, the meaning of love, tenderness and dedication. Who has the first and last credit for this achievement to my dear and precious mother, Fatena Al-Qaddoumi.

To my support, life partner, companion of the path, faithful husband and friend, and a symbol of loyalty, to the one who always encouraged me throughout my studies, to my dear husband, Fadi Al-Ghawanmeh.

To the childhood that made my life happy, to the adornment of my life, to those whose beautiful laughter filled my days, to those for whom I continue to move forward, to my dear daughter Mariana and my dear son Laith.

To my brothers and sisters, to those closest in heart and blood. To the childhood and youth companions, lifelong friends.

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To all of you, I dedicate this achievement.

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# **The Impact of IFRS 9 Adoption on Financial Reporting Quality of the Palestinian Banking Sector: The Moderating Role of Audit Committee Attributes**

**Heba Numan Bahjat Assad**

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## **Abstract**

This study examines the impact of adopting the International Financial Reporting Standard (IFRS 9) on the quality of financial reporting in the Palestinian banking sector, focusing on the moderating role of audit committee attributes. These attributes are related to the committee's size, independence, meetings and expertise. The study population includes all listed banks on the Palestine Exchange (PEX), and the sample consists of listed banks on the PEX whose financial reports are available during the study period. The panel data is collected yearly from the annual audited statements of listed banks on the PEX from 2014 to 2023.

The study uses the deductive approach to achieve its aims; linear regression analysis, multiple regression, and moderation analysis using the PROCESS v4.1 tool are conducted to determine the role of audit committee attributes as a moderating variable on the relationship between IFRS 9 adoption and the reporting quality and analyze interactions among these variables. The study considers the optional phase for applying IFRS 9 from 2014-2017, the mandatory phase for applying from 2018-2023, and the entire period from 2014-2023.

Three main hypotheses are tested, and the study finds that adopting IFRS 9 significantly positively impacts financial reporting quality. Audit committee attributes show no significant impact on the reporting quality during any analyzed period (2014–2017, 2018–2023, or 2014–2023). Besides, the committee's size, independence, and meetings have no significant moderating effect on the relationship between IFRS 9 adoption and reporting quality, while the expertise negatively moderates this relationship.

The study recommends improving the Palestinian banking sector by enhancing technical systems and improving financial reporting systems to support applying IFRS 9. It also recommends strengthening the committee's function to boost the quality of reporting. Furthermore, the study suggests expanding research, such as examining the impact of IFRS 9 on sectors beyond banking and exploring the role of FinTech and artificial intelligence in improving financial reporting quality and adopting international standards.

**Keywords:** IFRS 9, Financial Reporting Quality, Palestinian Banking Sector, and Audit Committee Attributes.

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## List of Definitions of Abbreviations

Abbreviations	Title
CICA	Canadian Institute of Chartered Accountants
ECL	Expected Credit Loss
FASB	Financial Accounting Standards Board
FVOCI	Fair Value through Other Comprehensive Income
FVPL	Fair value through profit or loss
GAAP	Generally Accepted Accounting Principles
G20	Group of Twenty
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
J.S.C.s	Joint Stock Companies
OCI	Other Comprehensive Income
PAT	Positive Accounting Theory
PEX	Palestine Exchange
PMA	Palestinian Monetary Authority

# **Chapter One: Introduction**

## **1.1 Research Background**

International Financial Reporting Standards (IFRS) are a global language for business matters. The old International Accounting Standards (IAS) were gradually replaced by the IFRS, a group of accounting standards adopted by numerous nations. As every country has accounting regulations, IFRS helps to make comparisons of international financial reporting as straightforward as possible. Over the years, using IFRS has protruded significantly, developed and implemented in more than 150 countries (Hellmann& Patel, 2021).

The International Accounting Standards Board (IASB) improved a new standard in three phases as an alternative to IAS 39 by issuing each component separately. The first stage covered the measurement and classification of liabilities and assets, the second stage included asset depreciation, and the third stage covered the topic of hedge accounting. In 2014, the IASB published the last version of IFRS 9. Financial Accounting Standards Board (FASB) and IASB collaborated on the IFRS 9 project, and in 2018, IFRS 9 superseded IAS 39 (Shields et al., 2019).

It is now mandatory with the option of early implementation. However, comparative data is not required, as the standard must be applied retroactively. Focusing on forward-looking credit losses and reporting losses across the loans` life and other receivables is the fundamental objective of implementing IFRS 9 (Pinto& Morais, 2022). Therefore, IFRS 9 indicates a significant variation in the accounting for financial instruments from a rule-based standard to one based on principles rather than rules, which are useless in dynamic environments or those involving innovative transactions (Abdrashitova, 2022).

The classification and valuation aspects of IFRS 9 are comprehensively detailed by Kvaal et al. (2023). The asset management entity's business model plays a crucial role, demonstrating how an organization administrates its assets to generate cash by gathering

contractual cash flows, selling assets, or both. One of the fundamental bases for asset classification under IFRS 9 is the contractual cash flow attributes, which refers to payments limited to the principal amount of the debt and interest or income.

The IFRS 9 mandates a provision against the amortized cost of assets, whether held at amortized cost or fair value through other comprehensive income (FVOCI). Variations in this allowance are recorded as profit or loss. For most of these assets, impairment is measured as the present value of the credit losses predicted to emerge from an event of default within the next twelve months (Alhaija, 2012).

Furthermore, IFRS 9 updates hedging accounting standards to better align accounting with risk management activities, enhancing related disclosures so organizations can better reflect their activities in reports. These variations also make it easier for non-financial entities to use hedge accounting. According to Ahmed (2021), IFRS 9 may increase income statement volatility, as in the first reporting duration a loan enters the books, entities should start making provisions for any future credit losses and additional disclosure obligations to gather vital information.

After the IFRS 9 rules were established, reporting assets and liabilities, which provide essential data such as the total amount, payment date, and future cash flows, has become more accurate. The accounting treatment of the financial instruments in the reports is subsequently simplified, and officials can use these reports to get the necessary financial data and make the appropriate decisions (Gubareva, 2021).

Financial reports are written reports that quantitatively explain how a company uses or distributes funds. They evaluate accounting data from different accounting procedures and methodologies (Al-Aamri et al., 2021). They represent the firm's value and performance, giving all interested parties appealing data that encourages investors to make sound judgments when investing. And so, a particular focus on raising shareholder value is discovered through better reporting quality.

The characteristics of the reports also determine the quality of their information and guide the evaluation of their reliability and accuracy. The statements' quality refers to their credibility, the absence of distorted or deceptive information, preparation in line

with a set of accounting, legal, professional and regulatory standards, faithful representation, understandability, comparability, and relevance that accurately reflect the entity's actual performance and serve the intended purposes (Ogungbade et al., 2021).

Besides, the quality of the reports will improve with the existence of the audit committee, which has become more consistent in preparing and analyzing statements, as it is an integration aspect of the control system that enhances good controls and improves assurance of the reporting quality. It is considered one of the most critical decision-making tools available to management, as it supervises the reports' preparation and decreases differences between the administration and the auditor.

The awareness of the committee's function has increased as an instrument for corporate governance, which intends to raise the accountability of the Board of Directors and the audit role's effectiveness and independence in the wake of many financial and administrative failures (Setiawan et al., 2020).

Audit committee becomes compulsory for highly planned companies and organizations, as it oversees the operations of large companies in the capital market (Majiyebo et al., 2018), prevents the fraud crisis in financial reports and reduces the severity of interest conflicts by providing reports characterized with high quality and reliability to parties interested in the facility's work, which contributes to improving the company's value for the investors.

Besides, developing financial reports increases by strengthening the audit committee's role, enhancing it and providing several characteristics to increase its effectiveness. Audit committee characteristics are essential to show a precise and fair model of the entities' performance. Also, supervising the preparation of reports by the committee members enhances the possibility that their characteristics play an essential function in improving their effectiveness. These vital attributes are the meetings' frequency, size, the experience of its members, and the degree of independence.

Therefore, this committee is considered the most vital tool for the governance of the appointed audit office. It is responsible for monitoring audits using external auditors (Thottoli et al., 2019) as the audit process of the reports is conducted through particular



mechanisms represented by uniform legal guidelines and regulations that aim to examine the entities' reports, understand their original strengths and weaknesses to attain more profits in the future, investigate whether the statements are of high quality, improves their reliability, which leads to a significant development in the entities' performance, attract investors to deal with them and help boost the economy.

In its efforts to keep pace with the improvements in international practices and standards, including the IFRS issued by the IASB, in 2014, the Palestinian Monetary Authority (PMA) issued its instructions and guidelines for banks operating in Palestine concerning applying IFRS 9. These instructions intend to regulate banks' procedures, policies, and systems in forming credit provisions under the Expected Credit Loss (ECL) model proposed in the new standard (Awawda, 2019).

Since the last version of IFRS 9 was issued in July 2014, the PMA has been working on establishing the fundamental rules and guiding banks to prepare a convenient environment and take vital actions for implementation by modifying their proceedings, processes, reports, and improving their systems to guarantee preparedness for applying this standard, which became efficient on January 1, 2018 (Ben Ltaief & Moalla, 2023).

The PMA takes a series of actions to ensure proper implementation of IFRS 9 requirements, such as issuing numerous circulars to assess the levels of accomplishment in implementation, guiding banks to constitute internal committees from appropriate departments, and preparing a quantitative influence study on applying the standard on the banks' statements. Additionally, the PMA has held meetings and organized workshops with external auditors and banks regarding applying mechanisms, reviewing opinions and perspectives and identifying the application challenges (Dorgham et al., 2023).

Implementing IFRS 9 in Palestine represents a significant step towards aligning the country's financial reporting with international standards. This adoption is crucial for boosting the reliability and credibility of data, which is essential for both local and global stakeholders.

However, there are some challenges in the implementation of IFRS 9 in Palestine (Rashwan & Shaqfa, 2022), such as the regulatory environment as the Palestinian financial regulatory framework has gradually adapted to IFRS 9, which involves updates to local regulations and guidelines to ensure consistency with the new standard. Also, there is a need for extensive training and education for accountants, auditors, and professionals. IFRS 9 requires a deep understanding of complex instruments and the ECL model.

Besides, the information systems of the Palestinian financial institutions need to be upgraded to handle the data requirements and computational complexities of IFRS 9, which require new software and analytical tools to calculate ECL and other risk metrics. Furthermore, accurate implementation of IFRS 9 relies heavily on the availability of historical data and forward-looking information. Palestinian banks and financial institutions may face challenges in gathering sufficient data to meet these requirements.

Awawda (2019) indicated that the banks operating in Palestine and Jordan face numerous challenges in implementing IFRS 9. These difficulties span various areas, including implementing the business model, ensuring solely payments of principal and interest, determining significant raises in credit risk, conducting collective assessments, implementing systems, developing models, collecting information, managing risk, maintaining governance and inner controls, making disclosures, and covering the implementation's costs. Also, applying the new IFRS 9 impairment model is predicted to significantly impact banks' comprehensive income statement, specific provision, general provision, and capital adequacy ratio.

On the other hand, Dorgham et al. (2023) demonstrated a correlation between compliance with IFRS No. 9 and mitigating risks in the Palestinian banking sector. An adverse influence of IFRS No. 9 compliance was found in decreasing credit and capital risks, and an insignificant effect of this compliance was found in reducing exchange and interest rate risks in Palestinian banks. Conversely, the adoption of IFRS No. 9 positively influences decreasing liquidity risk.

However, several points clarify the influence of implementing IFRS 9 on the Palestinian Banking Sector (Awawda, 2019; Ben Ltaief & Moalla, 2023), as adopting

IFRS 9 has significantly improved risk management practices within Palestinian banks. The standard's focus on forward-looking information and early recognition of credit losses helps banks to anticipate better and mitigate financial risks (Tamimi, 2021; Mnif Sellami & Tahari, 2017). Besides, IFRS 9 boosts the transparency and comparability of the reports, making it easier for stakeholders to value the performance and health of Palestinian banks ( Ben Ltaief & Moalla, 2023; Awawda, 2019).

Aligning with international financial reporting standards boosts market confidence. It signals international investors and partners that Palestinian financial institutions are committed to maintaining high financial integrity and transparency. Additionally, the shift to the ECL model has resulted in more timely recognition of credit losses. This proactive approach helps banks build more robust capital buffers against potential losses, thereby strengthening the overall stability of the financial system (Dorgham et al., 2023).

In light of this discussion, this study intends to investigate the influence of IFRS 9 adoption on financial reporting quality, with audit committee attributes as a moderating variable of the listed banks on the Palestine Exchange (PEX).

## **1.2 Problem Statement**

The first accounting standard that integrates risk management with accounting and considers the predictable impacts of future events is IFRS 9. It relies on registering historical economic cases using fair value or historical cost. According to Beerbaum & Piechocki (2013), the significant variation in IAS and IFRS regarding financial instruments since 1988 has altered the accounting methodology for financial instruments from historical cost to fair value based on risk management. And so, IFRS 9 addresses any variations in the fair value of these instruments depending on risk management.

Financial reports are considered the fundamental method of communication between institutions and the beneficiaries of these reports. They are considered the primary output of systems applying IFRS, which help decision-makers make the right decisions. They are also early warning tools for investors that inform them of the

possibility of failure of institutions, their proximity to the brink of collapse, or the progress of their success.

Therefore, these reports must adopt accounting standards and be of high quality. The data in these reports must be accurate and reliable to support the users' confidence in these reports, as the fundamental goal of financial reports is to inform internal and external parties interested in information relevant to the decision-making process. Providing beneficiaries with trustworthy information and high-quality reports is the ultimate goal of financial reporting.

Besides, the accounting systems established according to IFRS, especially IFRS9, rely on recording transactions to prepare the institutions' general budgets, reports and financial statements. These reports show the results of the institutions' activities. They are used in planning, developing, decision-making, and supervising these entities by enhancing the audit committee's role, boosting it, and increasing its effectiveness by providing several characteristics to its members. As the audit committee has become more coordinated in establishing and analyzing statements, it is also a vital tool to raise the audit function's effectiveness.

Hence, the study problem emerges from the fact that the Palestinian institutions are suffering from a lack of organized financial, accounting, and auditing aspects, a reduction in the commitment and knowledge about the IFRS, especially IFRS 9 (Rashwan & Ali, 2019; Daas& Jammal, 2018), and a lack of the foundation or supporting audit committees in all institutions, in addition to the weakness in all the economic and political matters (Haifa et al., 2023). This situation needs solutions to overcome these obstacles facing the Palestinian institutions and keep pace with the improvements in all fields with high effectiveness.

Therefore, the problem of this study is to investigate through a deductive and analytical method the influence of audit committee attributes as a moderating variable on the relationship between IFRS9 and the financial reporting quality of the Palestinian banking sector.

### **1.3 Questions of the Study**

Based on the study problem, the study intends to answer these questions:

What is the impact of IFRS 9 adoption on the financial reporting quality of listed banks on the PEX?

What is the impact of audit committee attributes on the financial reporting quality of listed banks on the PEX?

Do audit committee attributes moderate the impact of IFRS 9 adoption on the financial reporting quality of listed banks on the PEX?

### **1.4 Research Significance**

The importance of the study can be divided into theoretical and practical significance:

#### **1.4.1. Theoretical Significance**

The study focuses on IFRS 9 addressing the financial crisis by enhancing reporting and accounting practices for liabilities and assets, which contributes to establishing essential accounting foundations and rules, such as those embodied in IFRS. Besides, by emphasizing the necessity of adhering to IFRS standards, particularly IFRS No. 9, the study contributes to the theoretical comprehension of reporting consistency across countries and institutions. Furthermore, examining the function of audit committees in developing the reports` quality adds to the theoretical knowledge base by highlighting their function as a communication conduit between external auditors and the board of directors.

### **1.4.2. Practical Significance**

The findings are crucial for companies and stakeholders who depend on accounting data for decision-making. Understanding and applying IFRS standards, particularly IFRS No. 9, can improve the quality and transparency of the statements, aiding in more informed financial decision-making.

In the context of the Palestinian banking sector, where comprehensive adoption of IFRS, especially IFRS No. 9, is lacking, the study provides practical insights and data to underscore the importance of adhering to these standards for the sector's success. On the other hand, by considering audit committee attributes as a moderating variable, the study offers practical implications for corporate governance and regulatory practices, particularly in the banking sector, where the function of audit committees in guaranteeing report quality is critical.

Overall, the research enriches theoretical understanding by exploring the implications of IFRS adoption and audit committee functions and provides practical insights that can directly impact reporting practices and decision-making processes, particularly within the Palestinian banking sector. Moreover, it is a valuable resource for practitioners and academics, advancing knowledge in the field and enriching the Palestinian library regarding financial reporting and banking practices.

### **1.5 Objectives of the Study**

This study comes to achieve the following objectives:

Measuring the effect of adopting IFRS 9 on the financial reporting quality of listed banks on the PEX.

Measuring the effect of audit committee attributes on the financial reporting quality of listed banks on the PEX.

Analyzing the moderating role of audit committee attributes on the relationship between IFRS 9 adoption and the financial reporting quality of listed banks on the PEX.

A comprehensive research methodology must be employed to achieve the purposes of the thesis. Firstly, measuring the effect of adopting IFRS 9 on the quality of the reporting can be achieved by analyzing the statements before and after implementing IFRS 9, focusing on crucial reporting quality metrics such as relevance, accuracy, comparability, and reliability. Additionally, assessing the influence of the committee attributes on the reporting quality involves evaluating the committee's size, expertise, meeting frequency, and independence and correlating these attributes with reporting quality measures.

Moderation analysis can then be conducted to determine the moderating role of audit committee attributes on the relationship between adopting IFRS 9 and reporting quality. Through rigorous data gathering, analyses, and interpretation, the study intends to present worthy insights into the dynamics between IFRS 9 adoption, audit committee attributes, and financial reporting quality of listed banks on the PEX.

## **1.6 Research Justification**

This study has several justifications for focusing on this area and studying these variables. The implementation of IFRS No. 9 will contribute to changing the way financial firms recognize losses, as IFRS No. 9 creates provisions for predictable debts before they occur, which reduces credit losses but, on the other hand, causes raises in the size of allocations, and therefore applying this standard constitutes a vital challenge and incentive at the same time for these banks as they will be encouraged to improve their financial reports and to face all the challenges in applying this standard, in addition to the requirements of Palestinian banks.

Besides, the audit committees, which control the behavior of departments, are vital to guarantee the credibility and quality of the reports examined by stakeholders, as they are the cornerstone for making financial decisions and crucial investment decisions by many parties, such as investors and lenders. Therefore, the audit committees have several

incentives to help publish high-quality statements and encourage high-quality audit work to preserve a good reputation and support the audit market.

However, the audit committee was chosen as a moderating variable due to its significant importance in guaranteeing the quality of the reports and applying IFRS 9, which is related to several factors. First, the audit committee is distinguished by its precise focus on audit and financial monitoring issues. Its primary role is to guarantee the accuracy and integrity of the reports, directly linking it to the quality of these reports. In contrast, general governance encompasses a wide range of policies and procedures covering all aspects of company management, which may not be sufficiently focused on purely financial matters (Hasan et al., 2020a).

Second, the committee plays a specialized supervisory role that concentrates on financial and auditing operations, boosting the accuracy and reliability of the data. Conversely, the concerns of general governance may be spread across various administrative and organizational aspects of the company, thus potentially being less effective in financial supervision (Mwangi, 2018).

Third, the audit committee directly impacts the application of accounting standards. It plays a lustrous role in implementing and monitoring the adoption of accounting standards such as IFRS 9, ensuring that policies and procedures are correctly applied according to these standards. On the other hand, general governance may not have the same level of specialization in precisely and directly applying accounting standards (Al-Aamri et al., 2021).

Finally, the audit committee is characterized by its ability to quickly respond to alternations in accounting standards and make the necessary adjustments to ensure adoption and quality. In contrast, general governance may require more time to implement changes due to the comprehensiveness of its procedures and the diversity of its focus areas (Hasan et al., 2020b).

Therefore, this study is expected to represent an addition to Arab libraries in general and Palestinian libraries in particular and provide a reference for researchers and writers with relevant data. Also, the findings of this study will guide decision-makers and



policymakers to make suitable decisions depending on the high-quality statements, which will develop the banking sector's performance.

### 1.7 Research Motivation

The accounting conceptual framework is a translation of IFRS in terms of principles, assumptions or concepts. It is one of the tools that can be used in the business world considering surrounding environmental factors. Therefore, this study has several motivations, as implementing IFRS 9 gives Palestinian banks advantages over other institutions in other countries seeking to adopt this standard. It helps in regulating financial and accounting operations. Besides, it supports the management of these banks in better controlling the quality of their statements, which is reflected in their performance. It helps eliminate corruption and financial fraud cases.

Adopting IFRS 9 is considered one of the most influencing regulatory variations in reporting. The fundamental purposes of IFRS, especially IFRS 9, are enhancing the comparability of reports and improving their transparency. So, adopting IFRS 9 has a worldwide effect on the reporting system. Besides, investigating unexpected consequences may provide new insights regarding the adoption costs and influences.

