Audit Committee Characteristics and Financial Reporting Quality

"Evidence from GCC Countries"

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Abstract

The audit committees emerging from the board of directors are considered a crucial mechanism that monitors and supervises the work of executive management by monitoring financial activities and preparing financial reports, which enhances investor confidence. Thus, the study gave new evidence of the effect of audit committee characteristics on financial reports quality in the banking sector of Gulf Cooperation Council countries GCC during the period (2016-2023). The study variables consisted of the audit committee characteristics as independent variables, while financial reporting quality FRQ served as the dependent variable, measured using the modified Jones model of discretionary accruals. The content analysis of published financial reports is the main source of data. A multiple linear regression equation was formulated to test the effect of audit committee characteristics.

The pooled OLS model results show that AC including AC size, AC independence, AC meetings, and AC experience has a statistically significant effect on the quality of financial reports, where the R-squared reached 60.33%. Also, the study found that large sizes with non-executive members of AC have significant and positive effects on the quality of financial reports, this can be explained by increasing oversight of the actions taken by executive management, and mitigating manipulation of the financial statements by reducing receivables, thus increasing the quality of financial reports. In addition, from a statistical standpoint, the study found a positive, statistically significant effect of the presence of audit committee members with financial experience on the quality of financial reports. Finally, the study pointed out that increasing the number of AC meetings led to increased financial reports quality in the GCC banking sector. The study recommends the necessity of evaluating the independence of audit committees and increasing the number of periodic meetings to enhance supervision of the work of executive departments in a way that enhances the quality of financial reports.

Keywords: Audit, Financial, Investors, Reports, Quality.

خصائص لجنة التدقيق وجودة التقارير المالية
"أدلة من دول مجلس التعاون الخليجي"

الملخص

تُعد لجان التدقيق المنبثقة عن مجالس الإدارة آلية محورية لمتابعة ومراقبة أنشطة الإدارة التنفيذية، من خلال الإشراف على العمليات المالية وإعداد التقارير المحاسبية، بما يعزز مستوى الثقة لدى المستثمرين. وفي هذا السياق، قدمت الدراسة دليلاً تجريبياً جديداً حول أثر خصائص لجان التدقيق على جودة التقارير المالية في القطاع المصرفي بدول مجلس التعاون الخليجي خلال الفترة (2016 – 2023). اعتمدت الدراسة على خصائص لجان التدقيق بوصفها متغيرات مستقلة، في حين مثّلت جودة التقارير المالية (FRQ) المتغير التابع، والذي جرى قياسه باستخدام نموذج جونز المعدل للاستحقاقات التقديرية. وقد تم الاعتماد على تحليل المحتوى للتقارير المالية المنشورة كمصدر رئيسي للبيانات، مع صياغة نموذج انحدار خطي متعدد لاختبار أثر خصائص لجان التدقيق.

أظهرت نتائج الدراسة أن خصائص لجان التدقيق، بما في ذلك الحجم، والاستقلالية، وعدد الاجتماعات، والخبرة، ترتبط بدلالة إحصائية بجودة التقارير المالية، حيث بلغ معامل التحديد (R-squared) نحو 60.33%. كما تبين أن وجود أعضاء غير تنفيذيين ضمن لجان التدقيق يسهم بشكل إيجابي في تعزيز جودة التقارير المالية، وذلك من خلال تشديد الرقابة على قرارات الإدارة التنفيذية والحد من ممارسات التلاعب بالقوائم المالية عبر تقليص الاستحقاقات، الأمر الذي ينعكس على رفع جودة التقارير. كذلك، توصلت النتائج إلى أن وجود أعضاء من ذوي الخبرة المالية ضمن لجان التدقيق يُعد عاملاً مؤثراً وإيجابياً من الناحية الإحصائية في تحسين جودة التقارير. وأشارت الدراسة أيضاً إلى أن ارتفاع عدد اجتماعات لجنة التدقيق يُسهم في تعزيز جودة التقارير المالية في القطاع المصرفي بدول مجلس التعاون الخليجي. بناءً على ما سبق، أوصت الدراسة بضرورة تعزيز استقلالية لجان التدقيق، وزيادة عدد اجتماعاتها الدورية، بوصفها أدوات رقابية أساسية تسهم في رفع مستوى جودة التقارير المالية، وتعزيز الشفافية والثقة في بيئة الأعمال المصرفية.

الكلمات المفتاحية: التدقيق، المالية، المستثمرون، التقارير، الجودة.

1. Introduction

The audit committee has evolved to become an integral part of the oversight structure of financial organizations. In the early twentieth century, these committees had limited responsibilities. Still, in light of rapid economic and financial changes, taking into consideration the big financial crises such as the stock market crash of 1929 and the global financial crisis of 2008, their role has considerably expanded (Mardessi & Fourati, 2020). The Audit Committee is one of the sub-committees of the Board of Directors, and it acts as an oversight tool for preparing financial reports for joint stock companies (KPMG,2021). The American Association of Institute Certified Professional Accountants (AICPA) indicated that audit committees are an effective tool to limit illegal behavior taken by executive management, and they consist of at least three independent non-executive board members and at least one of its members has experience in the financial and accounting field (Larasati et al., 2019).