Besides, boosting the audit committee and its attributes helps supervise bank transactions, decreases interest conflicts between parties, and prohibits fraud in financial statements.

### 1.8 Study Models

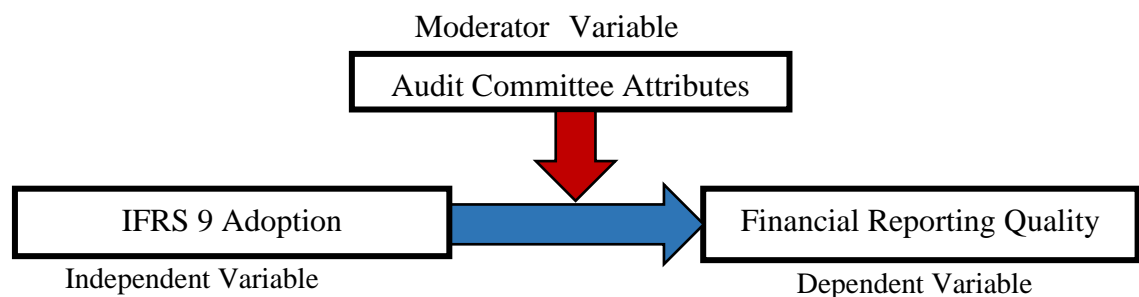


Fig (1.1): Study Models

## **1.9 Study Limitations**

The study has several limitations regarding conceptual and spatial boundaries as the study population contains all listed banks on the PEX, and the sample consists of the listed banks on the PEX whose financial reports are available during the study period. The study selects the banking sector as the study sample because it is likely to be the sector that will benefit the most from applying the IFRS 9, and the reporting quality framework is a critical issue for the banking sector. Besides, it is a central pillar of the Palestinian economy. Also, the study has temporal boundaries as it is conducted in the academic year 2023-2024.

## **1.10 Operational Definitions**

### **1.10.1. International Financial Reporting Standard No. 9**

It is a crucial accounting standard developed by the IASB. Its primary purpose is to guide financial instrument measurement, classification, and recognition (Pinto& Morais, 2022). It establishes principles for reporting financial assets and liabilities, including criteria for their classification and recognizing impairment losses. By the way, IFRS 9 intends to boost the transparency and relevance of the reporting by providing clear guidance on how to account for financial instruments, thereby improving the quality and comparability of the statements across various entities.

### **1.10.2. Financial Reporting Quality**

It refers to the degree of accuracy, relevance, transparency, and reliability of data presented in the statements. High-quality reporting provides users and stakeholders with timely and relevant data that accurately reflects the performance and position of an entity.

It involves adherence to accounting standards and principles and clear and comprehensive disclosures of accounting data, ensuring that with the knowledge supplied, users can make wise judgments (Al-Qadasi et al., 2022).

Procedurally, systematic processes ensure that data presented in the statements adhere to the requirements and principles outlined in IFRS 9, including implementing robust procedures for measuring, classifying, and disclosing financial instruments. Additionally, it entails conducting thorough assessments of ECL and impairment of the assets per the provisions of IFRS 9. By aligning reporting practices with the requirements of IFRS 9, entities can boost their statements' accuracy, transparency, and reliability, thereby improving the reporting quality and providing stakeholders with more informative and reliable data for decision-making purposes.

### **1.10.3. Audit Committee Attributes**

They refer to the characteristics and composition of the audit committee within an entity. These attributes typically include independence, financial expertise, industry knowledge, risk management skills, communication skills, high ethical standards, commitment and availability, and regulatory compliance knowledge. These attributes contribute to the committee's efficiency in supervising the entity's reporting processes, inner control systems, and risk management practices (Fariha et al., 2022).

Procedurally, characteristics, composition, and responsibilities of the audit committee within an entity affect the quality of the statements by enhancing control and supervision of the reporting processes, verifying compliance with accounting standards and financial laws, and developing transparency, accuracy and reliability in the reports.

## **Chapter Two: Theoretical Framework & Hypotheses Development**

Interest in the quality of reporting has increased following a series of scandals involving significant firms such as WorldCom, Enron, and Arthur Andersen, which led to collapses and bankruptcies due to managerial corruption, weak oversight, and inadequate disclosure (Yusran, 2023) which resulted in financial reports that did not reflect the proper position, causing significant damage to the economies of the countries to which these firms belonged. Consequently, the U.S. legislature responded by enacting necessary legislation to ensure the quality of the reporting (Palepu et al., 2020).

Sarbanes-Oxley Act 2002 introduced substantial amendments related to disclosure, transparency, and oversight of auditors to enhance the efficiency of their services. Additionally, this legislation introduced improvements associated with establishing audit committees and the necessary characteristics they must possess to ensure the quality and reliability of the opinions provided by auditors and safeguard their independence and neutrality (Phillips-Pakkianathan, 2022; Almaqtari et al., 2021).

According to Safari Gerayli et al. (2021), audit committee characteristics are crucial in boosting the quality and transparency of reporting and reducing information asymmetry among stakeholders. However, achieving audit committees' objectives does not solely depend on their composition. It also extends to considering their characteristics to enable members to fulfill their duties and responsibilities in providing high-quality and credible financial data to users and beneficiaries (Alzeban, 2020). Consequently, these characteristics can significantly impact how implementing IFRS 9 affects the quality of reporting (Jatiningrum et al., 2020).

Audit committees with expertise and specialization in accounting standards and financial risk management can better understand the impact of IFRS 9, enabling them to provide adequate guidance to management on implementing the standard, improving disclosure procedures, and managing risks (Mbir et al., 2020). Furthermore, independent and transparent audit committees can objectively assess the impact of IFRS 9, ensuring accurate compliance by the company and the validity of disclosure (Safari Gerayli et al., 2021).

Through continuous communication with management and stakeholders and continuous evaluation of the impact of standard implementation, audit committees can provide necessary guidance and improve risk management and reporting accuracy in the long term (Kateb, 2024).

## **2.1 IFRS 9**

### **2.1.1. The Emergence of IFRS 9**

The financial crisis of the late 2000s highlighted flaws in accounting standards, particularly in how credit losses were recognized. The IFRS and US Generally Accepted Accounting Principles (GAAP) followed an incurred loss approach, delaying ECL's acknowledgment. This delay worsened the crisis by impeding timely response to deteriorating financial conditions, as noted by Mbir et al. (2020), Hansen et al. (2023) & Mawanane-Hewa (2022).

In March 2008, IASB and the FASB released a joint discussion paper outlining a future objective of valuing all instruments at fair value, with any variations in fair value reflected in either net income according to FASB or gains and losses according to IASB. This initiative was undertaken to address the perceived shortcomings in accounting standards for financial instruments, which were seen as contributing factors to the severity of the crisis (Al-Hanandeh et al., 2020).

In 2009, IASB released the initial segment of IFRS 9, marking the commencement of its project. This segment addressed the classification and measurement of the assets, supplanting the corresponding sections in IAS (39) without affecting other parts of IAS (39) (Mawanane-Hewa, 2022). In 2010, IASB released another segment of IFRS 9, primarily concentrating on the classification and measurement of liabilities. This segment also tackled issues related to applying fair-value options and cross-embedded derivatives (Gornjak, 2020).

The boards held differing opinions on crucial matters and adopted distinct strategies for crafting the new standard. While the FASB endeavored to create an inclusive standard covering classification and measurement, asset impairment, and hedge accounting simultaneously (Bellandi, 2021), it released a preliminary version of the standard encompassing all three aspects in 2010. In contrast, the IASB opted for a phased approach, introducing each standard component separately (Orthaus & Rugilo, 2023).

The IASB made some changes to IFRS 9 and IFRS 7, moving the start date to periods starting on January 1, 2015. They also updated the provisions regarding restating periods and disclosures in IFRS 7. More adjustments were implemented on November 19, 2013, when they issued IFRS 9 (Hedge Accounting) and revised IFRS 7 and IAS 39 (Mnif & Znazen, 2024). These changes included the implementation of a new general hedge accounting model, allowance for early adoption regarding fair value variations attributed to own credit on liabilities designated at fair value through profit or loss (FVPL), and the elimination of the previous efficient date of 1 January 2015 (Pastiranová& Witzany, 2022; Al-Jamal, 2023).

On the 24th of July, 2014, the IASB introduced the version of IFRS 9, which included a projected loss impairment model and limited changes to the criteria for classifying and measuring assets. This updated version replaced all versions. It became compulsory for reporting periods commencing on or after January 1, 2018, with the option of early adoption depending on local approval requirements (Hewa et al., 2020). Previous iterations of IFRS 9 could be implemented ahead of schedule for a defined duration, provided the initial implementation date fell before February 1, 2015 (Gornjak, 2020; Al-Jamal, 2023).

Orbán& Tamimi (2020) indicated that IFRS 9 aims to reduce the problems institutions face when applying IAS 39. This standard focuses mainly on establishing principles for preparing assets and liabilities reports that provide helpful information relevant to data users. Additionally, its objective is to give users enhanced insights into anticipated credit losses and to offer regular updates on the recognized amount of ECL at each reporting interval, reflecting shifts in the credit risk of financial instruments (Giacomini et al., 2023).

Honková (2021) pointed out that this standard was crafted to serve as a foundation for recognizing and assessing assets, aligning with the business model and cash flow

characteristics, and establishing impairment models for the financial assets, loans, and financial instruments used for hedging or hedge accounting purposes.

The main differences between the IAS 39 and the IFRS 9 are summarized in (Table 2.1).

Table (2.1): Main Differences Between IAS 39 and IFRS 9

Comparison Area	IAS 39	IFRS 9
Standard's Name	Financial instruments: Recognition and Measurement	Financial instruments
Classification and Measurement	It relies on multiple classifications for financial assets and liabilities, such as held-to-maturity, loans and receivables, available-for-sale and FVPL.	It Simplifies the classifications into three main categories: amortized cost, FVPL, and FVOCI. Classification is determined based on the business model and the contractual cash flow characteristics of the asset.
Impairment	It uses an incurred loss model that requires objective evidence of impairment before recognizing a credit loss.	It introduces the ECL model, which requires the recognition of ECL over the next 12 months or the lifetime of the financial instrument, enhancing the ability to recognize potential credit losses earlier.

Hedging	It includes complex and stringent requirements for qualifying hedge relationships, making hedge accounting challenging for many companies.	It provides a more flexible hedging model that better reflects actual risk management activities and allows more hedging strategies to qualify.
Complexity and Application	It is known for its complexity and multiple options, which can lead to practical application difficulties.	It aims to simplify accounting processes, making them more transparent and comparable and facilitating users' understanding of financial reports.
Revenue Recognition	It does not include specific guidance for recognizing revenue associated with financial instruments.	It includes comprehensive guidance for recognizing revenue associated with financial instruments.

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Source: (Al-Hanandeh et al., 2020; Mechelli et al., 2020).

### **2.1.2. Measurement of Financial Assets**

Financial assets are commonly assessed at FVPL except when valued at amortized cost or FVOCI. The categorization is contingent upon the entity's business model for handling assets and the contractual cash flow attributes of the asset (Pinto & Morais, 2022; Gornjak, 2020).

According to Brito & Júdice (2022), an asset is valued at amortized cost if it satisfies one of two requirements: either it is held within a business model that allows the assets to



generate contractual cash flows, or the asset's contractual terms lead to cash flows that only include principal and interest payments on prearranged dates. Additionally, as noted by Ayariga (2020), the asset is valued at FVOCI if it verifies two criteria: firstly, if it is held within a business model that aims to achieve purposes through both collecting contractual cash flows and selling assets and secondly, if the contractual terms of the asset generate cash flows including solely of payments of principal and interest on the outstanding principal amount on particular dates.

According to Pinto & Morais (2022), IFRS 9 allows a business to make an irreversible election at the time of initial recognition, enabling investments in equity instruments that aren't held for trade to be valued at FVOCI. In addition, if it would exclude or greatly minimize an "accounting mismatch," it is possible to designate the asset at initial recognition as evaluated at FVPL. When assets or liabilities are valued or recognized for gains and losses using disparate methodologies, mismatches like these may arise (Madah Marzuki et al., 2021).

However, according to Casta et al. (2019), intellectual property rights assets are always recorded at fair value within one of two portfolios: Financial assets at FVPL, where intellectual property rights assets are recorded at fair value within this portfolio, and subsequent variations in fair value are recorded in the profit or loss statement. Financial assets at FVOCI: where intellectual property rights assets are recorded at fair value within this portfolio, and subsequent variations in fair value are recorded in the other comprehensive income (OCI) statement.

In this regard, according to (Awuye & Taylor 2024; Ben Ltaief & Moalla, 2023; & Besmir et al., 2021), the bank must comply with the requirements of the standard (9) and these items at a minimum: In the event of actual disposal of intellectual property rights assets included in the financial assets at FVOCI portfolio or cancellation of recognition thereof, the revaluation surplus is not recycled to the income statement but transferred to the revaluation surplus within equity. Besides, dividends received on intellectual property rights assets included in any of the above portfolios are recognized in the income statement. Also, reclassification between or from the above portfolios is not permitted after the initial classification of these financial assets.

Intellectual property rights assets are not classified within the financial assets at FVPL portfolio unless the assets are listed on an active market and there is actual trading on them, in which case they must be traded within a maximum period of six months from the acquisition date; otherwise, those assets are classified within the financial assets at FVOCI portfolio upon initial acquisition. Besides, compliance with the IFRS No.13 (Fair Value) is required for fair value measurement purposes, where Standard (9) mandates the measurement of the instruments at fair value, including those instruments for which there is no market price available.

It should be noted that cost does not represent fair value except in minimal cases (such as investments in newly established companies). Thus, models for fair value measurement must be developed. The central bank should be provided with fair value measurement methods for the assets for which there is no market price, accompanied by the bank's final and interim statements. On the other hand, the exchange rate differences should be recorded under the IFRS (Exchange Rate Policy).

### **2.1.3. Measurement of Financial Liabilities**

In general, measuring financial liabilities is typically more straightforward than that of assets. Most liabilities are assessed at amortized cost, leading to the acknowledgment of finance costs in the income statement based on the effective interest rate (Honková, 2021). Liabilities held for trading, including derivative liabilities, are appraised at FVPL (Chen et al., 2022). Similarly to financial assets, a company has the option, upon initial recognition, to designate the liability to be measured at FVPL if doing so would eliminate or significantly decrease an 'accounting mismatch (Kvaal et al., 2023).

In cases where a firm has a liability measured at FVPL, its fair value is influenced by the firm's creditworthiness. Consequently, if the creditworthiness deteriorates, the liability's fair value typically minimizes, causing a fair value gain (Aslanoğlu & Damayanti, 2023). Conversely, when creditworthiness improves, the fair value of liability usually rises, resulting in a fair value loss.

According to IFRS 9, any fair value variations in a financial liability designated for measurement at FVPL due to alterations in its credit risk must be reflected in OCI rather than directly impacting profit or loss. Nonetheless, this rule doesn't apply if adopting such treatment creates or worsens an accounting mismatch. (Mapulane, 2022; Oberson, 2021).

However, some studies such as (Neamah 2024; Jodeh & Khalaf 2022; Al-Sakini et al. 2021; & Awawda, 2019) indicate that, according to the instructions of the Banks, debt instruments must be registered within one of the following three portfolios and under the requirements of Standard (9):

#### Portfolio One: Amortized Cost

Financial assets (debt instruments) in that portfolio are recorded at cost and are not subject to fair value measurement requirements. The instruments included in this portfolio must meet the criteria stipulated in standard (9), which are summarized as follows: First, contractual cash flows: The purpose of acquiring instruments included in this portfolio must exclusively be to collect contractual cash flows comprising both the principal of the debt and the interest (yield) on that principal. Second, business model test: These instruments must be consistent with the business model (models) available to the bank [the business model (models) must be approved by the board of directors.

Also, the bank must comply with the standard (9) requirements and these items at a minimum: The bank should not intend to dispose of these instruments before their contractual maturity date. [Except within the limits permitted by standard (9), such as cases of non-recurring or non-material sales or sales close to the maturity date.] Suppose the issuance prospectus includes a provision allowing the issuer to call the debt instruments before their maturity date in whole or in part or the convertibility of the debt instruments into shares. In that case, such conditions preclude the eligibility of the debt instruments to be classified within the amortized cost portfolio.

It should be noted that risk management and avoidance are integral parts of the standard (9) application requirements. Therefore, in cases where the bank faces increased levels of credit risk in these instruments according to the risk management methodology applied by the bank, it may dispose of them before their maturity date without being considered a breach

of the business model application concept. Upon disposing of any debt instruments within this portfolio before their contractual maturity date, the bank must disclose such cases with the financial statements, including an explanation of the disposal reasons.

Instruments included in this portfolio are subject to impairment calculation ECL as stipulated in the standard (9) application requirements and according to these instructions. The measured ECL is recorded in the income statement. Also, the interest (yield) earned on these instruments is recorded in the income statement. Exchange rate changes on these instruments are subject to accounting policy regarding exchange rates under the IFRS requirements. Furthermore, debt instruments issued by the government or guaranteed by it are exempted, as specified in the paragraph on measuring the probability of default.

#### Portfolio Two: Debt Instruments through OCI

The bank must comply with the requirements of the standard (9) and these items at a minimum (Neamah, 2024; Ben Ltaief & Moalla, 2023; Al-Sakini et al., 2021); instruments included in this portfolio are those for which the bank's intention is either to hold them until their maturity date to collect contractual cash flows or to sell them (liquidity management portfolio), following the business model (models) applied by the bank in this regard. These instruments are measured at fair value, and subsequent variations in fair value are recorded in the OCI statement.

The interest (yield) earned on these instruments is recorded in the income statement, and the exchange rate changes associated with these instruments are recorded (exchange rate policy). Besides, instruments within this portfolio are subject to impairment calculation ECL as stipulated in the standard (9) application requirements and according to these instructions, where the measured ECL is recorded in the income statement.

Since these instruments are recorded at fair value and are subject to ECL impairment calculation simultaneously, there is a reconciliation between the variation in fair value and the ECL, with priority given to impairment ECL recognition/registration. It has been previously mentioned that subsequent variations in the fair value of these instruments are recorded in the OCI statement. However, upon disposal or derecognition of these

instruments, the balance of fair value recorded in the OCI statement is recycled to the income statement.

#### Portfolio Three: Debt Instruments at FVPL

The bank must comply with the requirements of the standard (9), and these items at a minimum (Al-Sakini et al., 2021; Alkhresat& Almubaydeen, 2019); debt instruments in this portfolio are recorded according to the business model (models) applied by the bank in this regard, as these instruments are not included in the previous two portfolios. The subsequent variations in the fair value of these instruments, the interest (yield) earned on these instruments, and the alters in the exchange rate associated with these instruments (exchange rate policy) are recorded in the income statement.

Instruments within this portfolio are not usually subject to ECL measurement. According to the business model (models) specific to this portfolio, instruments recorded within this portfolio must be actively traded within six months from the acquisition date.

#### **2.1.4. Reclassification**

A company should only reclassify all affected financial assets when it alters its business model for administrating financial assets. Reclassification should be implemented prospectively from the reclassification date without restating previously recognized gains, losses, or interest (Pinto & Morais, 2022). Assets designated at FVPL and equity investments measured at FVOCI are exempt from IFRS 9's reclassification requirements. Conversely, financial liabilities are never subject to reclassification (Ben Ltaief & Moalla, 2023; Kvaal et al., 2023).

### **2.1.5. Impairment**

Assets classified as amortized cost or FVOCI, except for investments in equity instruments, must be tested for impairment at the end of each reporting period. IFRS 9 introduces a comprehensive impairment method, differentiating between '12-month ECL' and 'lifetime ECL.' ECL denotes the present value of all projected cash shortages, which represent the variance between the anticipated cash flows by an entity and those it expects to receive throughout the anticipated lifespan of the instrument (Buesa et al., 2020).

This evaluation of ECL should be conducted impartially and probability-weighted, encompassing a spectrum of potential scenarios, the time value of money, and drawing upon reasonable and substantiated data (Stander, 2021; Honková, 2021). Determining whether the provision for losses is calculated based on ECL over 12 months or ECL over the lifetime hinges on whether there has been rising in credit risk since the acknowledgment of the asset (Gubareva, 2021). This rise in credit risk is signaled by a shift in the probability of default happening throughout the anticipated lifespan of the asset.

To carry out this assessment, the company must evaluate supportable information without incurring excessive costs or effort, pinpointing any significant upticks in credit risk since initial recognition (Bellandi, 2021). If the instrument shows credit risk at the time of reporting, the company could infer there hasn't been a credit risk increase since it was first acknowledged. To ascertain credit risk, the company relies on its credit ratings or other approved evaluation methods (Orbán& Tamimi, 2020). Suppose the default risk on an asset hasn't changed much since it was first recognized. In that case, a company calculates the ECL over 12 months, predicting default events that may happen within the year from the reporting date.

Furthermore, if there has been a rise in credit risk since the initial recognition, the firm calculates lifetime ECL. In this scenario, ECL is determined by considering all default events for the expected lifespan of the instrument. Throughout each reporting period, the firm assesses whether there has been a rise in credit risk associated with an asset since it was first

recognized. A simple approach may be used to calculate ECL to lifetime projected credit losses for contract assets, trade receivables, and leasing receivables (Chen et al., 2022).

When a financial asset experiences an actual default event and is classified as credit-impaired, determining the lifetime ECL involves assessing the disparity between the asset's gross carrying amount and the present value of anticipated future cash flows. In the case of assets evaluated at amortized cost, an allowance for ECL is recognized, reducing the asset's net carrying amount. Variations in this allowance from one period to another are accounted for in the profit or loss statement (Manya & González-Rabanal, 2023).

Conversely, for assets measured at FVOCI, there is no adjustment to the net carrying amount regarding ECL, which is attributed to the fact that these assets are valued at fair value, not amortized cost. Instead, any fluctuations in ECL are recorded in the profit or loss statement, accompanied by an adjustment to OCI (Chen et al., 2022; Oberson, 2021).

Specific rules regulate acquired or originated assets considered credit-impaired from the start. Each financial period a business accounts for changes in estimated credit losses over the assets' lifetime as either a gain or loss due to impairment on its profit and loss statement (Honková, 2021).

### **2.1.6. Hedge Accounting**

Hedge accounting under IFRS 9 is not compulsory but optional. Entities can include risk management activities in the reports through hedge accounting when specific eligibility and qualification criteria are satisfied. Match the profits or losses from hedging tools like derivatives with the gains or losses on the risks they protect against (Müller-Henneberg, 2023).

Rannou& Barneto (2021) indicated the following observable forms of hedging relationships that can be examined using hedge accounting: A fair value hedge aims to minimize the impact of fluctuations in the value of an acknowledged asset or liability or an undisclosed contractual obligation linked to a risk that could influence the income statement,

and the cash flow hedge which helps manage the impact of variations, in cash flows related to an asset, liability or expected transaction that carries risk and could influence profit or loss.

According to Müller (2020), a hedging arrangement is eligible for hedge accounting only if it meets the following criteria: First, it includes approved hedging instruments and items to be hedged. Second, when the hedging arrangement begins, a designation and documentation outline the relationship and the entity's risk management goal and strategy for implementing the hedge. Finally, the hedging arrangement satisfies all criteria for hedge efficacy.

Besides, the hedging relationship must verify the following effectiveness requirements at the start of each hedged period to qualify for hedge accounting (Rannou& Barneto, 2021): First, the existence of a relationship between the hedging instrument and the hedged item. Second, the influence of credit risk should not overshadow the value variations stemming from that relationship. Finally, the hedge ratio in the hedging relationship matches the ratio used in the actual economic hedge.

In fair value hedge accounting, when the hedge meets the requirements, the hedging instrument is revalued for its value, and any resulting gains or losses are acknowledged in the profit or loss statement (Rannou & Barneto 2021). At the time, the value of the hedged item is modified for gains or losses that're specifically related to the hedge risk and recorded in profit or loss. As a result, all gains and losses associated with the hedged risk are shown in the profit or loss statement without any impact on profits and losses except for ineffectiveness in hedging (Müller Henneberg, 2023).

Notably, if the item being hedged is an equity instrument marked to be valued at FVOCI, losses and gains from the hedged item and the hedging instrument are reported in OCI (Ben Ltaief & Moalla, 2023). On the other hand, if the hedge qualifies, the hedging instrument in cash flow hedge accounting is revalued for its total value. The hedging instrument's losses and gains are first reported in OCI and transferred to an equity "cash flow hedging reserve." Conversely, the profit and loss statement displays any unsuccessful losses or gains on the hedging instrument. Amounts in OCI are reclassified (or "recycled") to the profit and loss statement when the cash flows associated with the hedged item affect the profit (Müller-Henneberg, 2023; Ranasinghe et al., 2022).



Losses or gains from the hedging instrument previously held in OCI are shifted during the period in which the asset or liability affects profit or loss when a forecasted transaction hedge results in the recognition of an asset or liability. It typically occurs during the recognition of revenue or interest expenses. The corporation deducts the amount from the cash flow hedge reserve. It adds to the initial cost or carrying amount of the asset or liability if a projected transaction that was hedged later results in the recognition of a financial asset or liability. It is not thought of as a reclassification of this change. Hence, it does not affect total revenue. However, if a firm foresees that some part of a loss recorded in OCI will not be recoverable in periods, it should move the amount to profit or loss (Rannou& Barneto, 2021).

## **2.2 Financial Reporting Quality**

Financial information is the data that is prepared to benefit the decision-maker. The quality of data means the primary and supporting characteristics it possesses, that it be credible and free from disfigurement, misleading, etc., and that it be prepared according to a set of standards in a way that benefits its users and helps them make sound decisions (Budai et al., 2021; Almaqtari et al., 2021).

It means that reports must not be ambiguous and must not contain any manipulation or concealment of financial facts. These reports must be understandable and clear so users can use them efficiently to make informed decisions (Şeker& Şengür, 2021; Florou et al., 2020), which ensures that transparency and integrity are supported in the financial disclosure process (Kaharrukmi& Adli, 2022).

Palepu et al. (2020) indicated that financial reports are an essential reference for investors and external parties alike, so accurate and reliable data about the firm's performance and financial results must be provided to help them make the right financial decisions. These reports should also include a comprehensive analysis of budgets, income and cash flows, facilitating understanding of the entity's performance over a specific period.

Financial reports also reflect economic and industry trends and directions, which help predict the future and plan the business better. Gjoni-Karameta et al. (2021) indicated that

relevance, transparency, faithful representation, comparability, understandability, and objectivity are considered prominent features of financial reports, as specific and internationally recognized standards are followed for their preparation, which increase their credibility and comparability across different companies and sectors.

### **2.2.1. Relevance**

For information to wield relevance, it must pertain directly to the decision at hand, thereby impacting the decisions of users and influencing those decisions by aiding in the assessment of past, present, and future events or adjustments to prior valuation processes. Financial data is considered relevant if it possesses predictive value, confirmatory value, or both (Kaawaase et al., 2021; Jadoon et al., 2021).

Abed et al. (2022) indicated that data has predictive value if information users can use it to forecast economic events, the entity's expected performance in future periods, and its capability to cope with unexpected future events and variations. Conversely, confirmatory value is available in the data if it gives feedback about previous evaluations (confirming or altering them).

There's a crossover between predictive and confirmatory roles in financial reporting. Presenting information about the current state allows data users to either confirm or refine prior forecasts and make predictions. For instance, current-period revenue data can help forecast revenues for upcoming periods. They can be compared to projected revenues, aiding users in refining or enhancing forecasting methods employed in prior periods. Data users are interested in predicting various aspects, such as future financial performance, the entity's dividend-paying capacity, forecasts regarding future stock prices, and more (Pham et al., 2023; Kaawaase et al., 2021).

The relevance of data is inherently tied to its nature and significance. Sometimes, data may be deemed relevant based solely on its nature, such as disclosing a new business sector or geographic area that impacts risk assessment and expected opportunities, irrespective of its relative importance (Turzo et al., 2022). Conversely, in other instances, both the nature of

the information and its relative importance are crucial, as seen in determining the value of inventory within homogeneous categories.

Data is considered material or of relative importance if its omission or misstatement could affect users' decisions based on the statements. IASB hasn't stipulated a specific standard or ratio for materiality, as it hinges on factors like the entity's size, the nature of its operations, and other relevant considerations (Azad et al., 2022; Bekiaris & Markogiannopoulou, 2022).

### **2.2.2. Faithful Representation**

In finance and accounting, faithful representation is a substantial characteristic of financial data. It refers to the quality of reporting that ensures the data presented properly reflects the underlying economic substance of transactions (Solomons, 2021). Faithful representation means that the statements provide an accurate and fair view of an entity's position, performance, and cash flows (Nangih et al., 2021).

Frank (2020) indicated that for financial data to be reliable, it must truthfully represent the operations and other events within the entity, meaning that the data should accurately reflect the phenomena it describes, portraying them faithfully so that it is complete, unbiased, and free from mistakes. While it may not be expected for these qualities to be fully achieved, the aim is to attain them to the highest extent possible (Schroeder et al., 2022; Ozcelik, 2020).

Complete data encompasses all the substantial data for users to comprehend the depicted events, including descriptive and explanatory information (Gupta et al., 2020). Neutrality, in essence, denotes that financial information is impartial and unbiased. It signifies that the reports are crafted and presented without favoring any particular party or group of financial data users over others or with the intent to achieve a specific presentation or objective. Instead, they are prepared for universal use devoid of bias.

For instance, it's crucial not to withhold accounting information from tax authorities to cater solely to the entity's owners or to manipulate accounting treatments deliberately to

inflate profits to benefit management's objectives and performance enhancement. Being free from errors signifies no inaccuracies or omissions in describing and reporting events and no errors in processing the disclosed data (Garcia-Torea et al., 2020; Knechel et al., 2020).

Maintaining faithful representation in financial reporting is necessary by following accounting guidelines, such as the Standards for Financial Reporting. These standards guide measurement, recognition, and disclosure requirements, ensuring the data properly reflects the substance of transactions (Neel & Safdar, 2024; Benkraiem et al., 2022). Faithful representation bolsters the credibility and utility of the information, empowering stakeholders to make well-informed decisions regarding resource allocation, risk assessment, and entity performance evaluation. It cultivates trust in the integrity of the reporting and fosters confidence in the financial markets (Ajibade et al., 2022; Haarburger et al., 2020).

### **2.2.3. Understandability**

Understandability is a vital attribute of financial information, ensuring that it is comprehended by users possessing a reasonable knowledge of business activities (Sun et al., 2022). It underscores the significance of clarity and simplicity in reporting, enabling effective decision-making by diverse stakeholders, including regulators, investors, creditors, managers, and other parties (Seifzadeh et al., 2021; Abdullahi & Abubakar, 2020).

According to Cohen et al. (2022), the understandability of accounting data entails clear and accurate classification and presentation. The financial information presented should be devoid of complexity and difficulty. However, this doesn't imply excluding accounting data related to intricate operations and transactions, such as specific instruments like derivatives. Instead, it should be presented clearly and understandable whenever feasible.

Al Natour (2021) defined understandability as "the absence of ambiguity in data, making it easily understandable to derive benefit from it. In other words, the data expressed in the statements should be simple, obvious, and free from complexity." Additionally, the FASB has pointed out that for the information in the reports to be understandable, it should be comprehensible to those with a reasonable understanding of firm activities.

On the other hand, understandability can be defined as "information understood by the decision-maker, and understandability is influenced by the skill and experience of those preparing it on the one hand and the skill and experience of those using it on the other hand." More precisely, the understandability of information is governed by a set of features related to the user. Information users are assumed to have reasonable knowledge of business and accounting activities and a desire to study the data with greater interest and care (Balios et al., 2021; Desalegn, 2020).

Furthermore, information about complex issues should not be excluded from the statements if it is suitable for the needs of economic decision-makers, and it should not be excluded because it is difficult for some users to understand (Kabwe, 2023; Kimmel et al., 2020).

Langella et al. (2023) indicated that the understandability of information can be measured based on five key elements, which are the organization of the data in the yearly report and its classification method; the degree of clarity, simplicity, and disclosure in presenting the information; the importance of having forms and tables to improve understanding, clarify relationships, and ensure conciseness; whether the preparer of the report combines related words and sentences easily and understandably; the level of awareness, perception, and comprehension among users of that information.

#### **2.2.4. Comparability**

Financial statement comparability entails juxtaposing the statements of a specific period with those of prior periods of a similar entity or comparing the financial reports of one entity with those of other entities for the same period (Beerbaum et al., 2021). Comparability also entails the ability to compare information about an entity with similar data about different entities and with similar information about the same entity in other periods, enabling users to identify the key similarities and differences in a phenomenon as long as these aspects are not concealed through the use of dissimilar accounting methods.

Users of accounting data derive significant benefits from comparisons, which aid in decision-making concerning investment and financing, monitoring the entity's performance and position over time, and comparing different entities (Opare et al., 2021). For instance, when making resource allocation decisions, evaluating alternatives necessitates the availability of comparable information.

The comparison process relies on consistency in using accounting policies over time, indicating a steadfast application of those policies, consistency in the presentation format of the statements over time, item classification, and allowing the entity to alter accounting policies only under specified circumstances to ensure relevance and reliability or as mandated by local legislation or international standards, as outlined in IAS (Opare et al., 2021; Kim, 2020).

On the other hand, it should be noted that the need for comparability should not interfere with the concept of consistency, nor should it hinder the adoption of new accounting standards. It is inappropriate for a firm to continue accounting similarly for a financial transaction or other event if the policy does not align with achieving relevance and reliability (Gardi et al., 2023). Similarly, it is not appropriate for the entity to maintain its accounting policy without modification if alternative, more relevant, reliable policies exist.

As users desire to compare the position, performance, and variations in the entity's position over time, it is essential to disclose financial and parallel data from previous periods (Oluwagbemiga, 2021; Desalegn, 2020). Furthermore, the most significant aspect of comparability is informing users about the accounting policies used in preparing the financial statements and any variations in these policies and their effects, including disclosing accounting policies that achieve comparability (Ma et al., 2022). This feature also facilitates comparing the position, business results, and changes in the position of the same entity from period to period and with other entities in the same time frame (Hossain & Uddin, 2024; Tarca, 2020).

## 2.3 Audit Committee

As a result of cases of fraud and manipulation in the statements, which were among the leading causes of failures and collapses of major global companies, the incentives for professional bodies and legislators to form audit committees from within the board of directors increased. The purpose was to assist in supervision and oversight (Saleh & Mansour, 2024; Al Farooque et al., 2020). The inception of an audit committee as an idea originated in the United States in 1967 when regulatory bodies of the profession proposed a solution to a set of problems through recommendations urging the formation of an audit committee tasked with supervising and auditing accounting work, ensuring its accuracy and reliability (Al-tae& Flayyih, 2022; Al-ahdal& Hashim, 2022).

The committee also focused on appointing external auditors, defining their tasks and fees, and aiming to regulate accounting work by independent individuals who provide their professional technical opinion impartially without interference (Ebirim et al., 2024). In 1974, the Securities and Exchange Commission introduced its publication to request disclosure of the existence of audit committees, followed by a decision requiring American companies to establish audit committees overseeing the preparation of the reports. This initiative received encouragement from the Securities and Exchange Commission and the American Institute of Certified Public Accountants (Chronopoulos et al., 2024).

Daryaei et al. (2024) referred to the fact that the origin of the committee is based on the agency theory that emerged in the 1970s, which transacts with solving obstacles arising from the imbalanced interests between management (agents) and investors (owners). The concepts presented by authors, researchers, and professional organizations regarding the nature of audit committees varied.

The Canadian Institute of Chartered Accountants (CICA) identified audit committees comprising firm directors whose responsibilities focus on auditing annual reports before submission to the board of directors. It serves as a link between auditors and the board of directors, with its activities summarized in reviewing the selection of external auditors, the

scope and findings of auditing, the internal controls of the company and all financial data prepared for disclosure.

It has been described as a subcommittee of the board of directors primarily consisting of non-executive board members, acting as a link between external auditors and the management in matters related to external auditing, internal audit function, and other accounting issues (Sundarasan et al., 2024; NGO & Le, 2021).

The importance of the audit committee stems from the significance of the functions it performs in the firm as an agent for the board of directors. Its importance is evident through the confirmation of numerous studies on corporate governance, such as (Abdeljawad et al., 2020 Dzomira, 2020; & Garad et al., 2021). These studies emphasized the necessity of having audit committees in companies seeking to implement governance practices.

The importance of the committee is also evident to investors and external stakeholders as it enhances the credibility and transparency of information and statements issued by firms to external parties (Fariha et al., 2022). It results from its oversight of internal and external audit processes and its resistance to management pressures and intrusions in the audit process.

Besides, Toumeh et al. (2023) indicated that simply announcing the formation of an audit committee by an economic entity impacts its stock movement in the securities market. Furthermore, the role it plays in supporting all stakeholders helps in effectively implementing corporate governance by providing the board of directors with appropriate information to improve decision-making and work on evaluating the internal control system and enhancing its effectiveness.

### **2.3.1. The Size of the Audit Committee**

The number of members of the committees primarily depends on the size of the firm and its board of directors. The committee's membership must be appropriate to provide substantial capabilities and expertise and distribute tasks effectively to ensure its duties'



efficient and effective performance. Determining the number of committee members should avoid increasing it in a way that hinders the performance of tasks quickly and efficiently. Additionally, it should prevent reducing its members in a way that renders it incapable of performing its duties adequately. The ideal number of audit committee members typically ranges between three and five members (Abbas et al., 2021; Endrawes et al., 2020).

### **2.3.2. The Meetings of the Audit Committee**

The number of meetings held by audit committees is one of the most important indicators of the efficiency of these committees. The frequency of meetings of this committee signifies the exercise of the required professional care and the fulfillment of its supervisory duties. Audit committees that meet regularly know and supervise the reporting issues relevant to the company (Aljaaidi et al., 2021). Januarti et al. (2020) indicated that the committees must meet at least three or four times yearly.

### **2.3.3. The Independence of Members of the Audit Committee**

The independence of a member of the audit committee is that the personal judgments and opinions expressed by the member are not biased towards the directions of management and the external auditor. The New York Stock Exchange defined an independent audit committee member as "a person who, when expressing his opinion or carrying out his responsibilities, is not influenced by any relationship with the Board of Directors or any other person within the entity in which he works as an audit committee member (Abbas et al., 2021).

Januarti et al. (2020) referred to several requirements that must be met by the committee member to be considered independent, such as not working in the company and not owning authority or responsibility in it or having a connection or kinship with its officials.

#### **2.3.4. The Accounting and Financial Expertise of the Audit Committee**

After the independence feature is available for the committees, it is followed and complemented by the expertise in financial knowledge and legal experience in the work and nature of the activities of these committees. They enable the committee to have an appropriate level of expertise and knowledge that allows it to perform its supervisory and oversight tasks entrusted to it, as the members of the committee have financial expertise that is most capable of detecting any errors or distortions in the statements, thus evolving the quality and reliability of the data provided to the market and enhancing the quality of reports (Raweh et al., 2021; Chaudhry et al., 2020).

### **2.4 Adopting IFRS 9, Quality of Financial Reporting, Audit Committee and Hypotheses Development**

#### **2.4.1. Adopting IFRS 9 and Financial Reporting Quality**

The necessity for unified accounting applications, as well as the ensuing foundations, principles and procedures for preparing financial reports and the means of disseminating them, has increased the significance of international standards for accounting and financial reporting over the past few decades. They have become a significant prerequisite for access to financial markets in conjunction with developments and global economic conditions, which has led to the creation of international professional organizations whose duties include setting general guidelines and adopting suitable solutions for any issues that may arise when preparing financial reports (ElKelish, 2021; Beerbaum& Piechocki, 2013).

Many users of the statements have informed the IASB that the requirements in IAS 39 are challenging to comprehend, interpret, and apply. They urged the council to improve a new standard for preparing reports for instruments based on clear foundations (El Haq & Pratama, 2021; Alhaija, 2012).

The IASB has issued several international standards, the most recent of which is IFRS No. (9) regarding the classification and measurement of financial instruments to enhance users' understanding and ability to understand the process of preparing reports (Ahmed, 2021) by minimizing the number of classification categories and applying a single impairment method as an alternative to the approaches of different values with multiple classifications in IAS No. (39).

Recently, there has been a growing interest in accounting and financial aspects of preparing disclosed statements and developing data quality in those reports. The concept of reports' quality means those features that must characterize accounting information to achieve the desired benefit from preparing financial reports and communicating the appropriate information to external parties and facility management for decision-making.

Therefore, the financial report's quality is measured by many indicators such as the relevance of its accounting information, faithful representation, comparability, understandability, credibility, the advantages it provides for users, the absence of distortion and misinformation, the preparation according to a set of accounting, professional, legal, and regulatory standards (Mawanane-Hewa, 2022; Nikam, 2020).

Financial reporting quality becomes a focus for stakeholders and researchers due to harmonizing financial standards, crises, increasing disclosure needs, and other considerations (Herath & Albarqi, 2017). IASB asserted that qualitative features influence and strengthen the quality of reporting. Accordingly, IASB considered the accurate depiction and relevance of the financial statement data to be fundamental qualitative features. Besides, comparability, verifiability, faithful representation, timeliness and understandability of financial accounts strengthen qualitative features. Furthermore, reporting quality is related to pecuniary and non-pecuniary data that helps make decisions (Herath & Albarqi, 2017).

In other words, information is the most helpful source in beneficiaries' decision-making and is used to serve the intended purposes. It must be related to the target for which it is prepared to be valuable and worthwhile. When data is connected to a clear objective, this aids the decision-maker in assessing the decision's outcome and its fitness for selecting an alternative from a list of options. Besides, the extent to which the decision-maker comprehends accounting data determines the significance of that information. If the

information is difficult to understand, it cannot be used beneficially, as the nature of the data in the reports and how it is presented affect the likelihood of understanding that information (Awuye & Taylor, 2024).