Audit committees supervise the financial reporting process and support the internal audit function with time, the role of audit committees in ensuring financial transparency has come to bear more weight, as they have come to be considered one of the main pillars of accounting and oversight of companies around the world (Altin, 2024). This role has evolved significantly with the introduction of new global auditing standards, such as IFRS and GAAP, that have increased the responsibilities of audit committees in ensuring that their companies comply with sound accounting practices (Larasati et al., 2019). Further, research has also shown that fraud cannot be confined to local companies only; its impact can be translated across the globe. Financial fraud issues, such as the manipulation of financial statements or concealment of risks, lead to a lack of confidence in financial markets and destabilize global economies (Rachmawati et al., 2022). The more severe the instances of fraud, the greater the detrimental impact on various stakeholders, including investors, consumers, and both national and global economies. Therefore, there is a dire need for competent and professional audit committees that may help combat these issues for the protection of stakeholders at large.

The role of the audit committee not only includes overseeing financial reporting but also actively contributing to strengthening the internal control system and discovering several potential risks (Hamdan, 2020). It also ensures that, through the review of financial

policies and internal procedures, accounting activities are geared towards efficiency and transparency, which are reflected positively in the financial reports. The audit committee contributes to ensuring accounting operations comply with the best internationally recognized standards, hence the enhancement of the credibility of financial reports in the market (Ali,2022). Through these activities, the committee contributes to increasing investors' and shareholders' confidence in the financial performance of an organization (Masmoudi, 2021). This study aims to analyze the role of committees in enhancing the accuracy and transparency of financial reports. It also seeks to test the impact of the characteristics of audit committees on the quality of financial reports in the Arab Gulf countries and to study how these factors affect the quality of financial information provided to investors and stakeholders in those countries.

1.1. Literature review

Following the financial scandals committed by large international business organizations such as WorldCom and Enron at the beginning of the second millennium, the Sarbanes-Oxley Act (SOX) of 2002 showed up, which recommended to need for audit committees to protect investors from the possibility of fraudulent accounting practices by some corporate managements, to increas`rectors, also audit committees support the internal and external audit functions. (Zengin-Karaibrahimoglu et al, 2021). Due to the importance of the audit committee's role, accounting and professional organizations around the world have recommended the necessity of forming audit committees, The US Securities Commission (SEC) has proposed forming an audit committee of non-executive members, disclosing how it is formed and determining the number of its meetings (Galal et al., 2022). Moreover, The American Institute of Certified Public Accountants (AICPA) recommended the formation of an audit committee consisting of independent members, maintaining their independence and regulating the relationship with the external auditor. The New York Stock Exchange required the existence of audit committees as a condition for listing public shareholding companies on the stock exchange. The Audit Committee is one of the sub-committees of the Board of Directors, and an oversight tool on the process of preparing financial reports for joint-stock (Zengin-Karaibrahimoglu et al, 2021). The International Federation of Accountants (IFAC) defines an audit committee as a committee emanating from the Board of Directors, as it consists of non-executive members, and

its size ranges from three to seven members, some of whom have financial expertise, and it acts as a link between the management, the internal auditor and the external auditor, also audit committee is responsible to analyze and examine financial reports before displaying it on board of director (Raweh et al., 2019).

1.1.1. Audit Committees' Characteristics and Financial Reporting Quality

Most studies agreed that audit committees' characteristics play an important role in reducing conflict of interest, ensuring financial statements' credibility, and safeguarding them from the risks of material misstatements. (Sari et al., 2022) pointed out that the audit committee has an effective role in helping the board of directors discover fraudulent financial statements and increase the quality of financial reports.

Audit Committee Independence: The principle of independence indicates that the audit committee members must be non-executive directors. (Saeed et al., 2022) argued that for audit members to be independent, they must not have any substantial financial relationship with the company or the executive management, which threatens the independence. Many studies have concluded that there is a direct relationship between the independence of audit committees and financial report quality. A study by (Islam et al, 2021) pointed out the independence of audit committees plays an important role in controlling management behavior related to earnings management. (Jabak, 2022) argued that the quality of the financial statements and their freedom from errors and material misrepresentations depends mainly on the independence of the audit committee. In the same way, (Aladwey & Elgharbawy, 2021) concluded that audit committees with independent and financial expertise members reduce the opportunity for management to manipulate financial statements and earn management practices. In contrast, (Gerayli et al., 2021) pointed out that audit committee independence has no significant effect on the financial reporting quality of listed Iranian companies.