Additionally, the influence of accounting information depends on its accuracy. Inaccurate data can create a state of ambiguity, make it difficult to expect the facility's future and prevent decision-makers from acting appropriately. Another crucial factor for success in the decision-making is timing. Information must be available to those who use it at the required time (Madah Marzuki et al., 2021).

The IFRS 9 refers to how the reports are prepared for economic establishments and business sectors. These reports have gained wide international acceptance because of their high-quality characteristics: understandability, relevance, accuracy, faithful representation of financial operations, reliability, neutrality, and consistency. In addition to their focus on the developments and operations according to their essence and not just their legal form, adopting the principle of caution in many circumstances and comparability, and providing information in the correct form and at the appropriate time that enables its users to benefit from it, and helps them to make decisions based on the accurate data.

International Financial Reporting Standards have specified the characteristics that must characterize the outputs of the accounting system to enhance its essential role in rationalizing the decisions of its users and beneficiaries (Nikam, 2020). Suwaidan et al. (2007) stated that financial standards are crucial in achieving and developing the reports' quality and effectiveness of accounting data. These statements must be high quality and contain appropriate, reliable, dependable, and high-quality information as they affect decision-making and help evaluate companies' performance.

One of these standards is IFRS 9, released to develop the reporting and accounting of liabilities and assets. IFRS 9 focuses on three primary areas: hedge accounting, asset impairment, and categorization and measurement of financial instruments. It specifies how an entity must categorize and measure its liabilities, assets and contracts to sell or buy non-pecuniary items. IFRS 9 also mandates that the organization recognizes an asset or liability when it becomes concentrated in its statements (Al-Hanandeh et al., 2020).

The IFRS 9 superseded IAS 39, and significant adjustments were made when comparing them. The initial modification was followed by reclassification and a change in measuring some assets. Based on the business models of the assets, entities' assets under IFRS 9 are reclassified into three groups: fair value through loss and profit account, amortized cost, and FVOCI (Nikam, 2020).

Adopting IFRS progressed rapidly globally to boost the quality of reporting. However, there were some barriers or limitations to an effective transition to IFRS 9; some systems applied by commercial banks were not compliant with the environmental requirements for transition to IFRS 9. In addition, the main challenge in this transition was the expected gap in the suitability and reliability of the influence of the transition to IFRS 9 on the quality of the reporting data. Also, employees' positive attributes and willingness to adapt to IFRS9 were the keys to efficiently achieving the suitability and reliability of the reporting information quality (Nurunnabi, 2018).

The IFRS 9 played an essential role in improving effectiveness and achieving high-quality financial data characterized by suitability, reliability and faithfulness of the banks' statements (Ahmed, 2021). Also, a positive and statistically significant effect of applying IFRS 9 on the relevance, reliability, adequacy and quality of the reporting data was found in Yemeni banks and the Jordanian banking sector. The results found that accountants had sufficient, comprehensive knowledge regarding IFRS 9, which meant that banks could easily convert financial statements to be based on IFRS 9 and improve decision-making (Nikam, 2020; Alhaija, 2012). The discussion above leads to the following hypothesis:

H1: IFRS No.9 adoption significantly positively impacts the quality of financial reporting.

#### **2.4.2. Audit Committee and Financial Reporting Quality**

Sarbanes-Oxley Act 2002 was the impetus for implementing the audit committee, which applies to all publicly traded firms registered with the U.S. Securities and Exchange.

The audit committee oversees inspection and monitoring operations to evolve the accuracy and equity of the reports` data (PwC, 2018).

According to Grange et al. (2021), the necessity of the committee in public joint stock companies (J.S.C.s) is contingent upon various factors, including the board of directors attributes, the company's size, demographic makeup, and audit independence. It is greatly appreciated that the audit committee maintains professional skepticism because it helps with related issues like earning management, business performance, and financial statement information (Elkinawy et al., 2021).

The audit committee was created to address the issue of data asymmetry in public J.S.C.s in response to the need to strengthen control (Chiu et al., 2021). Most countries have laws that allow publicly traded companies to choose an audit committee freely. Consequently, the Board of Directors' decisions and factors like firm size and audit independence determine the committee's establishment (Duc, 2019). The benefits of having an audit committee supervisor far outweigh the costs of keeping it in good working order. The number of shareholders promotes the audit committee's growth (Tien, 2019). Furthermore, large auditing firms recommend that businesses create an audit committee to support their auditing efforts, increasing the dependability and transparency of reporting quality (Lynn, 1985).

By evaluating financial data, controlling risks, overseeing internal audit and auditor independence, confirming information provided to the board and shareholders, and keeping an eye on ethical issues, the audit committee is said to improve the accuracy and dependability of the report's data while lowering risks and promoting compliance with business ethics (PwC, 2018). Consequently, including the audit committee can benefit stakeholders and public J.S.C.s (Grange et al., 2021).

According to Erin and Adegboye (2021), the audit committee improves the operational effectiveness of the quality of the statement information, integrates reports, and audits the quality of those reports. Moreover, the audit committee lowers the risks associated with earnings management (Elkinawy et al., 2021). Also, the competency of the committee is determined by the number and age of board members, the frequency of meetings, the

organization's structure, professional credentials, and the degree of ownership concentration (Javeed et al., 2021). The discussion above leads to the following hypothesis:

H2: Audit committee Attributes significantly positively impact financial reporting quality.

### **2.4.3. IFRS 9 Adoption and Financial Reporting Quality, with the Moderating Role of Audit Committee Attributes**

Several studies focused on audit committees and their influence on financial reporting quality, as the audit committee attribute regarding the independence of the members had a beneficial and significant impact on the timeliness and the quality of the reports of the listed Jordanian firms and the banks of Saudi Arabia (Alqaraleh & Nour, 2020; Rabab'ah et al., 2017).

Many other studies investigated the influence of the committee size, represented by its members' numbers, on the quality of the reports. They showed that the size significantly positively impacted the quality of the reports, the internal data reports and their accuracy while the audit function was still active inside the organizations, indicating that as the size of the committee rose, the reporting quality and the timeliness of the statements were developed, as occurred in the companies of Jordan and Oman (Alqaraleh & Nour, 2020; Al-Aamri et al., 2021). Meanwhile, others found that the committee size had no significant influence on the reporting quality of Nigerian banks (Majiyabo et al., 2018).

Besides, the experience of the audit committee members significantly impacted the quality of reports and systems. This expertise demonstrated the effectiveness of these committees in raising the dependability of audited data. Also, the committee had to perform its responsibilities effectively to achieve quality matters within the reports, as occurred in the Saudi Arabian banks (Rabab'ah et al., 2017). Furthermore, the committee meetings and the participation of the interior audit function significantly impacted the financial reporting and timeliness of the reports (Alqaraleh & Nour, 2020; Gebrayel et al., 2018).

Some studies indicated the lack of importance of the audit committee in applying IFRS9, such as Ulfah& Diyanty (2024), which found that the implementation of IFRS9 and audit committees had an impact on increasing bank managerial discretion. It explains that the implementation of IFRS 9 and the audit committee have been unable to limit managerial discretion. An increase in managerial discretion may contribute to variations in the quality of financial reports.

When used wisely and following established accounting standards, it enhances transparency and supports the quality of financial reporting. Conversely, misusing such discretion due to inadequate oversight or weak supervision may deteriorate the report quality and undermine trust in the financial information provided.

Safari Gerayli et al. (2021) stated that audit committees are guardians of compliance, ensuring that financial statements adhere to pertinent accounting standards like IFRS 9. Through a meticulous review of IFRS 9 implementation, it upholds the accuracy of reporting, aligning it with regulatory requirements.

Doorgakunt (2019) indicated that audit committees wield influence over the caliber of the disclosures. They oversee the dissemination pertinent data regarding IFRS 9's application, encompassing the classification and measurement of the instruments, impairment assessments, and significant judgments or estimates. Promoting transparency in these disclosures enhances the overall reporting quality.

In parallel, the committees play a pivotal role in evaluating internal controls and processes pertinent to IFRS 9, which entails scrutinizing the effectiveness of controls surrounding the classification, measurement, and impairment testing of the assets and liabilities, as well as hedge accounting activities. Such assessments bolster the reliability and integrity of reporting mechanisms. Moreover, audit committees collaborate closely with external auditors to ensure rigorous scrutiny of the statements under IFRS 9. By engaging with auditors, they gain insights into the audit methodology, key risks, and the standard's impact on audit opinions. This collaborative approach reinforces confidence in the accuracy and compliance of reporting practices (Chedid& Chaya, 2020). This discussion leads to the hypothesis:



H3: Audit committee attributes significantly positively moderate the impact of IFRS No. 9 adoption on financial reporting quality.

## **2.5 Adoption of IFRS 9 in Banks**

The IFRS 9, in essence, represents one aspect of the risk management framework in banks (in addition to the accounting framework) (López-Espinosa & Penalva, 2023), which is evident in the three main pillars: Classification and measurement, ECL (Impairment), and hedge accounting. IFRS 9, particularly in the Impairment pillar, aims to measure ECL through a forward-looking approach built on historical, current, and predictable data about credit exposures (Kyi & Tawiah, 2023; Jodeh & Khalaf, 2022), which differs from previous methodologies that relied on incurred loss for recognition IAS 39.

Moreover, the implementation of the new standard will have implications and interfere with other regulatory requirements (such as Basel III, Liquidity, and Capital Adequacy), as well as with the bank's credit exposure management mechanism concerning product types, pricing, collaterals, and customer relationships which necessitates effective oversight from the bank's board of directors, relevant committees, and executive management to ensure the proper implementation of the new standard and to safeguard the systems used in its application (Eyalsalman et al., 2024; JASSEM et al., 2021).

Therefore, the board of directors is responsible for providing an appropriate governance structure and proceedings to guarantee the accurate implementation of the standard, which involves delineating the roles of committees, departments, and units within the bank, ensuring the integration of their functions, and providing the necessary infrastructure (Awuye & Taylor, 2024).

In this context, the bank must consider the following points (Dong & Oberson, 2022; Al-Sakini et al., 2021): The application of the general framework for calculating ECL requires a significant amount of quantitative and qualitative data, whether historical, representing the current status, relating to future predictions, or regarding macroeconomic indicators. Therefore, the bank must develop the essential systems to provide sufficient, accurate, and secure data, enabling precise calculation. Thus, the involvement of all relevant

units within the bank is critical under the supervision of the bank's board of directors and related committees.

Besides, the systems must be of high quality and reliability, upon which reliance can be placed, whether in terms of inputs, operational processes, or derived results. Furthermore, the bank management must commit to not modifying the systems' results and outputs regarding the methods of calculating and measuring ECL and the variables being computed except according to a policy approved by the board of directors.

This policy should specify the exceptional and justified cases in which adjustments to the system outputs are permissible. An independent entity should be designated to make decisions regarding exceptions or modifications, and these cases should be presented to the board of directors or its relevant committees at their first meeting for approval (Li et al., 2024; Magdalena& Martani, 2021).

In addition to these instructions and the requirements of Standard (9), consideration must be given to the guidance issued by the Basel Committee on Banking Supervision under the document titled "Credit Risk and Expected Credit Losses - Accounting and Recording Guidelines." Besides, the board of directors must adopt a business model (or models) through which the objectives and principles of acquiring and classifying instruments are determined to guarantee integration with other business requirements, as outlined in the corresponding section within these instructions.

Furthermore, the board of directors must ensure that the bank's control units, particularly the risk management and internal audit departments, undertake all necessary actions to verify the validity and integrity of the methodologies and systems used within the framework of implementing Standard (9) and to provide the support needed for these control units.

Regarding Islamic banks, the section related to ECL applies to them; however, the remaining aspects are subject to the criteria of the Islamic Accounting Standard (25) until specific instructions are issued for Islamic banks following the requirements of the Islamic Accounting Standard (30) (Madah Marzuki et al., 2021).

## **2.6 Theories Related to the Study**

### **2.6.1. Accounting Theory**

Accounting theory shows a conceptual framework that guides the practice and development of accounting principles and standards. It aims to understand and explain the reasoning behind accounting practices and the formulation of accounting standards, ensuring they are logically consistent and serve the purpose of financial reporting. Accounting theory encompasses various approaches, including normative and positive theories, which seek to establish the best accounting practices and explain actual accounting behavior (Nurunnabi, 2021).

The IFRS represents a comprehensive set of accounting guidelines designed to bring consistency, comparability, and transparency to financial reporting across different countries. Accounting theory is crucial in developing and adopting IFRS, providing the underlying principles that justify the need for such standards (Tawiah& Boolaky, 2020).

From a normative perspective, accounting theory seeks to prescribe the most appropriate accounting practices that lead to high-quality reporting. IFRS is grounded in the normative approach, emphasizing understandability, relevance, comparability, and reliability. These principles guide the formulation of standards that provide valuable data to creditors, investors, and other stakeholders (Wen, 2021).

On the other hand, positive accounting theory (PAT) explicates why entities choose particular accounting methods over others and how they respond to the standards. The adoption of IFRS can be analyzed through this lens, considering factors such as economic consequences, regulatory environment, and management incentives. PAT helps understand the real-world implications of IFRS adoption, including companies' benefits and challenges (Enocsson& Gustafsson, 2023).

The IFRS 9, which deals with the classification, measurement, and impairment of financial instruments, illustrates the application of accounting theory in standard setting. The

evolution and application of IFRS 9 can be understood through normative theory and PAT (Zang, 2023).

From a normative perspective, IFRS 9 was designed to address the deficiencies in the previous standard, IAS 39, by providing more robust and transparent guidelines for financial instrument accounting. Normative accounting theory supports the principles-based method of IFRS 9, emphasizing the need for standards that reflect the economic substance of transactions and provide relevant and reliable information. The introduction of the ECL model under IFRS 9, which requires recognizing credit losses earlier, aligns with the normative objective of enhancing financial statement users' ability to assess credit risk and financial health (Klefvenberg & Nordlander, 2015).

Eriotis et al. (2019) indicated that Accounting theory provides several benefits in understanding the adoption and implementation of IFRS. It offers a structured framework for analyzing the principles and rationale behind accounting standards, ensuring they meet financial reporting objectives. By combining normative and positive perspectives, accounting theory provides a comprehensive understanding of IFRS's intended outcomes and practical implications. Moreover, accounting theory helps to identify areas where standards may need improvement or adaptation. For example, ongoing research and debate within accounting theory can highlight potential weaknesses or unintended consequences of IFRS 9, leading to further refinements and updates to the standard (Nurunnabi, 2021).

### **2.6.2. Agency Theory**

Agency theory shows the relationship between principals (shareholders or owners) and agents (executives or directors) within an organization. Conflicts of interest can arise when agents prioritize their interests over those of the principals, causing divergent goals. Mechanisms such as transparent and consistent accounting standards are essential to align the objectives of agents and principals and minimize agency costs. These standards help reduce information asymmetry, guaranteeing that directors act in the best interests of shareholders (Leung & Ilsever, 2013).

The IFRS is designed to enhance the quality and comparability of accounting information across borders. From the agency theory perspective, IFRS mitigates agency problems by providing a transparent and uniform framework for reporting. By standardizing accounting practices, IFRS minimizes the data gap between managers and shareholders, thus lowering the potential for managerial opportunism and enhancing investor confidence.

The adoption of IFRS is a response to organizations' need for better monitoring and control mechanisms. High-quality financial reporting standards like IFRS enable shareholders to evaluate a firm's performance and financial health more accurately, improving their ability to monitor management actions and make informed decisions (Geddes, 2020).

The IFRS 9, which focuses on financial instrument classification, measurement, and impairment, is particularly relevant from an agency theory perspective. This standard was introduced to address shortages in the previous IAS 39 standard, especially in financial instrument classification and impairment recognition areas, which had significant implications for financial transparency and risk management (Klefvenberg & Nordlander, 2015).

From the agency theory viewpoint, IFRS 9 enhances the alignment of interests between directors and shareholders in several ways. It improves risk reporting by using the ECL model for recognizing impairment losses, which mandates that companies estimate and report potential credit losses earlier than under the incurred loss model of IAS 39. This requirement reduces the scope for managerial discretion in recognizing impairments, thus providing more timely and relevant information to shareholders about the risks associated with financial assets (Omukhulu, 2020).

Furthermore, IFRS 9 enhances comparability and consistency by simplifying the classification and measurement of the instruments, reducing the complexity and variability in the reporting. This consistency aids shareholders in comparing financial statements across various periods and companies, making it easier to monitor management performance and detect any anomalies or misrepresentations (Omukhulu, 2020).

The detailed disclosures required under IFRS 9, particularly regarding the assumptions and methodologies used in estimating credit losses, improve the transparency of financial statements (Kund& Rugilo, 2018). Enhanced transparency helps minimize data asymmetry between directors and shareholders, enabling better monitoring and governance.

Additionally, IFRS 9 reduces opportunistic behavior by limiting managers' flexibility in classifying and measuring financial instruments, curtailing opportunities for earnings management and other opportunistic behaviors. This restriction aligns managerial reporting practices more closely with the economic realities of the entity's financial instruments, thereby guarding the interests of shareholders (Agana et al., 2023).

Agana et al. (2023) indicated that agency theory provides valuable insights into adopting and implementing IFRS by highlighting the function of accounting standards in mitigating conflicts of interest between managers and shareholders. It confirms the importance of transparent, consistent, and comparable financial reporting in decreasing agency costs and enhancing corporate governance. By framing IFRS as a tool for minimizing data asymmetry and ensuring managerial accountability, agency theory helps explain why these standards are critical for boosting confidence in financial markets.

Moreover, agency theory can explain variations in the adoption and effectiveness of IFRS across different jurisdictions. In countries with weaker investor protection and governance frameworks, adopting IFRS can play a pivotal role in developing reporting quality and investor confidence (Geddes, 2020).

### **2.6.3. Positive Accounting Theory (PAT)**

It is an approach to understanding accounting practices that concentrate on expounding and expecting actual accounting behaviors rather than prescribing optimal ones. Unlike normative theories, which suggest how accounting should be done, PAT seeks to explain why accountants do what they do in practice. It is grounded in the idea that accounting options are influenced by self-interest, economic consequences, and market pressures (Coutinho et al., 2019).

International Accounting Standards, particularly those issued by the IFRS Foundation, are crucial in harmonizing the reporting across countries. PAT is used to understand the adoption and application of these standards by various entities and governments. IFRS 9, which deals with financial instrument classification, measurement, impairment, and hedge accounting, is a prominent standard within the IFRS framework. Understanding its adoption and impact can be illuminated through the lens of PAT (Zang, 2023).

The IFRS 9 introduces significant variations in how the instruments are reported, particularly in impairment. The ECL model requires firms to recognize credit losses earlier than under previous standards. According to PAT, companies may adopt or resist this change based on the economic consequences. For example, banks may face increased volatility in earnings due to the new impairment model, which might influence their decision to adopt the standard early or lobby for modifications (Enocsson& Gustafsson, 2023).

Managers' compensation often includes performance-based elements, such as bonuses tied to net income. Under PAT, managers might prefer accounting methods that stabilize earnings to ensure predictable bonus payouts. IFRS 9's impact on financial reporting might lead managers to engage in earnings management within the boundaries of the standard to achieve desired financial outcomes (Cheptoo, 2023).

Companies operating in jurisdictions with strong regulatory oversight and active capital markets are likelier to adopt IFRS 9. The theory suggests that companies listed on international stock exchanges might adopt IFRS 9 to enhance comparability and attract investors. Additionally, regulatory bodies might enforce the adoption of IFRS 9 to align with global best practices, as seen in the European Union's endorsement of IFRS standards. Entities facing significant political scrutiny, such as large financial institutions, might adopt IFRS 9 to signal compliance with international norms and reduce regulatory pressure. PAT posits that adopting accounting standards can be a strategic response to mitigate political costs and maintain legitimacy (Abuka, 2023).

Zang (2023) indicated that PAT helps explain the adoption and impact of IFRS 9 on entities and markets. The shift from IAS 39 to IFRS 9 represents a significant variation in accounting practices, affecting how companies measure and report financial instruments. PAT examines how firms adapt to these alternations, considering factors such as cost of

implementation, changes in performance, and management's strategic responses. For instance, the requirement to recognize ECL may lead companies to alter their risk management practices or loan origination strategies to mitigate the impact on financial statements.

Adopting IFRS 9 can be analyzed through the three primary hypotheses of PAT. The Bonus Plan Hypothesis suggests that entities with bonus plans tied to earnings might manage earnings to meet targets. IFRS 9's ECL model could influence the timing and recognition of losses, affecting how bonuses are determined. The debt covenant hypothesis posits that companies with debt covenants based on financial metrics might manage accounting choices to avoid covenant violations. The earlier recognition of credit losses under IFRS 9 could impact these covenants, leading firms to adopt specific strategies to manage this risk. Lastly, the Political Cost Hypothesis states that entities facing higher political costs might adopt IFRS 9 to demonstrate transparency and adherence to global standards, thus reducing scrutiny (Cheptoo, 2023).

#### **2.6.4. Institutional Theory**

Institutional theory posits that entities, including regulatory bodies and standard-setting institutions, operate within extensive social, cultural, and economic environments that significantly influence their behaviors, practices, and structures. According to this theory, organizations are not solely driven by efficiency or economic rationality but also by the need to conform to their institutional environment's values, norms, and predictions. This conformity, known as isomorphism, can take three forms: mimetic, coercive, and normative (Peters, 2022).