Audit Committee Size: The audit committee's effectiveness is affected by its size, as the lack of enough members of an audit committee is considered one of the things that negatively affects its effectiveness (Al-Jalahma, 2022). The Sarbanes Oxley Act law issued in 2002 indicated that the audit committee members must not be less than three, to

be able to perform the tasks entrusted to it effectively (Mardessi & Fourati, 2020). A study (Galal et al., 2022) indicated that management could put pressure on the audit committee, which is small in size, while it stands unable to control the audit committee, which consists of a large number of members with diverse experiences and skills. in this context, (Jabak, 2022) pointed out that the effectiveness of the committee in monitoring and preparing financial reports is better when its size is large. On the other hand, (Gerayli et al., 2021) study found that when the size of the audit committee is large, it will lead to weakness in coordination and communication between the members of the audit committee

Audit Committee Meetings: The frequency of meetings held by the Audit Committee reflects the extent of the audit committee's activity (Hamdan, 2020). Meeting times are an important element in judging the effectiveness of the committee or its oversight role, which would detect errors and misrepresentations in the financial statements early (Galal et al.,2022). According to the Qatar Corporate Governance Code (2017), the number of audit committee meetings should not be less than three times a year. In this context, (Mardessi & Fourati, 2020) study argued that the higher the number of audit committee meetings, the lower the number of fraud cases in financial reports. In contrast, the study of (Sari et al., 2022) found there is no statistical relation between audit committee meetings and fraudulent financial statements.

Audit Committee Experience: To assess management's behavior toward accounting policies, financial estimates, and the preparation of financial statements, an audit committee with proficiency in finance and accounting is necessary (Galal et al.,2022). The SOX legislation mandates that every economic entity must have an audit committee comprising a minimum of three members with accounting expertise that enables them to understand and interpret the decisions or assessments made by the executive management and the external auditor (Zengin-Karaibrahimoglu et al, 2022). Research conducted by (Jabak, 2022) revealed that a greater presence of expert audit committee members with financial and accounting correlates with a decreased likelihood of fraudulent financial reports. Similarly, a study by (Mardessi & Fourati, 2020) found that higher levels of financial and accounting experience among audit committee members are associated with fewer instances

of financial fraud. Additionally, (Jabak, 2022) contends that audit committee members with financial experience are more attuned to fraudulent behavior within management.

Audit Committee Ownership: (Mardessi & Fourati, 2020) study revealed that higher share ownership among audit committee members corresponded to a reduced likelihood of financial statement fraud, attributed to the strong motivation provided by external members' share ownership to monitor management. In contrast, (Bhuiyan & D'Costa, 2020) conducted a study on Australian listed companies, and it pointed out that an increase in audit committee members' share ownership was associated with financial reporting quality. A study by (Galal et al., 2022) conclusions indicated that heightened ownership of company shares by audit committee members might compromise their independence, as it was linked to a negative relationship with disclosure estimates. Furthermore, (Al-Jalahma, 2022) study established a strong relationship between audit committee ownership and the type of external auditor's report, indicating an increased probability of a disclaimer audit report with higher committee ownership percentages.

1.1.2. Measuring Quality of Financial Reporting Using Modified Jones Model

The Modified Jones Model, created by Jennifer Jones in 1991 to examine accrual estimates that might indicate financial manipulation, is one of the most widely used instruments for assessing such manipulation. Despite being universally accepted, this model's efficacy varies based on the particulars of each report. The primary purpose of this model is to determine the extent to which accrual estimates, a critical indicator or marker of the integrity and transparency of published financial data, impact the integrity of financial reporting (Masmoudi, 2021). The initial framework created by Jennifer Jones in 1991 has been modified into the Modified Jones Model (Costa & Soares, 2021). This model centers on rectifying accrual estimates derived from actual economic activity, which isolates the impacts of genuine economic shifts on financial data. It relies on an equation designed to estimate the magnitude of accrual estimates that could suggest or imply financial manipulation or unwarranted enhancements in financial performance. However, the accuracy of such estimates is crucial because it can significantly affect stakeholders' perceptions of a company's fiscal health (Ali,2022). The Modified Jones Model is based on the follow-

ing key concept: accrual estimates should be derived from a company's actual economic activities. Therefore, the model aims to distinguish between accrual estimates that result from real economic conditions and those that are adjusted for financial manipulation. Accrual estimates are calculated using the following equation:

$$TACit/Ai,t-1 = \beta0\ (1/Ai,t-1) + \beta1\ (\Delta REVit/Ai,t-1) + \beta2\ (PPEit/Ai,t-1) + \varepsilon it$$

Where:

- **TAC** is the total accrual estimate.
- **Ai{t-1}** is the total assets at the end of the previous year.
- **Changes in Revenues (ΔREVt):** Revenue changes are one of the most significant variables affecting accrual estimates. A substantial change in revenues without a valid economic justification may indicate the use of accrual estimates for purposes other than genuine business activities.
- **Property, Plant, and Equipment (PPE_t):** Property, plant, and equipment represent long-term investments that can be used to estimate accruals. The model suggests that fixed assets can influence accrual estimates due to factors such as price fluctuations or depreciation practices.
- **Prior Year Assets (A_{t-1}):** This variable represents the assets at the end of the previous year and is used as a measure of the company's size, which can influence accrual estimates.
- **Standard Coefficients (α0,α1,α2,α3):** These coefficients are estimated using company data to control for other economic factors that influence accrual estimates.