The IFRS is a prime example of the operation of institutional theory in the global accounting landscape. Various institutional pressures influence the adoption and implementation of IFRS. Coercive isomorphism occurs due to pressures from regulatory authorities, governments, and other powerful entities. Countries and companies may adopt



IFRS to comply with legal requirements or to align with international financial systems, thereby gaining legitimacy and avoiding penalties (Nurunnabi, 2021).

Mimetic isomorphism happens when entities emulate the practices of other successful entities in their field. In the context of IFRS, companies and countries may adopt these standards to imitate the practices of leading economies and firms, thereby aspiring to similar success and recognition in the global market (Guerreiro et al., 2021).

Normative isomorphism involves the significant role of professional bodies and educational institutions in shaping the norms and values within the accounting profession. The widespread training and certification in IFRS and professional advocacy drive the normative adoption of these standards globally (Osinubi, 2020).

The IFRS 9, which addresses financial instrument classification, measurement, and impairment, exemplifies institutional theory in action. The standard reflects and responds to institutional pressures in several ways. IFRS 9 was developed after the 2008 crisis, exposing weaknesses in the existing IAS 39 standard. The move to IFRS 9 was a coercive response to the urgent demands for more robust financial reporting standards to capture better and manage financial risks (Wen, 2021).

Global convergence and harmonization are evident as the adoption of IFRS 9 by numerous firms and countries can be attributed to mimetic isomorphism, as entities seek to align themselves with international best practices and the standards set by leading financial markets. This convergence is driven by the desire to boost comparability, transparency, and investor trust. The development and dissemination of IFRS 9 have been heavily influenced by professional accounting bodies, such as the IASB and other regulatory agencies, providing the normative framework within which IFRS 9 operates and promoting its adoption through training, certification, and advocacy (Cheptoo, 2023).

Institutional theory offers several advantages in explaining the adoption and implementation of IFRS. It provides a holistic perspective beyond economic rationality, including social, cultural, and political factors influencing accounting standards. The theory helps explain why different countries and organizations may adopt IFRS at various extents based on their unique institutional environments. Additionally, it underscores the importance

of legitimacy and acceptance in adopting international standards, highlighting how organizations seek to gain credibility and trust through compliance with globally recognized standards (Agana et al., 2023).

#### **2.6.5.Process Theory**

Process theory is an approach that focuses on the sequence of events, actions, and interactions that lead to particular outcomes. In the context of accounting, process theory examines how accounting standards and practices evolve through various stages and the interactions of different stakeholders. This theory is instrumental in understanding IAS's development, implementation, and impact, such as those issued by the IFRS Foundation (Nurunnabi, 2021).

International accounting standards aim to harmonize reporting across countries, facilitating comparability and transparency. The development and adoption of these standards are a dynamic process involving multiple actors, including standard-setters, regulatory bodies, auditors, companies, and users of the statements. Process theory helps to comprehend how these actors interact over time to shape the standards (Samaha& Khlif, 2016). IFRS 9, which addresses financial instrument classification, measurement, impairment, and hedge accounting, is a significant standard within the IFRS framework. Understanding the process of its development and implementation provides insights into how international standards evolve and gain acceptance.

The creation of IFRS 9 involved extensive consultations and feedback from various stakeholders. The IASB initiated the process by identifying the need for a new standard to address the shortcomings of the IAS 39. Through exposure drafts, public comments, and roundtable discussions, the IASB engaged with financial institutions, investors, regulators, and other interested parties to gather input and refine the standard. This iterative process ensured that considering diverse perspectives led to a robust and widely accepted standard (Maradona& Chand, 2018).

The implementation of IFRS 9 by companies worldwide is a complex process influenced by regulatory requirements, market conditions, and internal capabilities. Companies need to invest in training, system upgrades, and changes in inner operations to comply with the new standard. The transition process involves significant planning and coordination, as companies must restate prior period financial statements and communicate the changes to stakeholders. Process theory highlights the steps and challenges involved in this transition, emphasizing the importance of effective project management and stakeholder communication (Peng & van der Laan Smith, 2010).

Besides, the impact of IFRS 9 on the reporting is an ongoing process. Companies continuously adapt their accounting practices to align with the standard, and regulators monitor compliance and address emerging issues. The ECL model introduced by IFRS 9 requires ongoing assessment and estimation of credit losses, leading to continuous interaction between companies, auditors, and regulators. This adaptive process reflects the dynamic nature of accounting standards and the need for ongoing adjustments based on feedback and changing economic conditions (Guerreiro et al., 2021).

Process theory is applied to understand the various stages and interactions in developing and implementing IFRS 9. The process began with identifying the requirement for a new standard driven by the crisis and the limitations of IAS 39. This stage involved setting objectives and defining the scope of the new standard. The IASB conducted extensive consultations, gathering feedback through exposure drafts and public comments. This iterative process involved multiple revisions and refinements based on stakeholder input. Regulatory bodies in different jurisdictions adopted IFRS 9, considering the local economic and regulatory environment (Samaha& Khlif, 2016).

Companies implemented IFRS 9 by updating their accounting policies, restating prior period financial statements, and communicating the changes to stakeholders. This stage required significant coordination and project management. After implementation, companies and regulators continuously monitor compliance and address emerging issues. This ongoing process involves adjustments based on feedback and changing conditions (Nurunnabi, 2021).

## 2.7 Discussion and Compendium of Previous Studies

The impact of IFRS 9 adoption in firms is well researched. However, some studies concluded the positive impact of IFRS 9 adoption (Beerbaum, 2024; Awawda, 2019). However, several studies appear that adopting IFRS 9 has no effect or does not make a difference. For example, Schaap (2020) concluded that applying IFRS 9 does not affect banks' long-term investments. Also, Orbán & Tamimi (2020) indicated that implementing the new impairment accounting standards, as outlined in IFRS 9, has a limited impact on the total ECL of the central European banks.

Furthermore, ECL calculations are uniform among banks operating within the same country. However, notable disparities emerge across European nations regarding loan loss allowances. Additionally, discrepancies appear in total assets and the overall sum of loan loss allowances among the banks examined. These results were also reflected in a study by Ben Ltaief & Moalla (2023). The findings indicate that adopting IFRS 9 does not significantly affect banks' value; however, financial assets' classification does. Specifically, the study reveals that company value is positively influenced by assets classified under FVOCI and negatively impacted by assets classified under amortized cost and FVPL.

Also, Awawda (2019) found that classification and measurement had no significant impact on comprehensive income or owners' equity statements. Some researchers see that IFRS adoption has a significant negative effect, such as Kateb (2024), who concluded that it has a significant negative impact on earning management practices.

However, other researchers have seen that IFRS 9 has a different effect than IAS 39. For example, the findings of Müller (2020) reveal that portfolio earnings are influenced variously under IAS 39 compared to IFRS 9, with potential outcomes including increased and decreased profits due to variations in foreign and local interest rates. Furthermore, the sensitivity to variations in volatility alters across approaches. Notably, a partially ineffectual hedging relationship does not necessarily result in lower profits than a fully effective one.

Many studies, such as (Ahmed, 2021, Nikam, 2020 Nurunnabi, 2018 & Alhaija, 2012), indicated that IFRS 9 was essential in improving effectiveness and achieving high-quality

financial data characterized by suitability, reliability and faithfulness of the banks' statements. However, Schaap (2020) suggests a significant value-relevance reduction following the adoption of IFRS 9.

Many studies have indicated that IFRS 9 improves the quality of the reports. The findings of Alkhresat & Almubaydeen (2019) revealed a significant impact of implementing IFRS 9 on the faithful representation of the data. Based on these findings, the study recommended that financial departments prioritize the measurement of obligations and the improvement development of accounting policies while implementing the standard. Additionally, the study emphasized the importance of these banks possessing sufficient knowledge of accounting standards, with specific attention to Standard No. "9".

Besides, Ahmed (2021) underscores the significant role of IFRS in boosting the quality and effectiveness of accounting data. IFRS 9 facilitates the production of high-quality reports characterized by relevance and reliability in both presentation and disclosure.

Eikelish (2021) also revealed a significant positive non-linear relationship between low data quality and stock returns during the pre-adoption announcements of IFRS 9, suggesting that they benefit companies with lower-quality information before adoption. Moreover, this effect was more pronounced in small corporations than large ones and in financial institutions than non-financial ones.

These results were also reflected in the study of Radhi (2023), which concluded that IFRS 9 is among the most critical accounting standards internationally, particularly in preparing financial reports. It encompasses instrument standards, including recognition, measurement, impairment, exclusion, and general hedge accounting.

Furthermore, the standard is instrumental in managing risks associated with financial activities, primarily by classifying and measuring financial assets and liabilities. Likewise, Awuye & Taylor (2024) concluded that despite the intricacies of the IFRS 9, it appears more effective in promoting market discipline and transparency than constituting regulatory overreach.

Several studies focused on the committees and their influence on reporting quality. In parallel, some studies have focused on how the audit committees are pivotal in evaluating

internal controls and processes pertinent to IFRS 9 (Safari Gerayli et al., 2021; Doorgakunt, 2019; Chedid& Chaya, 2020). For example, Chedid& Chaya (2020) concluded that incorporating front-office feedback and control mechanisms can enable inner auditors to play a strategic, value-added function in implementing IFRS 9. Likewise, the study results of Jatiningrum et al. (2020) indicate that the relationship between the audit committee and reporting quality becomes more critical after adopting IFRS in Malaysia.

Also, Safari Gerayli et al. (2021) concluded that although the audit committee's independence does not significantly impact the company's reporting, the audit committee's financial expertise enhances the entity's reporting. In essence, a higher level of financial knowledge within the audit committee improves the companies' reporting quality.

However, some researchers believe that the audit committee has no significant effect on the relationship between adopting IFRS9 and the quality of the statements. For example, the study of Ulfah& Diyanty (2024) revealed that the application of IFRS 9 and the presence of the committees correlated with an increase in bank managerial discretion, suggesting that despite the application of IFRS 9 and the audit committees' existence, managerial discretion remained unchecked, potentially attributed to volatile economic conditions induced by the pandemic and countercyclical policies aimed at mitigating its impact.

These recent studies have begun to provide insight into how IFRS 9 affects the reporting quality while considering the moderating role of the committee characteristics.

## **Chapter Three: Methodology**

This part of the study covers the population and sample of the study, the data collection method, and finally, the measurements of the variables.

### **3.1 Study Data & Data Collection**

The panel data of the study is collected yearly from the annual audited financial statements of listed banks on the PEX from 2014 to 2023. The study uses the deductive and quantitative approach to investigate the effect of adopting IFRS 9 on financial reporting quality, with audit committee attributes as a moderating variable. The statements on the banks' websites, the Association of Banks in Palestine and the PMA are inclusive sources for the required data as the listed banks publish the accounting statements for all users.

### **3.2 Study Population and Sample**

To achieve the aim of this study, which is to explore the impact of IFRS 9 adoption on the reporting quality, with audit committee attributes as a moderating variable, the study population includes all the listed banks on the PEX, and the study sample consists of the listed banks on the PEX whose financial reports are available during the study period.

The study selects the banking sector as the study sample because it is likely to be the sector that will benefit the most from applying the IFRS 9, and the reporting quality framework is a critical issue for the banking sector. Besides, it is a central pillar of the Palestinian economy.

Moreover, to avoid any distortions, shortcomings or defects in the study's findings, the study sample has some conditions: the banks must be listed on the PEX and have uninterrupted and accessible data from January 1, 2014, to December 31, 2023, which means that the banks' annual reports should be available on the PEX for all years from 2014 to 2023, and the banks have all the information related to the dependent and independent variables.

Also, the banks have to maintain regular, continuous trading on the PEX throughout this period. Table (3.1) below shows the study sample.

Table (3.1): Study Sample

Banks` Names	Notes
Al-Quds Bank	It acquired the branches of the Jordan-Kuwait Bank in Palestine in 2018.
The National Bank	A merger occurred between the Al-Rafah Bank for Small Projects Finance and the Arab Palestinian Investment Bank in 2012 and the acquisition of the Jordan Commercial Bank in 2020.
Bank of Palestine	It acquired the Palestine Commercial Bank in 2016
Palestine Commercial Bank	2014-2016
Al Safa Bank	Started its work in September/2016
Palestine Investment Bank	
Palestine Islamic Bank	
Arab Islamic Bank	

The IFRS 9 was issued in its final form on July 24, 2014, to substitute IAS 39. IFRS 9 includes three main components: The classification and measurement, which establishes the principles for measuring and recognizing liabilities and assets. Impairment involves the



assessment of assets for impairment, and hedge accounting provides guidelines for accounting for hedging relationships.

The IFRS 9 became mandatory on January 1, 2018, with early adoption permitted. The issuance of the standard was a response to the global crisis. It was based on recommendations from The Group of Twenty (G20) to prevent the crises' recurrence and achieve a more accurate and forward-looking risk assessment.

This timeframe encapsulates the optional phase and mandatory phase. Studying IFRS 9 during these years allows for a comprehensive understanding of its influence on reporting and financial matters. The period from 2014 to 2017 offers insights into how companies prepared for the new standard, including the challenges and adjustments they faced.

The subsequent years, from 2018 to 2023, saw the high implementation of IFRS 9, with companies refining their financial reporting and adapting to the ECL model. This period has highlighted the shifts in risk management practices, regulatory oversight, and sector-specific challenges, especially in banking. It also provided insights into how IFRS 9 improved transparency and financial stability, as well as the broader economic consequences during periods of market uncertainty. Stakeholders' evolving responses and adjustments further shaped the standard's long-term effectiveness.

A significant and essential change in IFRS 9 is the impairment component, including the financial instruments to which impairment applies, the methods for calculating ECL, and the infrastructure necessary for implementing IFRS 9 requirements. It also encompasses the overall governance framework, detailing the roles of the Board of Directors, its committees, and executive management in the implementation process.

It is crucial due to the potential impact on the bank's financial position and business model. Additionally, IFRS 9 introduces new burdens on regulatory authorities and central banks overseeing banks and financial institutions, which include ensuring the availability of robust databases and conducting tests to verify the accuracy of bank calculations.

### 3.3 Study Models

Fig (3.1) represents the study models.

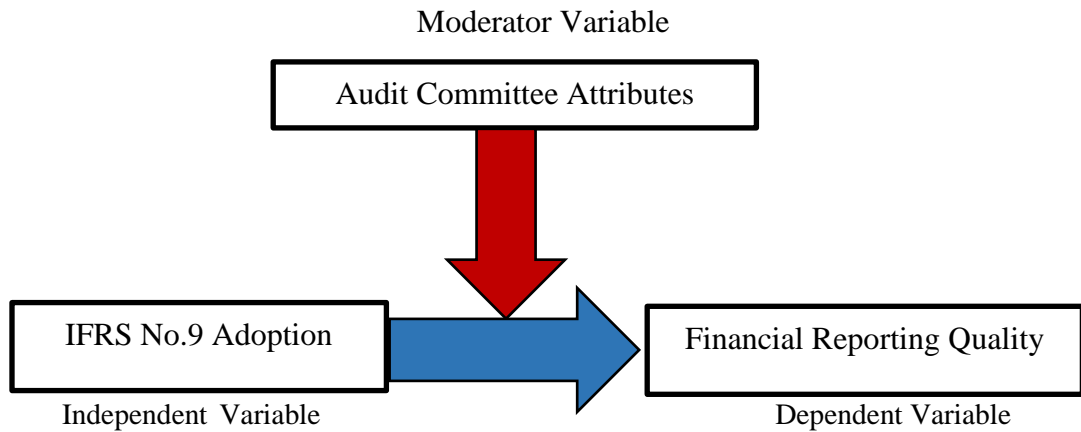


Fig (3.1): Study Models

The following models are improved to investigate the impact of IFRS 9 adoption on the reporting quality, with audit committee attributes as a moderating variable of the listed banks on the PEX from 2014 to 2023.

1.  $FRQ_{it} = \beta_0_{it} + \beta_1 IFRS9_{it} + \beta_2 ACIN_{it} + \varepsilon_{it}$
2.  $FRQ_{it} = \beta_0_{it} + \beta_1 IFRS9_{it} + \beta_2 ACIN_{it} + \beta_6 IFRS9_{it} * ACIN_{it} + \varepsilon_{it}$
3.  $FRQ_{it} = \beta_0_{it} + \beta_1 IFRS9_{it} + \beta_3 ACEX_{it} + \varepsilon_{it}$
4.  $FRQ_{it} = \beta_0_{it} + \beta_1 IFRS9_{it} + \beta_3 ACEX_{it} + \beta_7 IFRS9_{it} * ACEX_{it} + \varepsilon_{it}$
5.  $FRQ_{it} = \beta_0_{it} + \beta_1 IFRS9_{it} + \beta_4 ACS_{it} + \varepsilon_{it}$
6.  $FRQ_{it} = \beta_0_{it} + \beta_1 IFRS9_{it} + \beta_4 ACS_{it} + \beta_8 IFRS9_{it} * ACS_{it} + \varepsilon_{it}$
7.  $FRQ_{it} = \beta_0_{it} + \beta_1 IFRS9_{it} + \beta_5 ACMET_{it} + \varepsilon_{it}$
8.  $FRQ_{it} = \beta_0_{it} + \beta_1 IFRS9_{it} + \beta_5 ACMET_{it} + \beta_9 IFRS9_{it} * ACMET_{it} + \varepsilon_{it}$

These two comprehensive models incorporate all variables and interactions:

$$9. \text{FRQ}_{it} = \beta_0_{it} + \beta_1 \text{IFRS9}_{it} + \beta_2 \text{ACIN}_{it} + \beta_3 \text{ACEX}_{it} + \beta_4 \text{ACS}_{it} + \beta_5 \text{ACMET}_{it} + \varepsilon_{it}$$

$$10. \text{FRQ}_{it} = \beta_0_{it} + \beta_1 \text{IFRS9}_{it} + \beta_2 \text{ACIN}_{it} + \beta_3 \text{ACEX}_{it} + \beta_4 \text{ACS}_{it} + \beta_5 \text{ACMET}_{it} + \beta_6 \text{IFRS9}_{it} * \text{ACIN}_{it} + \beta_7 \text{IFRS9}_{it} * \text{ACEX}_{it} + \beta_8 \text{IFRS9}_{it} * \text{ACS}_{it} + \beta_9 \text{IFRS9}_{it} * \text{ACMET}_{it} + \varepsilon_{it}$$

Where:

$\text{FRQ}_{it}$ : Financial reporting quality for the bank (i) in a year (t).

$\beta_0$ : Constant of the model.

$\text{IFRS9}_{it}$ : International Financial Reporting Standard No. 9 adoption for bank (i) in a year (t).

$\text{ACIN}_{it}$ : Audit Committee members` independence for the bank (i) in a year (t).

$\text{ACEX}_{it}$ : Audit Committee members` financial and accounting expertise for the bank (i) in a year (t).

$\text{ACS}_{it}$ : Audit committee size for the bank (i) in a year (t).

$\text{ACMET}_{it}$ : Audit committee meetings for the bank (i) in a year (t).

$\varepsilon_{it}$ : Error term.

Source: The researcher, according to (Jatiningrum et al., 2020; Jatiningrum et al., 2018).

### **3.4 Study Variables**

#### **3.4.1. IFRS No. 9 Adoption**

It represents the independent variable of the study. It is measured based on an index that represents the dimensions of the standard's requirements. Table (3.2) shows the index

for measuring IFRS 9 adoption, developed by KPMG (2018), titled "Disclosures under IFRS 9".

Table (3.2): IFRS 9 Index

Initial Measurement of Financial Instruments
Carrying Amounts: Financial assets measured at FVPL are distinguished between designated and mandatory. Financial liabilities measured at FVPL are distinguished between those designated and those held for trading. Financial liabilities and assets are measured at amortized cost. Financial assets measured at FVOCI, distinguishing mandatory from designated equity instruments. Financial Liabilities at FVPL: Transfers of cumulative loss or gain in equity and causes. Amount realized at derecognition if liability is derecognized. Methodologies for determining if presenting impacts of variations in liability's credit risk in OCI will make/magnify an accounting mismatch.
Investments in Equity Instruments Designated at FVOCI
Which equity instruments' investments are designated at FVOCI The causes for the designation. The investment's fair value at the date of reporting Dividends recognized in the duration, apart from investments Derecognized during the duration and those held at the reporting date, as well as any transfers of accumulated loss or profit in equity and their causes.
Reclassifications of Assets
Date, detailed clarification of the variation in business model, amount reclassified into and out of categories.

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Effective interest rate and interest revenue for reclassifications from FVPL to FVOCI or amortized cost.

Fair value and fair value loss/gain will be recognized if they are not reclassified.

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#### Impairment

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Data about the organization's credit risk administration activities

Qualitative and quantitative data to assess the amounts in the reports emerging from ECL

Data about Written-off assets.

Data about the organization's credit risk exposure

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#### Credit Risk Management Practices

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Determines if the credit risk of the instruments has been raised since initial recognition.

How instruments are classified if ECL are measured on a collective base

The organization's write-off policy contains indicators of reasonable recovery prediction.

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#### Written-off assets

---

Disclose the contractually outstanding assets written off during the reporting duration and undergo enforcement activity.

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#### ECL Calculations

---

Inputs, assumptions, and estimation techniques for ECL

How forward-looking info and macroeconomic data are used.

Variations in evaluation techniques or significant assumptions

---

#### Amounts from ECL

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Reconciliation of the opening to the closing balance of the impairment loss allowance

Explaining the loss allowances changes

Explaining significant variations in gross carrying amounts contributes to loss allowance changes.

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#### Modifications

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For modified financial assets subject to lifetime ECL: amortized cost before adjustment, net adjustment loss/gain

Gross carrying amount at reporting date if loss allowance reverts to 12-month ECL.

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#### Collateral

---

Maximum exposure to credit risk, nature and quality of collateral and significant variations in quality and financial instruments without a loss allowance due to collateral

There is no need to disclose the fair value or exact collateral value included in the ECL calculation.

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#### Purchased or Originated Credit-Impaired Assets

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The gross amount of undiscounted ECL at the initial recognition for the assets initially recognized in the reporting duration

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#### Credit Risk Exposure

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The total carrying amount of assets and exposure to credit risk on loan commitments and guarantee contracts, disclosed by credit risk rating grades or past-due status.

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#### Hedge accounting

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The strategy of risk management and how it is set to administrate risk:

Description of risk management strategy, hedging instruments, economic relationship, hedge ratio, and sources of hedge ineffectiveness.

Further qualitative/quantitative info for risk components designated as hedged items.

How hedging activities may influence the timing, uncertainty and amount of future cash flows:

The quantitative info is on the timing of nominal amounts and the average rate/price of hedging instruments.

Info on frequently reset hedging relationships, ultimate risk management strategy, and hedge accounting process.

The hedge accounting influences on the performance and financial position

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Source: (KPMG, 2018)

### 3.4.2. Financial Reporting Quality

It represents the study's dependent variable, measured by the statements' features (comparability, relevance, understandability, timeliness, verifiability and faithful representation), as shown in (Table 3.3).

Table (3.3): Financial Reporting Quality Index

FRQ Characteristics	Items
Relevance	<p>The yearly report discloses forward-looking data.</p> <p>The yearly report discloses data regarding business risks and opportunities.</p> <p>The entity uses fair value as a measurement rule.</p> <p>The yearly report shows feedback on how different market activities affect the entity.</p>
Faithful representation	<p>The yearly report clarifies the evaluations and assumptions made.</p> <p>The yearly report clarifies the choice of accounting principles.</p> <p>The yearly report shows negative and positive transactions in a balanced way.</p> <p>The yearly report contains an unqualified auditor's report.</p> <p>The yearly report discloses data on corporate governance matters.</p>
Understandability	<p>The yearly report is well organized.</p> <p>Notes on the income statement and balance sheet are apparent.</p> <p>Tables and diagrams explain the presented data.</p> <p>The usage of jargon and language in the yearly report is easy to follow.</p> <p>The yearly report contains an inclusive glossary.</p>

Comparability	<p>Notes of variations in the policies of accounting clarify their implications.</p> <p>Notes of revisions in accounting evaluations clarify their implications.</p> <p>The entity's former accounting period figures are modified for the impact of applying any variation in policies or evaluations. Current accounting findings are compared with former periods.</p> <p>Data in the yearly report is comparable to other entities' data. The yearly report represents index ratios and numbers.</p>
Verifiability	<p>The report includes sufficient details and documentation for verifying financial information.</p> <p>Independent auditors can confirm the reported figures.</p> <p>Data and estimates are based on objective evidence, allowing re-examination.</p> <p>Accounting methods are evident, enabling the verification of calculations.</p> <p>Disclosures support the verification of both qualitative and quantitative aspects.</p>
Timeliness	<p>The report is published promptly, allowing informed decisions based on current information.</p> <p>Interim reports provide ongoing performance updates.</p> <p>Financial data is released on time, meeting deadlines.</p> <p>Data is presented close to the terminus of the reporting period, minimizing delays.</p> <p>The process ensures stakeholders get timely information for decisions.</p>

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Source : (Tanulia & Osesoga, 2022; Ogungbade et al., 2021)



### 3.4.3. Audit Committee Attributes

Audit committee attributes represent the study's moderator variable, measured by members' independence, accounting and financial expertise, committee size, and meetings. Table (3.4) shows the measurements of the audit committee attributes.

Table (3.4): Audit Committee Attributes Measurements

Variables' Name	Symbol	Variables' Measurement	Citation
Audit committee members` Independence	ACIN	The percentage of non-executive members in the committee disclosed in the financial reports is used to measure it.	(Madi et al., 2014)
Audit committee members` expertise	ACEX	It represents the panelists, who are the financial experts.	(Saleem et al., 2016)
Audit committee size	ACS	The number of committee members, whether appointed or elected, is used to measure it.	(Alabdullah & Ahmed, 2020)
Audit committee meetings	ACMET	The number of meetings disclosed in the reports measures it.	(Thottoli et al., 2019)

Table (3.5) summarizes all the study variables and their measurements, knowing that all the data depends on the banks' published annual statements. The statements on the banks` websites, the Association of Banks in Palestine and the Palestinian Monetary Authority are inclusive sources for the required data of the study.

Table (3.5): Study Variables

Variables' Type	Variables' Name	Symbol	Variables' Measurement	Citation
Independent Variable	IFRS 9 adoption	IFRS9	It is measured based on an index presented in (Table 3.2)	(KPMG, 2018)
Dependent Variable	Financial reporting quality	FRQ	It is measured based on an index presented in (Table 3.3)	(Tanulia & Osesoga, 2022; al., Ogungbade et 2021)
Moderator Variable	Audit committee attributes :		They are measured according to the measurements mentioned in (Table 3.4)	
	Members` independence	ACIN		(Madi et al., 2014)
	Members` expertise	ACEX		(Saleem et al., 2016)
	Size	ACS		(Alabdullah & Ahmed, 2020)
	Meetings	ACMET		(Thottoli et al., 2019)

### 3.5 Study Hypotheses

Table (3.6) shows the study hypotheses, directions, and related theories.

Table (3.6): Study Hypotheses

Hypotheses	Directions	Related Theories
H1: IFRS No.9 adoption significantly positively impacts the quality of the reporting.	Positive significant impact	Accounting Theory: IFRS 9 adoption purposes to develop the quality of the reporting by enhancing transparency and comparability. Accounting theory supports this hypothesis by emphasizing the necessity of standardized and high-quality reporting practices ( Ben Ltaief & Moalla, 2023; Cheptoo, 2023).
H2: Audit committee attributes significantly positively impact financial reporting quality.	Positive significant impact	Agency Theory: An audit committee helps mitigate the agency's problem by overseeing and guaranteeing that the reports are accurate and reliable. It aligns with the agency theory's focus on governance structures to decrease conflicts of interest and information asymmetry (Abed et al., 2022; Mwangi, 2018; Kamolsakulchai, 2015).
H3: Audit committee attributes significantly positively moderate the impact of IFRS No. 9 adoption on financial reporting quality.	Positive significant impact	Institutional Theory: The adoption of IFRS 9, influenced by institutional pressures, is moderated by the attributes of the audit committee, which also aligns with institutional expectations of good reporting quality.

governance and high-quality financial reporting (Nurunnabi, 2021).

Agency Theory: This hypothesis can also be linked to agency theory, as it suggests that the audit committee's attributes enhance the effectiveness of IFRS 9 in developing reporting quality, further reducing agency conflicts (Mohammed, 2022).

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### **3.6 Analysis Techniques**

The study uses a quantitative method to test the effect of IFRS 9 adoption on financial reporting quality, with audit committee attributes as a moderating variable. The data analysis for this study is conducted in two phases: the optional implementation period (2014- 2017) and the mandatory implementation period (2018- 2023). During the optional period, there are intervals. The Palestine Commercial Bank is included for three years only, from 2014 to 2016, as it was acquired by the Bank of Palestine in 2016. Furthermore, the Safa Bank started its work in September/2016. Following this, the mandatory implementation period begins from 2018 to 2023, with the sample comprising seven banks.

The study uses SPSS to analyze the obtained data through the following functions and tools: Descriptive statistics includes standard deviation, mean, minimum & maximum values, frequencies and percentages to measure frequency distributions and percentages for the sample's characteristics. A normality test confirms whether the data is valid and follows a normal distribution. A Multicollinearity test to assert there are no correlations between the independent variables.

Additionally, the study uses the homogeneity test to examine the hypothesis of homogeneity of variance and bivariate regression to estimate the association between each

pair of the investigated variables using Pearson correlation coefficients. Also, multiple linear regression investigates the influence of the independent variable on the dependent variable. PROCESS v4.1 macro on SPSS, suggested by Andrew F. Hayes, tests the moderating role of the committee attributes.

The PROCESS v4.1 macro is of great importance in studies requiring the analysis of complex interactions between variables. It allows for advanced analyses in a simplified manner, facilitating the testing of complex hypotheses and the precise interpretation of results. The primary goal of using this tool is to analyze how audit committee characteristics moderate the influence of adopting IFRS 9 on financial reporting quality. It helps provide more profound and more accurate insights into improving the reporting practices, guaranteeing the adoption of IFRS 9 and examining the attributes of the audit committee as a moderating variable.

Besides, the aim of using this tool stems from its ability to provide accurate and comprehensive data analysis. Without it, it could be extremely challenging to identify and understand the interactive effects between independent, moderating, and dependent variables. PROCESS v4.1 helps avoid common errors in data analysis and ensures the use of advanced statistical methods, such as bootstrapping, to obtain accurate confidence intervals for indirect effects.

In summary, using the PROCESS v4.1 macro is essential for achieving research objectives effectively and accurately, as it enhances the precision and reliability of results, which contributes to providing actionable recommendations to develop the quality of the reporting in light of IFRS 9 adoption.

By following the steps of PROCESS v4.1 in SPSS, the study can conduct a thorough moderation analysis, interpret the results accurately, and derive meaningful conclusions for the study. Here's a step-by-step guide to performing this test: First, understand the context, as in this context, the independent variable is the adoption of IFRS 9, the dependent variable is the reporting quality, and the moderator variable is the audit committee attributes (members' Independence, members' expertise, size, and meetings).

Then, prepare data and ensure that the dataset includes a variable indicating the adoption of IFRS 9, a variable of reporting quality, and variables representing audit committee attributes (members` Independence, expertise, size, and meetings). Besides, make sure that the PROCESS Macro is installed in SPSS. If it is not installed, download it from Andrew F. Hayes's website and install it via utilities > custom dialogs > install custom dialog in SPSS.

Next, run the PROCESS Macro by opening the PROCESS Dialog Box in SPSS and navigating to analyze > regression > PROCESS v4.1 by Andrew F. Hayes. Specify the model by setting the model number to one for simple moderation analysis and defining the study variables as Y is the reporting quality, X is the adoption of IFRS 9, and W is the audit committee attributes.

Besides, continuous variables are centered to ease interpretation, which can be done within the PROCESS dialog by checking the appropriate option or manually centering the variables before analysis. Model specification is done by choosing options for bootstrap samples to obtain confidence intervals for indirect effects and ensuring interaction terms are included (the PROCESS macro does this automatically for moderation analysis).

After running the PROCESS analysis, the output is interpreted as they include the model summary, which provides R-squared values and F-statistics to evaluate model fit. The coefficients table contains the main effects of IFRS 9 adoption, audit committee attributes, and their interaction term. The significance of the interaction term (IFRS 9 adoption \* Audit Committee Attributes) indicates moderation, and the conditional effects show the impact of IFRS 9 adoption on the reporting quality at different levels of the audit committee attributes.

When reporting the findings, the study describes the interaction by discussing the significance and direction of the interaction term and explaining how different levels of audit committee attributes impact the relationship between IFRS 9 adoption and reporting quality. Besides, the study creates interaction plots to visualize how the relationship changes across different levels of the moderator, as well as interpret the practical significance of the findings. For example, how might audit committee expertise boost or mitigate the influences of IFRS 9 adoption on the reporting quality?

### **3.7 Chapter Summary**

This chapter presents the sample and the study population and sets some necessary conditions for the sample. Subsequently, it is clarified how to measure all the dependent, independent, and moderating variables taken in the study. In addition, this chapter explains the analysis techniques used in this study.

## **Chapter Four: Results of the Study**

This chapter presents the study's results, which aim to explore the impact of IFRS 9 adoption on financial reporting quality, with audit committee attributes serving as a moderating variable. The study focuses on listed banks on the PEX, as the banking sector is pivotal to the Palestinian economy and stands to benefit significantly from applying IFRS 9, recognizing the importance of maintaining high reporting quality in this sector. The study incorporates strict selection criteria to ensure robust findings.

The selected banks have uninterrupted, accessible financial data from January 1, 2014, to December 31, 2023, and meet regular trading conditions on the PEX. The following sections detail the key findings related to IFRS 9 adoption, financial reporting quality, and the role of the committee attributes, offering insights into their relationships and implications for the Palestinian banking sector.

### **4.1 Descriptive for all Variables According to Different Banks**

Table (4.1) illustrates the adoption of IFRS 9 by listed banks on the PEX during 2014–2017, 2018–2023, and 2014–2023. For 2018–2023, all listed banks on the PEX uniformly reported an IFRS 9 adoption mean of (.7179) with a standard deviation (SD) of (0.00), indicating high compliance. Over the extended period from 2014 to 2023, variations were observed, with Safa Bank reporting the highest mean of (.5385) with a standard deviation of (.3324), while the other banks, except the Palestine Commercial Bank, exhibited a mean of (.4308) with a standard deviation of (.3708).



Table (4.1): Descriptive Statistics for IFRS 9 Adoption

Banks` Names	2014-2017		2018-2023		2014-2023	
	Mean	SD	Mean	SD	Mean	SD
Bank of Palestine	0.00	0.00	.7179	0.00	.4308	.3708
Palestine Commercial Bank	0.00	0.00	-	-	0.00	0.00
Arab Islamic Bank	0.00	0.00	.7179	0.00	.4308	.3708
Palestine Islamic Bank	0.00	0.00	.7179	0.00	.4308	.3708
Al-Quds Bank	0.00	0.00	.7179	0.00	.4308	.3708
Palestine Investment Bank	0.00	0.00	.7179	0.00	.4308	.3708
The National Bank	0.00	0.00	.7179	0.00	.4308	.3708
Al Safa Bank	0.00	0.00	.7179	0.00	.5385	.3324

Table (4.2) presents the reporting quality of listed banks on the PEX for 2014–2017, 2018–2023, and 2014–2023.

The quality of the reporting is measured by the statements' features ( comparability, relevance, understandability, timeliness, verifiability, and faithful representation). Where comparability ensures that users of the statements can identify similarities and differences in the performance, position, and cash flows across entities or periods. Relevance indicates the extent to which the data provided in the reports can influence the economic decisions of users, such as investors, creditors, and other stakeholders. It ensures that the information presented is timely, significant, and directly related to the decision-making needs of its audience.

Understandability refers to how financial information is presented clearly and concisely, enabling users, such as investors, creditors, and other stakeholders, to comprehend and use the information effectively in decision-making. Timeliness relates to how financial

data is made available to stakeholders, such as investors, creditors, and regulators, on time to enable them to make well-informed economic decisions.

Besides, verifiability points to the capability of various independent observers to reach a unanimity that a particular part of financial information is faithfully represented. It enhances reporting quality by confirming that reported data can be substantiated through evidence, reducing the risk of manipulation or misrepresentation, and increasing the credibility of the statements for users.

Faithful representation in the reporting refers to the precision and completeness of the data, confirming that it faithfully presents the underlying economic events. It means the statements offer a precision and fair view of the position, performance, and cash flows, free from bias, error, or manipulation. This principle is fundamental in ensuring that financial reports represent what they purport to represent, providing users with reliable and trustworthy information for decision-making.

During 2014–2017, Al Safa Bank achieved the highest financial reporting quality (.9375) with a standard deviation of (.0884), while Palestine Islamic Bank recorded the lowest (.4146) and a standard deviation of (.1024).

For 2018–2023, Al Safa Bank reported the highest quality of (.9111) with a standard deviation of (.0586), while Al-Quds Bank had the lowest (.8167) and a standard deviation of (.0269). Over 2014–2023, Al Safa Bank consistently maintained the highest financial reporting quality (.9177) with a standard deviation (.0610). In contrast, Al Quds Bank exhibited the lowest (.6792) and a standard deviation of (.1820).

Table (4.2): Descriptive Statistics for Financial Reporting Quality

Banks` Names	2014-2017		2018-2023		2014-2023	
	Mean	SD	Mean	SD	Mean	SD
Bank of Palestine	.4542	.0308	.8597	.0426	.6975	.2126
Palestine Commercial Bank	.7083	.1228	-	-	.7083	.1228

Arab Islamic Bank	.4208	.0579	.8708	.0376	.6908	.2364
Palestine Islamic Bank	.4146	.1024	.8861	.0660	.6975	.2553
Al-Quds Bank	.4729	.0602	.8167	.0269	.6792	.1820
Palestine Investment Bank	.6479	.0795	.8444	.0368	.7658	.1147
The National Bank	.8354	.0936	.9042	.0292	.8767	.0683
Al Safa Bank	.9375	.0884	.9111	.0586	.9177	.0610

Table (4.3) highlights the independence of the committee members for listed banks on the PEX over 2014–2017, 2018–2023, and 2014–2023. During 2014–2017, the Bank of Palestine reported the highest independence (.6825) with a standard deviation (.045), while Palestine Commercial Bank had the lowest (.5000) with a standard deviation (.1000).

For 2018–2023, Al Safa Bank and Bank of Palestine achieved the highest independence (.7050) and a standard deviation (.0493), whereas The National Bank recorded the lowest value (.5533) with a standard deviation of (.0826). Across the entire study period of 2014–2023, the Bank of Palestine demonstrated the highest average independence (.696) with a standard deviation (.0465), while Palestine Commercial Bank had the lowest (.5000) and a standard deviation (.1000).

Table (4.3): Descriptive Statistics for Audit Committee Members` Independence

Banks` Names	2014-2017		2018-2023		2014-2023	
	Mean	SD	Mean	SD	Mean	SD
Bank of Palestine	.6825	.0450	.7050	.0493	.6960	.0465
Palestine Commercial Bank	.5000	.1000	-	-	.5000	.1000
Arab Islamic Bank	.6050	.0755	.5800	.0876	.5900	.0796
Palestine Islamic Bank	.6450	.0300	.5800	.0876	.6060	.0755

Al-Quds Bank	.6200	.0800	.6067	.0826	.6120	.0773
Palestine Investment Bank	.6150	.0300	.5800	.0876	.5940	.0700
The National Bank	.6200	.0800	.5533	.0826	.5800	.0843
Al Safa Bank	.6600	.000	.7050	.0493	.6938	.0466

Table (4.4) displays the financial and accounting expertise of the committee members for listed banks on the PEX in 2014–2017, 2018–2023, and 2014–2023. During 2014–2017, Al Safa Bank demonstrated the highest expertise (7.00) with a standard deviation of (0.00), while Arab Islamic Bank reported the lowest (6.00) and a standard deviation (1.414).

For 2018–2023, Al Quds Bank recorded the lowest (6.33) with a standard deviation (1.033), whereas all other listed banks on the Pex achieved the same expertise (6.50) with a standard deviation (0.548). Across the entire study period of 2014–2023, Palestine Commercial Bank exhibited the highest expertise (6.67) and a standard deviation (0.577), while Arab Islamic Bank maintained the lowest value (6.3) with a standard deviation (.949).

Table (4.4): Descriptive Statistics for Audit Committee Members` Financial and Accounting Expertise

Banks` Names	2014-2017		2018-2023		2014-2023	
	Mean	SD	Mean	SD	Mean	SD
Bank of Palestine	6.75	0.500	6.50	0.548	6.60	0.516
Palestine Commercial Bank	6.67	0.577	-	-	6.67	0.577
Arab Islamic Bank	6.00	1.414	6.50	0.548	6.3	0.949
Palestine Islamic Bank	6.75	0.500	6.50	0.548	6.60	0.516
Al-Quds Bank	6.50	1.000	6.33	1.033	6.40	0.966
Palestine Investment Bank	6.25	0.500	6.50	0.548	6.40	0.516

The National Bank	6.75	0.500	6.50	0.548	6.60	0.516
Al Safa Bank	7.00	0.00	6.50	0.548	6.63	0.518

Table (4.5) outlines the size of audit committees for listed banks on the PEX during 2014–2017, 2018–2023, and 2014–2023. During 2014–2017, Palestine Commercial Bank reported the largest committee size (4.67) and a standard deviation (0.577), while Al Safa Bank had the smallest (3.00) with a standard deviation (0.00).

For 2018 – 2023, The National Bank showed the most significant size ( 3.67) with a standard deviation ( 0.516 ), whereas Al Quds Bank reported the lowest ( 3.33 ) and a standard deviation ( 0.516). Over the entire study period from 2014 – 2023, Palestine Commercial Bank continued to exhibit the highest average of the committee size ( 4.67 ) with a standard deviation ( 0.577 ), while Al Quds Bank recorded the most minor ( 3.30 ) and a standard deviation ( 0.483 ).