The Modified Jones Model is primarily used to measure financial manipulation through accrual estimates, helping analysts and investors identify discrepancies in financial reports. Abnormal accrual estimates may indicate that a company has altered its financial reports to show better performance than reality, reflecting a weakness in the quality of financial reporting.

1.2. Study Hypotheses

The study relied on formulating its hypotheses on reports published by professional organizations and international regulatory bodies, such as the International Federation of Accountants and the International Institute of Internal Auditing. Accordingly, this study was based on the main hypothesis that:

HO1: Audit committee characteristics have no statistically significant effect on the financial reports quality.

The following sub-hypotheses are derived:

HO1.1: Audit committee independence has no statistically significant effect on the financial reports quality.

HO2.2: Audit committee size has no statistically significant effect on the financial reports quality.

HO3.3*:* Audit committee Meetings have no statistically significant effect on the financial reports quality.

HO4.4*:* Audit committee experience has no statistically significant effect on the financial reports quality.

1.3. Study Gap

The research gap in this study indicates the absence of studies that focus specifically on the effect of audit committee characteristics on financial reporting quality specifically in the banking sector of Arab Gulf countries from 2016 to 2023. Although many studies have addressed audit committee characteristics in general, studies that link these characteristics to financial reporting quality in the context of the Gulf countries are still limited. The link between audit committee characteristics and financial reporting quality remains ambiguous on the scientific level, especially in the GCC countries context. Although some research has addressed this topic in general, the impact of these characteristics on corporate reporting in the GCC countries has not been studied in detail. Therefore, a scientific gap

appears in the need for a detailed study on the role of audit committee characteristics in improving financial reporting quality specifically in this region.

2. Methodology

2.1. Study Sample

The banking sector in the Gulf Cooperation Council (GCC) countries witnessed remarkable growth in 2022, as Gulf banks listed on stock markets showed a 27.1% increase in their profits to reach $44.8 billion, exceeding pre-COVID levels. According to a report by the Kuwaiti company Kamco Invest, Gulf banks recorded profits of $35.3 billion in 2021 and $24.8 billion in 2020. The annual net interest income of the region's banks also increased by 18.7% to reach $71.9 billion, with significant growth in most Gulf markets. The number of banks operating in the Gulf countries is about 168 banks, serving about 60 million people.

While the study sample is limited to local Gulf banks including 58 banks listed on the stock exchanges of the Gulf Cooperation Council countries, 3 banks were excluded because their establishment period was outside the scope of the study period. the report indicated that the growth in profits was driven by an increase in total bank revenues, in addition to a decrease in loan loss provisions. Total banking revenues rose 16.4% in 2022 to $104.8 billion, the highest ever (KPMG, 2021). The table below provides details of the study sample calculation & distribution:

Table (1): Sample Calculation & Distribution

Country	Number of Banks
Qatar	8
Saudi Arabia	11
United Arab Emirates	10
Bahrain	8
Kuwait	10
Oman	8
Foreign banks	(110)
Other banks Excluded	(3)
Total	55

2.2. Data Collection

This study aims to test the effect of the characteristics of audit committee members on financial report quality. To achieve this goal, the study relied on analyzing the information content of the financial reports published for a period of 8 years extending from 2013-2023, including notes and other relevant information to determine the characteristics of audit committees and financial reporting quality. Because this study's data is cross-sectional, logistic regression for time-series cross-sectional data was selected as the proper regression model to assess the relationship between the independent and dependent variables, since it offers an effective tool for analyzing the relationship between the independent variables audit committee characteristics and the dependent variable represented by the financial reports quality FRQ. In addition, logistic regression can handle cross-sectional data and determine the relative effects of the independent variables on the probabilities, allowing for an understanding of how audit committee characteristics affect the financial report's quality. The model also provides easily interpretable results and enhances non-linear inferences that may exist between the variables, making it the most appropriate for this study.

The study relied on descriptive statistics (such as Observation, Mean Std. Dev., Min-Max, Skewness, and Kurtosis analysis). Moreover, to measure the quality of the model in its ability to explain the variance in the dependent variable based on the independent variables, the study used the multiple linear regression model using the R coefficient.