Table (4.5): Descriptive Statistics for the Audit Committee Size

Banks` Names	2014-2017		2018-2023		2014-2023	
	Mean	SD	Mean	SD	Mean	SD
Bank of Palestine	3.25	0.500	3.50	0.548	3.40	0.516
Palestine Commercial Bank	4.67	0.577	-	-	4.67	0.577
Arab Islamic Bank	3.75	0.957	3.50	0.548	3.60	0.699
Palestine Islamic Bank	3.50	1.000	3.50	0.548	3.50	0.707
Al-Quds Bank	3.25	0.500	3.33	0.516	3.30	0.483
Palestine Investment Bank	4.50	1.000	3.50	0.548	3.90	0.876
The National Bank	3.25	0.500	3.67	0.516	3.50	0.527

Al Safa Bank	3.00	0.00	3.50	0.548	3.38	0.518
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Table (4.6) illustrates the frequency of meetings for listed banks on the PEX during three periods. For 2014–2017, The National Bank and Al Safa Bank held the highest meetings (5.00) with a standard deviation of (.816) and (1.414), respectively, while Palestine Investment Bank held the lowest (4.50) and a standard deviation (.577).

For 2018–2023, The National Bank had the highest meeting (4.83) with a standard deviation (0.753). In contrast, the Bank of Palestine, Arab Islamic Bank, and Palestine Islamic Bank had the lowest (4.50) with a standard deviation (0.548). From 2014–2023, The National Bank had the highest meetings (4.90) and a standard deviation (0.738), while the Bank of Palestine, Arab Islamic, Palestine Islamic, and Palestine Investment Banks had the lowest (4.60).

Table (4.6): Descriptive Statistics for Audit Committee Meetings

Banks` Names	2014-2017		2018-2023		2014-2023	
	Mean	SD	Mean	SD	Mean	SD
Bank of Palestine	4.75	0.957	4.50	0.548	4.60	0.699
Palestine Commercial Bank	4.67	0.577	-	-	4.67	0.577
Arab Islamic Bank	4.75	0.957	4.50	0.548	4.60	0.699
Palestine Islamic Bank	4.75	0.957	4.50	0.548	4.60	0.699
Al-Quds Bank	4.75	0.500	4.67	0.816	4.70	0.675
Palestine Investment Bank	4.50	0.577	4.67	0.516	4.60	0.516
The National Bank	5.00	0.816	4.83	0.753	4.90	0.738
Al Safa Bank	5.00	1.414	4.67	0.516	4.75	0.707

Based on the data presented in Table (4.6), in the period 2014-2017, banks, on average, held between 4.50 and 5.00 meetings annually. From 2018-2023, there were no significant variations in the number of meetings compared to the prior period, with the average ranging between 4.50 and 4.83. For 2014-2023, the overall average ranged between 4.60 and 4.90.

According to Palestinian regulations, the audit committees must hold at least four meetings annually. Therefore, all the studied banks comply with this minimum requirement. Many banks have an average of around five meetings annually in most periods. Thus, according to the data, all banks adhere to the recommended minimum in Palestine, which is four meetings annually.

## **4.2 Hypotheses Testing**

H1: IFRS No.9 adoption significantly positively impacts the quality of financial reporting.

Regression Analysis is utilized to analyze whether IFRS No. 9 adoption significantly positively impacts the quality of the reporting. The analysis covers the periods 2014–2017, 2018–2023, and 2014–2023. For 2014–2017, the analysis is not applicable as IFRS No. 9 has not been adopted by banks. Therefore, no relationship could be assessed between IFRS No. 9 adoption and financial reporting quality for this timeframe.

From 2018 to 2023, all banks uniformly have adopted IFRS No. 9, with a consistent mean value of .7179. As a result, there is no variability in the level of adoption of IFRS No. 9 among the banks during this period. This uniformity implies that any variations in financial reporting quality during this timeframe cannot be attributed to differences in IFRS No. 9 adoption, as all banks demonstrate high compliance with the standard.

Simple linear regression is conducted to examine the adoption of IFRS No. 9 on the reporting quality for 2014- 2023. The results indicate that IFRS No. 9 adoption predicts financial reporting quality significantly, as  $R^2 = .547$ , adjusted  $R^2 = 0.541$ ,  $F(1, 69) = 83.35$ ,  $p < .001$ . The  $R^2$  value of .547 suggests that approximately 54.7% of the variance in the reporting quality is explained by IFRS No. 9 adoption.

Table (4.7) presents that the unstandardized regression coefficient for IFRS No. 9 adoption is  $B = .397$  ( $SE = .043$ ), indicating that for every unit increase in IFRS No. 9 adoption, financial reporting quality increases by .397 units. This relationship is statistically significant ( $t(69) = 9.13$ ,  $p < .001$ ). The standardized beta coefficient ( $\beta = .740$ ) demonstrates a strong positive association between IFRS No. 9 adoption and the reporting quality. These findings confirm that IFRS No. 9 adoption significantly and positively impacts financial reporting quality over the study period.

Table (4.7): Simple Regression Results for the Period 2014 - 2023

Model	Unstandardized Coefficients		Standardized Coefficients	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta		Lower Bound	Upper Bound
1 (Constant)	.586	.024		.000	.538	.633
IFRS9	.397	.043	.740	.000	.310	.483

$R^2 = .547$ , Adjusted  $R^2 = .541$ ,  $F=83.35$

H2: Audit committee attributes significantly positively impact financial reporting quality.

Multiple linear regression analysis is conducted to examine whether audit committee attributes (meetings, independence, expertise, and size) significantly positively impact the quality of financial reporting from 2014- 2017. The model explains 18.1% of the variance in the reporting quality ( $R^2 = .181$ ). However, the overall model is not statistically significant,  $F(4, 24) = 1.326$ ,  $p = .289$ , indicating that the predictors collectively don't significantly explain variations in the reporting quality.

The coefficients for each audit committee attribute are analyzed individually. Independence presents a negative but statistically non-significant relationship with the reporting quality ( $B = -.414$ ,  $SE = .597$ ,  $\beta = -.158$ ,  $t(24) = -0.694$ ,  $p = .495$ ). Similarly, committee size is positively associated with the reporting quality ( $B = .048$ ,  $SE = .064$ ,  $\beta = .212$ ), but this relationship is not statistically significant ( $t(24) = 0.744$ ,  $p = .464$ ). Meetings



also exhibit a positive association with financial reporting quality ( $B = .040$ ,  $SE = .054$ ,  $\beta = .152$ ), yet this effect is not statistically significant ( $t(24) = 0.729$ ,  $p = .473$ ).

Of all the predictors, expertise shows the most substantial positive relationship with financial reporting quality ( $B = .128$ ,  $SE = .072$ ,  $\beta = .487$ ). While this relationship is marginally non-significant ( $t(24) = 1.779$ ,  $p = .088$ ), it suggests that audit committee expertise may have some influence on financial reporting quality, albeit not at a statistically significant level.

Besides, multiple linear regression analyses evaluate whether audit committee attributes (independence, expertise, size, and meetings) significantly impact reporting quality during 2018–2023. The results reveal that the model explains only 9.3% of the variance in the reporting quality ( $R^2 = .093$ , Adjusted  $R^2 = -.005$ ), presenting that the predictors collectively contribute minimally to variations in the reporting quality. However, the overall model is not statistically significant ( $F(4, 37) = 0.944$ ,  $p = .449$ ).

Individually, the coefficients for the audit committee attributes show varying relationships with the reporting quality. Independence demonstrates a positive association ( $B = .107$ ,  $\beta = .190$ ), but this effect is not statistically significant ( $p = .295$ ). Similarly, expertise has a weak positive relationship with the reporting quality ( $B = .018$ ,  $\beta = .203$ ), which also doesn't reach statistical significance ( $p = .488$ ).

Audit committee size exhibits a positive relationship ( $B = .048$ ,  $\beta = .466$ ), though it is not statistically significant ( $p = .107$ ). On the other hand, the frequency of meetings shows a slightly negative relationship with financial reporting quality ( $B = -0.004$ ,  $\beta = -.048$ ), but this relationship is also not statistically significant ( $p = .799$ ).

In addition, the study uses multiple linear regression analysis to investigate the impact of the committee attributes (independence, expertise, size, and meetings) on the reporting quality from 2014 to 2023. The results indicate that the model accounted for 1.9% of the variance in the reporting quality ( $R^2 = .019$ , Adjusted  $R^2 = -.041$ ). Furthermore, the model is not statistically significant ( $F(4, 66) = 0.314$ ,  $p = .868$ ), suggesting that the predictors collectively don't significantly explain variations in financial reporting quality.

The coefficients for the individual predictors are analyzed to evaluate their specific contributions to the reporting quality. Independence is negatively associated with the reporting quality (  $B = -.202$ ,  $SE = .316$ ,  $\beta = -0.09$  ), but the relationship is not statistically significant (  $p = 0.524$  ). The expertise exhibits a positive association with the reporting quality (  $B = .016$ ,  $SE = .056$ ,  $\beta = .0054$  ), which also fails to reach statistical significance (  $p = .777$  ).

The committee size shows a negative relationship with the reporting quality ( $B = -.035$ ,  $SE = .053$ ,  $\beta = -0.122$ ), but this association is not statistically significant ( $p = .515$ ). The frequency of meetings has a negative relationship with the reporting quality ( $B = -.009$ ,  $SE = .041$ ,  $\beta = -.03$ ), which is also not statistically significant ( $p = .829$ ).

In conclusion, the regression analysis reveals that none of the audit committee attributes (independence, expertise, size, and meetings) significantly impact the reporting quality during all interval periods. While audit committee expertise displays positive trends, these effects are not substantial enough to explain variations in the reporting quality. These findings suggest that other factors beyond the audit committee attributes included in this study may significantly influence financial reporting quality over this timeframe, as shown in (Table 4.8).

Table (4.8): Regression Analysis Between Audit Committee Attributes and Financial Reporting Quality

Period		Unstandardized Coefficients		Standardized Coefficients		95.0% Confidence Interval for B		
		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound
2014-	(Constant)	-.357	.755		-.473	.640	-1.915	1.201
2017	Independence	-.414	.597	-.158	-.694	.495	-1.646	.818
	expertise	.128	.072	.487	1.779	.088	-.020	.276
	size	.048	.064	.212	.744	.464	-.085	.180
	meetings	.040	.054	.152	.729	.473	-.072	.152
$R^2 = .181$ , $\text{Adjusted } R^2 = .044$ , $F=1.326$								
2018-2023	(Constant)	.543	.254		2.139	0.039	.029	1.058
	Independence	.107	.100	0.190	1.062	0.295	-.097	.310

	expertise	.018	.025	0.203	.701	0.488	-.033	.069
	size	.048	.029	0.466	1.654	0.107	-.011	.106
	meetings	-0.004	.017	-0.048	-.256	0.799	-.038	.029
<hr/> $R^2 = .093$ , Adjusted $R^2 = -.005$ , $F=.944$ <hr/>								
2014-2023	(Constant)	.941	.537		1.753	.084	-.131	2.013
	Independence	-.202	.316	-0.090	-.641	.524	-.833	.428
	expertise	.016	.056	0.054	.284	.777	-.096	.128
	size	-.035	.053	-0.122	-.655	.515	-.141	.071
	meetings	-.009	.041	-0.030	-.216	.829	-.091	.073
<hr/> $R^2 = .019$ , Adjusted $R^2 = -.041$ , $F=.314$ <hr/>								

H3: Audit committee attributes significantly positively moderate the impact of IFRS No. 9 adoption on financial reporting quality.

For the period 2014–2017, it is not possible to test whether audit committee attributes significantly positively moderate the impact of IFRS No. 9 adoption on the reporting quality, as IFRS No. 9 has not yet been adopted during this timeframe. The lack of implementation across all banks during this period means there is no variability in the independent variable (IFRS No. 9 adoption), making it impossible to assess its interaction with audit committee attributes.

Similarly, for 2018–2023, all banks uniformly adopt IFRS No. 9 with consistent compliance (mean = .7179). This lack of variability in IFRS No. 9 adoption again prevents assessing any moderating effect of audit committee attributes. For moderation analysis to be valid, there must be variability in the independent variable (IFRS No. 9 adoption) to evaluate its interaction with the moderator (audit committee attributes). The absence of such variability in both periods makes testing the hypothesized moderation effect statistically infeasible.

For 2014–2023, a moderation analysis is conducted to examine whether the audit committee members' independence moderates the relationship between IFRS No. 9 adoption

and reporting quality. The model is statistically significant ( $F(3, 67) = 26.99, p < .001$ ), explaining 54.72% of the variance in the reporting quality ( $R^2 = .5472$ ).

The results indicate that IFRS No. 9 adoption doesn't significantly predict financial reporting quality ( $B = .3559, SE = .3493, t(67) = 1.0188, p = .312$ ). Audit committee independence also doesn't significantly predict financial reporting quality ( $B = -.0272, SE = .3357, t(67) = -0.0809, p = .9357$ ). Furthermore, the interaction term (IFRS  $\times$  Independence) is not statistically significant ( $B = 0.0661, SE = 0.5603, t(67) = 0.1179, p = .9065$ ), indicating that audit committee independence does not moderate the relationship between IFRS No. 9 adoption and the reporting quality as shown in (Table 4.9).

Table (4.9): Regression Results for the Moderating Effect of Audit Committee Independence on the Relationship Between IFRS No. 9 Adoption and Financial Reporting Quality (2014–2023)

Variable	B	SE	t	p	LLCI	ULCI
Constant	.6025	.2095	2.8763	0.0054	.1844	1.0206
IFRS No. 9 Adoption	0.3559	.3493	1.0188	0.312	-0.3413	1.0531
Independence	-.0272	.3357	-0.0809	0.9357	-.6973	.643
IFRS 9 $\times$ Independence	0.0661	.5603	0.1179	0.9065	-1.0522	1.1844
$R^2 = .5472, F=26.99$						

Also, a moderation analysis is conducted to examine whether the committee members' financial and accounting expertise moderates the relationship between IFRS No. 9 adoption and the reporting quality from 2014–2023. The model is statistically significant ( $F(3, 67) = 32.54, p < .001$ ), explaining 59.3% of the variance in the reporting quality ( $R^2 = .593$ ).

Table (4.10) indicates that IFRS No. 9 adoption significantly predicts financial reporting quality ( $B = 1.2905, SE = .4164, t(67) = 3.0992, p = .0028$ ). Audit committee

expertise also significantly predicts financial reporting quality ( $B = .0871$ ,  $SE = .0319$ ,  $t(67) = 2.7296$ ,  $p = .0081$ ). However, the interaction term (IFRS  $\times$  Expertise) is statistically significant. Still, it shows a negative moderating effect ( $B = -0.1366$ ,  $SE = 0.0636$ ,  $t(67) = -2.1474$ ,  $p = .0354$ ), suggesting that higher levels of financial and accounting expertise slightly reduce the positive impact of IFRS No. 9 adoption on the reporting quality.

Table (4.10): Regression Results for the Moderating Effect of the Committee Expertise on the Relationship Between IFRS No. 9 Adoption and the Reporting Quality (2014–2023)

Variable	B	SE	t	p	LLCI	ULCI
Constant	.015	.2103	0.0711	0.9435	-.4049	.4348
IFRS No. 9 Adoption	1.2905	0.4164	3.0992	0.0028	0.4593	2.1216
Financial and Accounting Expertise	.0871	.0319	2.7296	0.0081	.0234	.1508
Interaction (IFRS 9 $\times$ Expertise)	-0.1366	0.0636	-2.1474	0.0354	-0.2636	-0.0096
$R^2 = .593$ , $F=32.54$						

Besides, a moderation analysis is conducted to test whether audit committee size moderates the relationship between IFRS No. 9 adoption and the reporting quality during 2014–2023. The model is statistically significant ( $F(3, 67) = 27.64$ ,  $p < .001$ ), explaining 55.31% of the variance in the reporting quality ( $R^2 = .5531$ ).

As shown in Table (4.11), IFRS No. 9 adoption doesn't significantly predict financial reporting quality ( $B = 0.1726$ ,  $SE = 0.2484$ ,  $t(67) = 0.695$ ,  $p = .4895$ ). Similarly, audit committee size doesn't significantly predict financial reporting quality ( $B = -.0216$ ,  $SE = .0287$ ,  $t(67) = -0.7514$ ,  $p = .4550$ ). Furthermore, the interaction term (IFRS  $\times$  Size) is not statistically significant ( $B = 0.0627$ ,  $SE = 0.0688$ ,  $t(67) = 0.9108$ ,  $p = .3657$ ), indicating that

the committee size does not moderate the relationship between IFRS No. 9 adoption and financial reporting quality.

Table (4.11): Moderation Analysis: Audit Committee Size Effect on the Relationship Between IFRS No. 9 Adoption and Financial Reporting Quality (2014–2023)

Variable	B	SE	t	p	LLCI	ULCI
Constant	.6645	.1078	6.1666	.0000	.4494	.8796
IFRS No. 9 Adoption	0.1726	0.2484	0.695	0.4895	-0.3232	0.6685
Audit Committee Size	-.0216	.0287	-0.7514	0.4550	-.0789	.0358
Interaction (IFRS 9 × Size)	0.0627	0.0688	0.9108	0.3657	-0.0747	0.20

R<sup>2</sup> = .5531, F=27.64

Also, a moderation analysis is conducted to examine whether the frequency of the committee meetings moderates the relationship between IFRS No. 9 adoption and the reporting quality from 2014–2023. The model is statistically significant ( $F(3, 67) = 29.94$ ,  $p < .001$ ), explaining 57.27% of the variance in the reporting quality ( $R^2 = .5727$ ).

Table (4.12) shows that IFRS No. 9 adoption significantly predicts financial reporting quality ( $B = 0.8827$ ,  $SE = 0.3109$ ,  $t(67) = 2.8391$ ,  $p = .0060$ ). Furthermore, the frequency of the committee meetings shows a positive but marginally significant effect on the reporting quality ( $B = .0647$ ,  $SE = .0325$ ,  $t(67) = 1.9888$ ,  $p = .0508$ ). The interaction term (IFRS × Meetings) is not statistically significant ( $B = -0.1025$ ,  $SE = 0.0657$ ,  $t(67) = -1.5596$ ,  $p = .1236$ ), indicating that the frequency of the committee meetings does not moderate the relationship between IFRS No. 9 adoption and the reporting quality.

These results suggest that while both IFRS No. 9 adoption and audit committee meetings independently contribute to financial reporting quality, their interaction does not significantly influence the relationship between IFRS No. 9 adoption and reporting quality.

Table (4.12): Moderation Analysis: Audit Committee Meetings Effect on the Relationship Between IFRS No. 9 Adoption and Financial Reporting Quality (2014–2023)

Variable	B	SE	t	p	LLCI	ULCI
Constant	0.2776	.1567	1.7717	0.081	-.0351	.5903
IFRS No. 9 Adoption	0.8827	0.3109	2.8391	0.006	0.2621	1.5032
Audit Committee Meetings	.0647	.0325	1.9888	0.0508	-0.0002	.1297
Interaction (IFRS9 × Meetings)	-0.1025	0.0657	-1.5596	0.1236	-0.2337	0.0287
$R^2 = .5727, F=29.94$						

In conclusion, the results partially support H3. While financial and accounting expertise significantly moderates the relationship between IFRS No. 9 adoption and the reporting quality, the moderation is negative, suggesting that higher expertise slightly reduces the positive impact of IFRS No. 9 on financial reporting quality. The other attributes— independence, size, and meetings—don't show significant moderating effects.

## **Chapter Five: Discussion of Results**

This chapter intends to present the study's findings on implementing IFRS 9 on the quality of financial reports in the Palestinian banking sector, focusing on the moderating effect of the committee attributes. The findings will be discussed for each research question and hypotheses relating to the study aims, objectives, and other similar studies regarding the researcher's understanding and for further suggestions and recommendations.

### **5.1 Discussion of Results**

#### **5.1.1. Answering the Study Questions**

First question: What is the effect of IFRS 9 adoption on the financial reporting quality of listed banks on the PEX?

The study answers this question, where the results show that adopting IFRS 9 positively and significantly impacts the quality of the reporting from 2014-2023. The standard regression coefficient ( $\beta = 0.740$ ) shows a strong positive relationship between IFRS 9 adoption and the quality of the reporting.

This finding underscores the standard's vital function in enhancing the financial reports' transparency, relevance, and reliability. The forward-looking ECL model enables early recognition of credit losses, strengthening stakeholders' trust in financial reporting. However, challenges such as data availability and system integration remain significant barriers. Banks need to invest in robust financial data systems and training to fully leverage the benefits of IFRS 9, as Awawda (2019) suggested.

Second question: What is the impact of audit committee attributes on the financial reporting quality of listed banks on the PEX?

The study answers this question, where the analyses reveal that the committee attributes ( independence, meetings, expertise, and size) don't significantly affect the whole



quality of the reporting. While expertise shows a non-significant positive trend, This result suggests that external factors, such as the regulatory and economic environment, may play a more significant function than committee characteristics per se.