2.3. Study Variables Measurements

The study variables consisted of the audit committee characteristics as independent variables, while financial reporting quality served as the dependent variable, measured using the modified Jones model of discretionary accruals. Additionally, the study model incorporated control variables such as board size, board independence, board meetings, bank size, market-to-book ratio of equity, leverage, bank age, and dividends. Table (2) provides a summary of the study variables and their measurements as outlined below:

Table (2): Study Variables and Measurement			
Variables		**Measurement**	**References**
Independent variable (Audit committee characters)	Audit Committee Size	Number of audit committee members elected by the Board of Directors.	(Ali,2022); (Galal et al., 2022); (Aladwey & Elgharbawy, 2021); (Raweh et al, 2019); (Juhmani, 2017); (Masmoudi, 2021).
	Audit Committee Meetings	Annual number of audit committee meetings.	(Ali,2022); (Galal et al., 2022); (Raweh et al, 2019); (Juhmani, 2017); (Masmoudi, 2021).
	Audit Committee Experience	Percentage of audit committee members who hold Academic or professional certificates Accounting and financial to the total number of committee members.	(Ali,2022); (Galal et al., 2022); (Aladwey & Elgharbawy, 2021) ; (Raweh et al, 2019); (Juhmani, 2017).
	Audit Committee Independence	Number of independent members.	(Ali,2022); (Galal et al., 2022); (Aladwey & Elgharbawy, 2021) ; (Raweh et al, 2019); (Juhmani, 2017).
Dependent variable	Financial Reports Quality	Modified Jones model of discretionary accruals.	(Ali,2022); (Jabak, 2022) (Mardessi & Fourati, 2020) ; (Zengin-Karaibrahimoglu et al, 2022); (Galal et al., 2022); (Masmoudi, 2021).
Source: prepared by author			

2.4. Description and Analysis of Data

Table 3 illustrates the statistical analysis findings concerning the study variables, including independent, dependent, and control variables. Regarding the independent variables, the data in Table 4.1 indicates that the mean of the variable AC size is 3.896, with a minimum value of 2 members and a maximum of 7 members. This average AC size aligns with the recommendations set forth by the Blue-Ribbon Commission on Audit Committees, advocating for audit committees to consist of 3 to 6 members, with a minimum threshold of 3 members. Moreover, this average size complies with Gulf Cooperation Council (GCC) regulations mandating that companies maintain audit committees comprising no fewer than 3 members. Regarding the variable AC Independent, it was observed that its minimum value was 1, indicating that at least one member of the Audit Committee hails from the executive management. Conversely, the maximum value was 4, with a mean of 2.476. This finding suggests that the members of the audit committee within the sample of GCC banks have a reasonable level of independence, albeit not absolute, considering the inclusion of at least one member from the executive management. Regarding the variable of financial experience among Audit Committee members, the data presented in Table 4.1 also indicates that its mean stands at 0.772, nearest 1. This suggests that Audit Committee members possess a commendable level of financial experience, enabling them to effectively fulfill their responsibilities. The findings displayed in Table 4.1 show that the average number of AC meetings variable is 7.3 This aligns with the stipulations outlined in the Governance Rules Guide for publicly traded companies listed on the GCC Stock Exchange, which mandate a minimum of 4 meetings annually. Consequently, based on the results of this study, the Audit Committee's meeting frequency surpasses the prescribed minimum, suggesting heightened activity and effectiveness of the committee. Descriptive statistics of the study variables illustrate that all data pertaining to the independent, dependent, and control variables adhere to a normal distribution. The examination of kurtosis values, which assesses the sharpness or flatness of response distribution, along with the skewness measurements, indicates adherence to a normal distribution. Specifically, data are considered normal when skewness coefficients fall within the range of -3 to +3 and kurtosis coefficients fall within -7 to +7. This validation of data ensures their suitability for statistical analysis and hypothesis testing.

Table (3): Descriptive Statistics

Variables	Obs.	Mean	Std. Dev.	Min	Max	Skew-ness	Kurtosis
Dependent Variable:							
FRQ	126	0.286	0.0712	0.1521	0.4476	0.588	2.839
Independent Variables:							
AC size	126	3.896	1.257	2	7	1.067	2.887
AC Independent	126	2.476	0.701	1	4	0.574	2.152
AC Meetings	126	7.301	2.991	1	19	0.51	2.152
AC Exp.	126	0.772	0.1266	0.3333	0.95	-0.709	1.938
Control Variables:							
Board size	126	12.0635	1.424	7	16	0.271	3.896
Board IND.	126	4.595	1.052	1	7	0.161	3.458
Board Meetings	126	8.126	2.607	1	19	0.99	3.142
Bank Size	126	21.773	0.85	7	16	1.06	4.004
MTB	126	0.932	0.409	0.436	2.441	0.588	2.154
LEV	126	0.807	0.224	0.008	0.933	-0.063	1.76
BANK AGE	126	46.07	15.806	19	92	1.094	4.334
Dividends	126	0.177	0.05	0.112	0.47	0.448	2.056

The results shown in Table (4) show the following:

Firstly, concerning the correlation among the independent variables, the correlation coefficients fall within the range of 0.058 to 0.155. These values indicate low correlation, signifying minimal overlap among the independent variables. Consequently, they are deemed suitable for statistical analysis and hypothesis testing. Similarly, the control variables exhibit comparable results, with correlation coefficient values spanning from 0.0006 to 0.328, indicating a lack of substantial correlation or overlap.