Third question: Do audit committee attributes moderate the influence of IFRS 9 adoption on financial reporting quality?

The study answers the question where the results show that the effect of the moderator is limited. Only financial experience shows a moderating effect, but it is negative, which means that increasing financial experience may slightly decrease the positive influence of adopting IFRS 9 on the reporting quality, which may be due to the careful assessment experienced audit committees may make, which reduces the exaggeration of quality improvement. This result suggests that higher expertise might introduce overly conservative practices, potentially diluting the benefits of IFRS 9 adoption as the experienced audit committees may resist innovative standards due to reliance on traditional practices.

### **5.1.2. Hypotheses Testing Results**

H1: IFRS No.9 adoption significantly positively impacts the quality of financial reporting.

Regression analysis confirms a strong and significant positive relationship between IFRS 9 adoption and the reporting quality across 2014- 2023 ( $R^2 = 54.7\%$ ,  $p < 0.001$ ). The unstandardized coefficient ( $B = 0.397$ ) shows that a unit increase in IFRS 9 adoption improves financial reporting quality by 0.397 units.

Considering that For 2014–2017, IFRS No. 9 has not been adopted by banks. Therefore, no relationship is assessed between IFRS No. 9 adoption and the reporting quality for this period. From 2018 to 2023, there hasn't been variability in the level of adoption of IFRS No. 9 among the banks, as they have uniformly adopted IFRS No. 9 during this period, with a consistent mean value of .7179. This uniformity implies that any variations in the

reporting quality during this timeframe cannot be attributed to differences in IFRS No. 9 adoption.

H2: Audit committee attributes significantly positively impact financial reporting quality.

The impact of the committee attributes ( independence, meetings, expertise, and size) on the reporting quality is analyzed for different periods; from 2014–2017,  $R^2$  equals 18.1%, and the model is not statistically significant ( $p = 0.289$ ). From 2018–2023,  $R^2$  equals 9.3%, and the model is not statistically significant ( $p = 0.449$ ). Besides, from 2014–2023,  $R^2$  equals 1.9%; the model is not statistically significant ( $p = 0.868$ ). Besides, none of the attributes have a significant individual or collective impact on the reporting quality.

H3: Audit committee attributes significantly positively moderate the impact of IFRS No. 9 adoption on financial reporting quality.

The results show that the independence has no significant moderating effect ( $p = 0.9065$ ), the member's expertise shows a negative moderating effect ( $B = -0.1366$ ,  $p = 0.0354$ ), indicating that higher expertise slightly reduces the positive impact of IFRS 9 in the reporting quality, the size has no significant moderating effect ( $p = 0.3657$ ), and the meetings of the audit committee members have no significant moderating effect ( $p = 0.1236$ ).

Regarding the period 2014–2017, it is not possible to test whether audit committee attributes significantly positively moderate the impact of IFRS No. 9 adoption on the reporting quality, as IFRS No. 9 has not yet been adopted during this timeframe, which means there is no variability in the independent variable IFRS No. 9 adoption, making it impossible to assess its interaction with audit committee attributes.

Similarly, for 2018–2023, all banks uniformly adopt IFRS No. 9 with consistent compliance, which means there is a lack of variability in IFRS No. 9 adoption again. For moderation analysis to be valid, there must be variability in adopting the independent variable IFRS No. 9 to evaluate its interaction with the moderator audit committee attributes.

## 5.2 Conclusion of Hypotheses Testing

The first hypothesis, H1, which states, "IFRS No.9 adoption significantly positively impacts the quality of the reporting of the listed banks on the PEX," is accepted, confirming the positive impact of IFRS 9 adoption on the reporting quality. The researcher believes that this positive impact reflects the importance of banks' full compliance with the standard to ensure the provision of more reliable and transparent financial information. This result highlights the pivotal role of IFRS No.9 in enhancing investor confidence.

The second hypothesis, H2, which states that "Audit committee attributes significantly positively impact financial reporting quality," is rejected, as the committee attributes don't significantly impact reporting quality. From the researcher's perspective, this may be attributed to challenges related to the efficiency of audit committees or their lack of independence within the studied environment. A comprehensive review of these committees' operations is encouraged to identify the obstacles preventing a significant impact.

From the researcher's perspective, the scarcity of a significant impact of the committee attributes ( meetings, independence, expertise, and size) on the quality of the reporting can be attributed to several interrelated factors. First, audit committees may face regulatory and administrative constraints that leave them without the authority or resources to perform their roles effectively and reduce their ability to closely oversee the quality of the reports, particularly in environments characterized by weak enforcement of regulations.

Second, despite the importance of expertise as an attribute, its practical application may be limited. Experienced members often rely on traditional methods and resist changes, as observed in implementing IFRS 9, which diminishes their influence on reporting quality. Third, the study indicates that external factors, such as the economic environment, management practices, or other regulatory requirements, play a more significant function in shaping the quality of financial reporting than audit committee characteristics. Finally, the committees may lack full integration with modern IFRS, such as IFRS 9, which undermines their ability to enhance reporting quality effectively.

Therefore, while audit committee attributes are theoretically considered tools for improving financial reporting quality, practical regulatory and contextual barriers explain their limited impact. Addressing these challenges could help unlock their potential and maximize their contribution to enhancing the reporting quality. Accordingly, there is a need for a comprehensive review of the operations of these committees to identify the obstacles to significant impact more accurately.

The third hypothesis, H3, states, "Audit committee attributes significantly positively moderate the influence of IFRS No. 9 adoption on financial reporting quality," is rejected, with expertise negatively moderating the relationship between IFRS 9 adoption and reporting quality. On the other hand, other attributes show no significant moderating effects. The researcher believes this calls for a deeper study to understand the nature of the relationship between expertise and international standards. There may be a gap between theoretical knowledge and practical application that needs to be addressed through training and professional development.

The negative relationship between practical experience and reporting quality could result from several interconnected factors. Highly experienced individuals often rely on traditional practices and established methods, making them less receptive to changes or innovations in the reporting standards, such as IFRS 9, which reduces the potential benefits of adopting such standards. They may also rely excessively on personal judgment and past experiences, sometimes leading to deviations from the framework set by new standards. This inconsistency in application can negatively impact the quality of reporting.

Additionally, their deep awareness of financial and administrative risks may drive them toward overly conservative positions, resulting in reports that are less representative of economic reality. Moreover, practical experience can become a barrier to adapting to change, as experienced professionals may struggle to align with modern standards or requirements, leading to errors or shortcomings in full compliance. In regulatory environments with weak oversight, their expertise might be exploited to justify practices serving specific interests rather than enhancing transparency and quality in financial reporting.

Therefore, the researcher believes this calls for a deeper study to understand the nature of the relationship between expertise and international standards. There may be a gap

between theoretical knowledge and practical application that needs to be addressed through training and professional development.

### **5.3 Linking Results to Objectives**

The study's first objective is to measure the relationship between adopting IFRS 9 and the quality of financial reporting. The results reveal a significant positive effect ( $R^2 = 54.7\%$ ,  $p < 0.001$ ), indicating that the study successfully achieves this objective by providing data supporting the relationship between the adoption of the standard and the reporting quality.

The second objective focuses on investigating the influence of the committee attributes on financial reporting quality. The results show that these attributes don't statistically affect financial reporting quality, individually or collectively, reflecting that the study offers an objective analysis and valuable data to explain the absence of impact within the examined regulatory environment.

The third objective of the study involves analyzing the moderating role of audit committee attributes on the relationship between IFRS 9 and reporting quality. The findings indicate that the committee attributes don't enhance the relationship between adopting IFRS 9 and reporting quality. However, experience exhibits a slight negative moderating effect ( $B = -0.1366$ ,  $p = 0.0354$ ). This result demonstrates that the study provides a deeper understanding of the complicated interactions between variables.

### **5.4 Linking the Theoretical Framework to the Study Results**

The theoretical framework acknowledges that using IFRS 9 seeks to develop the quality of the reports through various facets, including faithful representation, relevance, comparability, timeliness, verifiability, and understandability. Some studies, such as (Nurunnabi, 2018, Nikam, 2020 Ahmed, 2021), confirmed that IFRS 9 improves the reliability and quality of the statements and has shown that IFRS 9 brings in an enhanced model of ECL that contributes to providing effective and satisfactory information to users of the statements.

The statistical analysis results indicated that using IFRS 9 enhanced the quality of the reporting. The results yielded a high  $R^2$  and a  $P < 0.05$ , thus supporting the hypothesis that IFRS 9 adoption enhanced reporting quality across the study period. As such, the findings are congruent with the theoretical premise postulate in this study and correspond with theoretical postulations that implementing IFRS 9 improves the quality of reporting since it provides a better framework for evaluating financial assets. These results support the argument advanced by previous research that alterations in measurement and classification procedures offer better and more appropriate information.

The theoretical framework also focuses on the committee attributes (meetings, independence, expertise, and size) toward developing the quality of information reporting. The literature indicates that the audit committee attributes boosting the quality of data, such as the studies of (Erin & Adegboye, 2021 Elkinawy et al., 2021) and studies of (Al-Aamri et al., 2021 Alqaraleh & Nour, 2020; Rabab'ah et al., 2017) which founded that the size and independence of the members had a beneficial and significant impact on the timeliness and the quality of the reports.

Nonetheless, the analysis results problematize this statement, as no relationship between the characteristics of the committee and the quality of financial reporting is established. This result is consistent with the study of Majiyebo et al. (2018), which found that the committee size had no significant impact on the reporting quality. While expertise shows a non-significant positive trend, this effect is not substantial enough to explain variations in financial reporting quality. Still, it is consistent with the studies of (Safari Gerayli et al., 2021; Rabab'ah et al., 2017), who found that committee expertise has a positive relationship with reporting quality.

Accordingly, the findings contradict the theoretical framework, and this discrepancy can be attributed to several potential factors: In the studied sample, the regulatory environment may not be strong enough to foster the operationalization of audit committees. Also, there is a possibility that the audit committees have ineffective implementation, which means they have no power or adequate means to do their work effectively. Besides, the sample differences and traits may not match those investigated in previous research.

In addition, based on the theoretical framework, it is posited that the committee attributes can increase the effectiveness of IFRS 9 in developing the quality of financial reporting through supervision. Studies such as ( Chedid & Chaya 2020 Jatiningrum et al., 2020) showed that free and efficient audit committees lead to high compliance with IFRS9 and enhance financial reporting quality. Also, Doorgakunt (2019) highlighted that audit committees influence disclosure quality by overseeing IFRS 9-related data dissemination, including instrument classification, impairment assessments, and key judgments, thereby enhancing transparency and reporting quality.

However, the current study shows no significant interactive effect between the IFRS 9 adoption and committee characteristics on the reporting quality except for the member`s expertise, which negatively moderates this relationship. Hence, the findings don't support the theoretical model, and sample limitations can explain this discrepancy.

### **5.5 Linking the Results to the Theories of Study**

The study findings on adopting IFRS 9 and the quality of financial reporting align closely with the principles supported by accounting theory. The study demonstrated that the standard enhances transparency and reliability by applying the ECL model. These results underscore the necessity of the normative approach that upholds the principles of relevance and comparability in financial reporting, helping investors and stakeholders make more informed decisions. However, the findings revealed that the impact of the committee attributes on the quality of financial reporting was limited, indicating a gap between theoretical principles and their practical application, particularly in weak regulatory environments.

From the agency theory perspective, IFRS 9 significantly improves data asymmetry between managers and shareholders by providing a unified framework focused on credit risks. The findings showed that the standard helps regulate managerial behavior and enhances transparency, supporting the objectives of agency theory in offering more transparent and forward-looking information and boosting investor confidence. However, the study did not establish a significant role for audit committees in this context, suggesting that a lack of

authority and resources may limit their ability to decrease data asymmetry and develop reporting quality.

In the context of positive accounting theory, the findings indicate that adopting IFRS 9 has reduced companies' flexibility in earnings management by imposing restrictions on using managerial estimates to manipulate financial information. This approach aligns with the positive theory hypothesis, which focuses on the impact of economic and regulatory incentives on corporate decisions, such as improving transparency and mitigating risks.

Regarding the role of audit committees, the findings highlighted their lack of influence on the relationship between IFRS 9 adoption and reporting quality. It could be attributed to some committee members relying on traditional practices that hinder their ability to adapt to modern standards, reflecting the challenges of positive accounting theory in addressing evolving dynamics.

As for institutional theory, the findings support the premise that adopting IFRS 9 reflects a response to regulatory and institutional pressures to enhance compliance with international standards. This adoption strengthens the credibility of reporting and contributes to increased investor confidence. However, the limited impact of the committee attributes may be explained by the absence of effective institutional pressures to enhance the independence and efficiency of these committees. It highlights the need for a stronger institutional environment to support audit committees' commitment to improving reporting quality.

## **5.6 Linking the Results to Previous Studies**

### **5.6.1. Findings on IFRS 9 Adoption and Financial Reporting Quality**

Regression analysis reveals that adopting IFRS 9 significantly positively impacts the financial reporting quality of listed banks on the PEX ( $R^2 = 54.7\%$ ). The relationship between IFRS 9 adoption and the reporting quality is positive and robust, with every unit increase in



the adoption of the standard leading to a 0.397-unit improvement in financial reporting quality.

This result is in line with (Ahmed, 2021, Alkhresat & Almubaydeen, 2019, Nikam, 2020, Nurunnabi, 2018, & Alhaija, 2012), that highlighted the beneficial function of the IFRS 9 in boosting the quality of the reports. However, it differs from studies such as Schaap (2020), which suggested a significant value-relevance reduction following adopting IFRS No. 9. Also, Orbán & Tamimi (2020) highlighted the limited influence of adopting the standard.

### **5.6.2. Impact of Audit Committee Attributes and Financial Reporting Quality**

None of the audit committee attributes (size, independence, meetings, and expertise) significantly impact financial reporting quality across all studied periods. These findings are consistent with Ulfah & Diyanty (2024), who concluded that the committee attributes may not significantly influence reporting quality. However, they differ from (Safari Gerayli et al., 2021), highlighting the necessity of expertise within the committees in boosting the reporting quality.

### **5.6.3. The Moderating Effect of Audit Committee Attributes**

Audit committee attributes (size, independence, meetings, and expertise) don't exhibit any notable moderating effects. However, financial and accounting expertise shows a negative moderating influence on the relationship between IFRS 9 adoption and financial reporting quality, suggesting that higher expertise slightly reduces the positive effect of IFRS 9 on reporting quality.

These findings align with Ulfah & Diyanty (2024), who found that the application of IFRS 9 and audit committees had an impact on raising bank managerial discretion, which states that implementing IFRS 9 and the audit committee haven't been able to limit managerial discretion. An increase in managerial discretion may contribute to variations in the quality of reporting. On the other hand, they differ from (Chedid& Chaya 2020), who emphasized the importance of the committee attributes in boosting the impact of IFRS 9 on the reporting quality. Likewise, the results differ from the study by Jatiningrum et al. (2020), which indicated that the relationship between the audit committee and reporting quality becomes more critical after adopting IFRS.

### **5.7 Practical Implications and Contributions**

This study provides several practical contributions to financial reporting and the audit committee. For the banking sector, the findings highlight the importance of adopting IFRS 9 to improve the reporting quality, offering practical insights for banks to strengthen their financial systems and enhance compliance with international standards. Banks can utilize these findings to focus on capacity-building measures, such as improving their data collection processes and training staff in advanced reporting techniques.

For the audit committees: the limited effect of the committees on the reporting quality underscores the need for structural and functional reforms. Policymakers and regulatory authorities can use these findings to enhance audit committees' independence, resources, and accountability, ensuring they play a more effective role in governance. Also, for regulators and policymakers, the study emphasizes the critical role of a robust regulatory environment in maximizing the benefits of IFRS 9 adoption. Regulators can leverage these insights to develop guidelines that integrate audit committee functions with IFRS 9 requirements, fostering a culture of compliance and transparency.

Furthermore, related to the broader economic impact, the study improves investor confidence and market stability by boosting the quality of the reporting. It is particularly significant for the Palestinian banking sector, which seeks to attract foreign investment and strengthen its integration into international financial markets.

Besides, this study supports knowledge advancement and contributes to the existing body of literature by exploring the interplay between IFRS 9 adoption and the committee attributes in a unique regional context. It provides a foundation for further studies investigating these dynamics in other sectors and regions.

### **5.8 Study Recommendations**

The study suggests that the banking sector in Palestine should improve its technical enabler by directing more resources to the financial information systems to support the implementation of IFRS 9. They should enhance the reporting systems to deliver the appropriate and precise data to the investors. It also should guarantee the independence of the audit committees and boost their power to increase the efficiency of the financial reporting quality. Also, improving its human resources by conducting follow-up training courses can enhance employees` knowledge about the requirements of IFRS 9 and its implementation.

Furthermore, the study suggests examining the effects of other factors, including the regulations on the quality of the reporting and the use of international standards, in addition to extending the study to other sectors rather than the banking sector to understand the effects of IFRS 9 in different sectors.

### **5.9 Suggestions for Future Studies**

The study motivates other investigations in many fields, such as studying the impact of regulatory and supervisory changes in Palestine on the effectiveness of audit committees and their role in improving the reporting quality, examining the association between the implementation of other IFRSs (including IFRS 15 and IFRS 16) and the quality of the reports, and evaluating the function of continuous professional training in developing the efficiency of the committees and enhancing the quality of reporting.

Future studies may examine the influence of financial technology ( Fintech) and artificial intelligence on improving compliance with IFRS and its role in enhancing financial reporting quality. They may also explore the moderating role of organizational culture and governance levels in financial institutions on IFRS and the quality of the reports.

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## تأثير اعتماد المعيار الدولي لإعداد التقارير المالية رقم 9 على جودة التقارير المالية في القطاع المصرفي الفلسطيني: الدور المعتدل لخصائص لجنة التدقيق

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### ملخص

تتناول هذه الدراسة اثر تطبيق المعيار الدولي لاعداد التقارير المالية رقم 9 على جودة التقارير المالية في القطاع المصرفي الفلسطيني، مع التركيز على الدور المعتدل لخصائص لجنة التدقيق. هذه الخصائص تتعلق باستقلالية اللجنة ،حجمها ، تكرار اجتماعاتها، والخبرة المالية. يتكون مجتمع الدراسة من جميع البنوك المدرجة في بورصة فلسطين، بينما تشمل عينة الدراسة جميع البنوك المدرجة في بورصة فلسطين والتي تتوفر بياناتها المالية خلال فترة الدراسة. ان بيانات الدراسة قد تم جمعها سنويا من القوائم المالية السنوية المدققة للبنوك المدرجة في بورصة فلسطين 2014-2023.

تستخدم الدراسة المنهج الاستنتاجي لتحقيق أهدافها، حيث تم إجراء تحليل الانحدار الخطي، الانحدار المتعدد، وتحليل الاعتدال لتحديد دور خصائص لجنة التدقيق كمتغير معتدل في العلاقة بين تطبيق المعيار 9 وجودة التقارير المالية، وتحليل التفاعلات بين هذه المتغيرات.ومن الجدير بالذكر، ان الدراسة اخذت بعين الاعتبار ثلاث مراحل زمنية؛ المرحلة الاختيارية لتطبيق المعيار 9 من عام 2014-2017 ، المرحلة الاجبارية لتطبيق المعيار 2018-2023 والفترة الاجمالية للدراسة 2014-2023.

تم اختبار ثلاث فرضيات اساسية، وقد توصلت الدراسة الى ان تبني المعيار رقم 9 يؤثر بشكل ايجابي على جودة التقارير المالية. لم تظهر خصائص لجنة التدقيق اي تأثير مهم على جودة التقارير المالية خلال اي فترة تم تحليلها ( 2014-2017 ، 2018-2023 ، 2014-2023). الى جانب ذلك،

فإن خصائص لجنة التدقيق (الاستقلالية، الحجم، و تكرار الاجتماعات) ليس لها تأثير معتدل مهم على العلاقة بين تبني المعيار الدولي لإعداد التقارير المالية رقم 9 وجودة التقارير، في حين أن الخبرة تؤثر بشكل معتدل سلباً على هذه العلاقة.

توصي الدراسة بتحسين القطاع المصرفي الفلسطيني من خلال تعزيز الانظمة التقنية وتحسين انظمة اعداد التقارير المالية لدعم تطبيق المعيار الدولي لاعداد التقارير المالية رقم 9. كما توصي بتعزيز دور لجنة التدقيق في دعم جودة التقارير المالية. كما اقترحت الدراسة توسيع نطاق البحوث مثل دراسة تأثير المعيار الدولي لاعداد التقارير المالية رقم 9 على القطاعات الاخرى غير القطاع المصرفي، واستكشاف دور التكنولوجيا المالية والذكاء الاصطناعي في تطوير جودة التقارير المالية وتبني المعايير الدولية.

الكلمات المفتاحية: المعيار الدولي لاعداد التقارير المالية رقم 9، جودة التقارير المالية، القطاع المصرفي الفلسطيني، وخصائص لجنة التدقيق.