Secondly, concerning the correlation between the independent variables and the dependent variable, the data showcased in Table 4.2 indicates a notable positive correlation between the independent variables (ACS, ACI, ACEXP, ACM) and the dependent variable (ACC). This observation elucidates that heightened Internal Audit Committee size, increased independence, greater financial experience, and more frequent meetings correspond to enhanced financial report quality.

Thirdly, regarding the Correlation coefficients between the control variables and the dependent variable, the findings depicted in Table 4 reveal the following:

- A significant positive correlation is observed between the control variables (Board size, Board IND., Board Meeting, Bank size, MTB, Bank Age) and the dependent variable (FRQ). This suggests that as the Board of Directors' size, independence, and meeting frequency increase, along with the bank's size and age, the quality of the financial reports of these banks tends to improve.

- Conversely, a negative correlation is evident between the control variable (LEV) and the dependent variable (FRQ). This implies that higher levels of financial leverage (debt) correspond to lower-quality financial reports from these banks, and vice versa.

- No significant correlation is observed between the control variable (Dividends) and the dependent variable (FRQ).

Tabel (4): Correlation Coefficients

	FRQ	AC size	AC Ind.	AC Meeting	AC Exp.	Board size	Board IND.	Board meetings	Bank size	MTB	LEV	Bank AGE	Dividends
FRQ	1												
AC size	0.38* 0.000	1											
AC Ind.	0.682* 0.000	-0.142 0.1132	1										
AC Meeting	0.307* 0.0005	-0.049 0.586	-0.155 0.082	1									
AC Exp.	0.259* 0.0035	-0.072 0.421	-0.058 0.522	-0.155 0.0817	1								
Board size	0.216* 0.015	0.133 0.137	0.074 0.412	-0.014 0.877	-0.128 0.1525	1							
Board IND.	0.199* 0.0253	-0.044 0.625	0.079 0.379	-0.195* 0.0289	0.178* 0.0455	0.017 0.848	1						
Board meetings	0.609* 0.000	-0.072 0.421	-0.016 0.857	-0.016 0.857	-0.155 0.083	0.085 0.347	-0.0929 0.3008	1					
Bank size	0.384* 0.000	-0.048 0.596	-0.04 0.653	-0.202* 0.0237	0.146 0.104	-0.04 0.653	0.359* 0.000	-0.254* 0.004	1				
MTB	0.341* 0.0001	-0.164 0.067	-0.194* 0.03	-0.339* 0.0001	0.19* 0.033	-0.16 0.074	0.137 0.125	-0.153 0.087	0.27* 0.0023	1			
LEV	-0.116 0.195	0.228* 0.01	0.095 0.288	0.13 0.146	0.016 0.857	-0.117 0.191	0.066 0.461	0.338* 0.0001	0.0103 0.253	0.178* 0.046	1		
Bank age	0.55* 0.000	-0.332* 0.0001	-0.092 0.306	0.045 0.616	0.119 0.185	-0.089 0.321	0.042 0.641	-0.043 0.63	0.559* 0.000	0.132 0.139	-0.018 0.842	1	
Dividends	0.131 0.1427	-0.123 0.171	-0.0006 0.995	-0.318* 0.003	-0.328* 0.0002	-0.152 0.089	0.127 0.155	-0.328* 0.0002	-0.169 0.059	0.295* 0.0008	-0.107 0.233	-0.135 0.133	1

Based on the findings of data validity analysis, it is evident that the variance inflation factor (VIF) values for all independent variables are below 5, ranging from 1.43 to 2.98. Additionally, the tolerance test values range from 0.697 to 0.336. Similarly, the VIF values for all control variables are below 5, ranging from 1.12 to 2.42, with tolerance test values ranging from 0.894 to 0.413. Thus, the study model does not exhibit collinearity issues, as the correlation between variables lacks statistical significance and remains very low. This underscores the robustness of the study models in interpreting and determining their impact on the dependent variable.

Table (5): Data Validity Analysis

Variable	VIF	1/VIF (Tolerance)
Ac Size	2.98	0.336063
Bank size	2.42	0.413763
Ac Independent	2.25	0.44352
Board meetings	2.11	0.473783
Bank age	2.06	0.48601
Ac Meeting	2.01	0.497111
Adequacy	1.71	0.586509
MtB	1.54	0.649905
Ac Exp.	1.43	0.697199
LEV	1.43	0.698176
Board Independent	1.39	0.720247
Bank size	1.12	0.894494
Mean VIF	1.87	0.534759

2.5. Regression Results

The multiple linear regression analysis indicates the significance of the model's impact, encompassing both independent and control variables, on the dependent variable (FRQ). The calculated F-value (F= 12.06) falls below the significance level of 0.05, with degrees of freedom (1.125) exceeding the tabulated value. Additionally, the coefficient of determination, reflecting the capacity of independent and control variables to explain the dependent variable (FRQ), is reported as 60.33%.

Also, the results showed in Tabel (6) from the pooled OLS model on the determinants of (FRQ) showed that (AC size, AC Independent, AC Meetings, AC Exp., Board IND., Board Meeting, MTB, Bank Age, Dividends) have significant positive relationships with financial reporting quality, while firm's dividends, and Board Size, LEV have a significant negative effect on corporate (FRQ); on the other side, Bank Size showed insignificant relationships with (FRQ). Based on the previous results in Table (6), it is clear that there is a statistically significant effect for independent variables (AC size, AC Independent, AC Meetings, AC Exp.) on the quality of financial reports.

The pooled OLS model examining the determinants of (FRQ) reveals that (AC size, AC Independent, AC Meetings, AC Exp., Board IND., Board Meeting, MTB, Bank Age, and Dividends) demonstrate significant positive associations with financial reporting quality. Conversely, firm dividends, Board Size, and LEV exhibit a significant negative impact on corporate (FRQ). In contrast, Bank Size displays an insignificant relationship with (FRQ). The preceding results in Table (6) underscore the statistically significant influence of independent variables (AC size, AC Independent, AC Meetings, AC Exp.) on the financial reporting quality.

In light of the positive impact of (AC size) on financial report quality, it suggests that an optimal number of audit committee members would enhance the accuracy and credibility of a bank's financial statements and records. This stems from a broader consensus among a larger committee, which mitigates the potential influence of individual stakeholders and thereby enhances the reliability of the company's or bank's financial reports. Moreover, expanding the committee membership to a certain extent facilitates increased oversight of company management actions, thereby deterring potential manipulation of financial state-

ments and improving report quality by reducing discrepancies. However, it's essential to note that an excessively large committee may compromise effectiveness in coordinating efforts and addressing issues, potentially hindering its ability to fulfill its duties comprehensively.

This result reached by the study aligns with prior research conducted by (Mardessi & Fourati, 2020) & (Galal et al., 2022) studies, which showed that an inappropriate increase in the size of the audit committee beyond the optimal limit would reduce its efficiency and waste costs and effort in monitoring the company's operations and thus negatively affect the quality of financial reports. On the other hand, the optimal number of the internal audit committee would positively affect the quality of financial reports. It is also consistent with the result reached by the study and is consistent with the study of (Gerayli et al., 2021), which showed that there is a significant effect of the size of the audit committee members on the quality of financial reports. Also, these results agreed with the results of Yuqing's (2020) study which found that the large size of the audit committee has a negative and significant relationship with the quality of financial reports. so, there is a need for companies not to have too big audit committees as it may cause problems of increasing number of free-riders as well as delayed decisions, which results in a low financial reporting quality. Conversely, the results of this study differed from the results of (Jabak, 2022) study, which found that there was no significant effect of the audit committee size on improving the quality of financial reports of Australian companies.

The quality of reports is influenced by the independence of the audit committee. When non-executive members are part of the audit committee, their independence, from executive management influence is enhanced, leading to work and improved financial report quality. This aligns with the research by (Saeed et al., 2022) that found a connection between the independence of audit committee members and financial report quality. Similarly, (Jabak, 2022) study also supports this idea by showing how committee members' independence can limit companies' discretionary benefits thereby increasing the accuracy of their reports. However, these results differ from (Gerayli et al., 2021) findings, which suggested that the independence of the audit committee had no impact, on improving companies' financial report quality.

The research indicates that audit committee members, with financial knowledge positively impact the quality of financial reporting. Their expertise enhances the accuracy, credibility, and ability to identify misleading information thereby raising the quality of financial reports. This result is consistent with the (Jabak, 2022) study, which showed a significant effect of the financial experience of audit committee members on the quality of financial reports. It is also consistent with the results of the (Galal et al., 2022) study, which showed that the financial expertise enjoyed by audit committee members is one of the most prominent characteristics of audit committees that have an impact on the quality of financial reports. On the other hand, the results of this study differed from the results of the (Zengin-Karaibrahimoglu et al, 2022) study, which found that there was no significant effect of the financial experience of audit committee members on improving the quality of financial reports of Australian companies.

As for the result related to the effect of the (AC Meetings) variable on the quality of financial reports, it can be interpreted that increasing the number of audit committee meetings is evidence and an indicator of the activity and effectiveness of the work of audit committees, which positively affects the accuracy and efficiency of financial auditing and the discovery of errors and cases of manipulation of financial data, which is what As a result, it leads to an increase in the quality of financial reports. This result agreed with the result of the (Galal et al., 2022) study, which showed a significant effect of the number of audit committee member meetings on the quality of financial reports. It is also agreed with the results of the (Hamdan, 2020) study, which showed that the number of meetings of audit committee members is one of the most prominent characteristics of audit committees that have an impact on the quality of financial reports. On the other hand, the results of this study differed from the results of (Sari et al., 2022) study, which found that there is no significant effect of the number of audit committee meetings on improving the quality of financial reports of Australian companies.

Tabel (6): Pooled OLS Regression

Variables	Coefficients	(Std. Err.)	t	P>|t|
Constant	-.257	0.198	-1.30	0.197†
AC size	0.168	0.057	2.95	0.004*
AC Independent	0.1623	0.051	3.19	0.013**
AC Meetings	0.041	0.0215	1.90	0.060***
AC Exp.	0.115	0.0401	2.87	0.005*
Board Size	-.0526	0.031	-1.70	0.092***
Board Independent	0.198	0.0509	3.89	0.0000*
Board Meetings	0.0605	0.0239	2.53	0.013**
Bank Size	0.0679	0.0988	0.69	0.493†
MtB	0.339	0.1475	2.30	0.023**
LEV	-0.073	0.023	-3.25	0.002*
Bank Age	0.0871	0.019	4.51	0.000*
Dividends	0.746	0.188	3.96	0.000*
Year Dummies	Included			
F-Test	12.06			
Prob > F	0.0000			
R-squared	60.33%			
Adj R-squared	55.32%			
Observations	126			
Number of groups	14			

*** P < 0.1, ** P < 0.05, and * P < 0.01. † P- insignificant.

The results from the random effect model on the determinants of (FRQ) showed that (AC size, AC Independent, AC Meetings, AC Exp., Board IND., Board Meeting, Bank Size, MTB, Bank Age, and Dividends) have significant positive relationships with (FRQ), while firm's dividends, and (LEV) have a significant negative effect on financial report quality (FRQ). On the other side, Board Size showed insignificant relationships with (FRQ). The results of the random effect model turn out to be very close to the results of the Pooled OLS Regression, which confirms the validity and accuracy of the results reached by the study to test the hypotheses.

Tabel (7): Random-effects GLS regression

Variables	Coefficients	(Std. Err.)	Z	P>|z|
Constant	-0.731	0.203	-3.6	0.0000*
AC size	0.02131	0.0535	3.98	0.0000*
AC Independent	0.225	0.091	2.48	0.013**
AC Meetings	0.063	0.037	1.70	0.092***
AC Exp.	0.1599	0.0375	4.27	0.0000*
Board Size	-0.0328	0.0218	-1.50	0.137†
Board Independent	0.149	0.0476	3.12	0.002*
Board Meetings	0.0861	0.0225	3.83	0.000*
Bank Size	0.0293	0.01	2.9	0.003*
MtB	0.166	0.0773	2.14	0.032**
LEV	-0.063	0.0208	-3.04	0.0002*
Bank Age	0.0873	0.0177	4.94	0.0000*
Dividends	0.0385	0.0177	2.18	0.029**
Year Dummies	Included			
Wald chi2	235.63			
Prob > chi2	0.0000			
R-squared (between)	83.53%			
Observations	126			
Number of groups	14			

*** P < 0.1, ** P < 0.05, and * P < 0.01. † P- insignificant.

3. Conclusions

The findings from the multiple linear regression analysis reveal the strong relationship between various independent and control variables and the quality of financial reporting, where the model explained (R-squared 60.33%) of the change in the dependent variable.

1. Positive statistically significant effect: The study found that increasing the size, independence, number of meetings, and professional expertise of audit committees has a positive effect on the quality of financial reports, which confirms the importance of effective governance and oversight mechanisms in improving the quality of financial reports.

2. Negative statistically significant effect: in contrast, the study results revealed that high dividends and operating leverage affect the quality of financial reporting.

3. The independence of audit committee members and their financial expertise were found to positively influence the quality of financial reporting. This corroborates prior studies that report that independent, financial expertise members can effectively monitor and improve financial reporting processes.

4. Meeting Frequency: A greater frequency of AC meetings is related to better detection of error and manipulation, which means that the more proactive and active an audit committee is, the better the quality of financial reporting.

4. Recommendations

In light of the study results, the study recommends that the characteristics of audit committees be continuously evaluated by regulatory bodies and the optimal size be determined according to the nature of the unit, as the large size of audit committees leads to diversity in professional expertise. The study also recommends the necessity of evaluating the duration of the independence of audit committees and focusing on the fact that most of their members are non-executive. The study also recommends the necessity of increasing the number of periodic meetings to enhance supervision of the work of executive departments in a way that enhances the quality of financial reports. Finally, future studies should explore the relationships between these variables across different sectors and geographies to validate findings and refine recommendations.

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