



**An-Najah National University  
Faculty of Graduate Studies**

**THE IMPACT OF THE AUDIT COMMITTEE'S  
CHARACTERISTICS ON THE FINANCIAL  
FAILURE OF INDUSTRIAL COMPANIES  
LISTED ON THE PALESTINE EXCHANGE  
AND AMMAN STOCK EXCHANGE**

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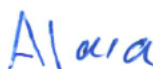
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## Dedication

إلى مشعل النور الذي أنار الظلام بنوره، خير البرية ومعلمها، سيد الخلق أجمعين، وخاتم النبيين والمرسلين، سيدنا محمد النبي الأمين الذي أدى الأمانة وبلغ الرسالة عليه أفضل الصلاة وأتم التسليم.

إلى من أحمل اسمه بكل افتخار فأنت الذي حملتني من العدم إلى الحياة، ورفعتني بيدك من السكون إلى الحركة ليس في اللغة ما يفيك حقك، ولكنه جهد المقل (أبي الغالي)

إلى نبع الحب والحنان التي جعلت تحت قدميها الجنان، سيدة المقام، ومقام الجمال، وجمال اللحن، ولحن الحياة، وكهف الحنان فلك القلب ينبض (أمي الحنونة)

إلى من جمعنا بهم بيت المحبة فبهم أعتز وعليهم اعتمد، فهم مصدر النجاح و القوة التي لاتنضب (أخي وأخواتي الأحباب)

إلى كل من علمني حرفاً، فمنهم اغترفت العلم، فأصبح سنا برقمهم ينير الطريق أمامي وهم الذين غرسوا الأبجدية في صدورنا (أساتذتي الأفاضل)

إلى من جمعتنا بهم جامعة النجاح الوطنية شركاء الإنطلاقة والبداية ( زملائي الأعزاء)

إلى كل هؤلاء جميعاً وإلى كل من عجز القلم عن ذكرهم و لكن القلب يذكرهم والعقل لايساهم فهم الذين لا تتسع السطور لذكرهم أهدي إليهم ثمرة جهدي هذا.

## Acknowledgements

قال تعالى (رَبِّ أَوْزَعْنِي أَنْ أَشْكُرَ نِعْمَتَكَ الَّتِي أَنْعَمْتَ عَلَيَّ) صدق الله العظيم

الحمد لله الذي بنعمته تتم الصالحات، والصلاة والسلام على سيدنا محمد، وعلى آله وصحبه أجمعين وبعد، أقف بين يدي الله حامداً شاكراً على ما أنعم علينا من النعم، فربنا لك الحمد كما ينبغي لجلال وجهك وعظيم سلطانك ومجداً فلا يطيب الليل ولا النهار إلا بشكرك وطاعتك على كثير نعمك ولا يطمئن القلب إلا بذكرك ولا تطيب الجنة إلا برؤيتك فلك الحمد أولاً وأخيراً.

من باب رد الفضل لأهله فإنني أود أن أتقدم بجزيل الشكر والتقدير لكل من ساعدني لانجاز هذه الاطروحة وهذا العمل لم يكن ليكتمل دون دعمكم.

كما أتوجه بالشكر الجزيل إلى استاذتي المشرفين المشرف الاول الاستاذ الدكتور عبد الناصر نور والمشرف الثاني الدكتور معز ابوعليا لما قدموه من دعم علمي وارشاد وتوجيه مستمر طوال فترة إعداد هذه الاطروحة والاشراف عليها فكان لدعمهم وملاحظاتهم القيمة الأثر الكبير في تحسين هذه الاطروحة.

كما أتوجه بالشكر إلى أعضاء لجنة المناقشة الكرام الممتحن الداخلي الدكتور علاء دويكات والممتحن الخارجي الدكتور ابراهيم عتيق الذين تفضلوا بمناقشة رسالتي وتقديم ملاحظاتهم وتوجيهاتهم السديدة، والشكر الجزيل لكافة المدرسين في برنامج ماجستير المحاسبة في جامعة النجاح الوطنية.

ولا أنسى أن أوجه شكري إلى عائلتي ، الذين كانوا دائماً إلى جانبي وقدموا لي الدعم طوال سنوات دراستي ولقد كان دعمهم المستمر وتشجيعهم لي هو المحفز الأكبر لي على الإكمال والإصرار على النجاح.

كما اشكر الزملاء والأصدقاء والأحباب الذين ساندوني وقدموا لي المساعدة التي كان لها دور مهم في إنجاز هذا العمل.

فهذا الجهد لا يرقى إلى مرتبة الكمال فالكمال لصاحب الكمال المولى عزوجل.

أشكر كل من ساعدني لانجاز العمل

أسأل الله أن يوفقنا لما فيه الخير والنجاح

## **Declaration**

I, the undersigned, declare that I submitted the thesis entitled:

# **THE IMPACT OF THE AUDIT COMMITTEE'S CHARACTERISTICS ON THE FINANCIAL FAILURE OF INDUSTRIAL COMPANIES LISTED ON THE PALESTINE EXCHANGE AND AMMAN STOCK EXCHANGE**

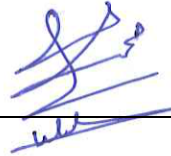
I declare that the work provided in this thesis, unless otherwise referenced, is the researcher's own work, and has not been submitted elsewhere for any other degree or qualification.

**Student's Name**

**Mohammed Awad Ali Salman**

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**Signature:**



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**Date:**

**01/09/2025**

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# **THE IMPACT OF THE AUDIT COMMITTEE'S CHARACTERISTICS ON THE FINANCIAL FAILURE OF INDUSTRIAL COMPANIES LISTED ON THE PALESTINE EXCHANGE AND AMMAN STOCK EXCHANGE**

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## **Abstract**

This study aims to examine the impact of audit committee characteristics on the financial failure of industrial companies listed on the Palestine and Amman Stock Exchanges. The study's independent variable is the characteristics of the audit committee (AC). It includes committee member independence, the number of members, frequency of meetings, experience, and ownership concentration among committee members. The dependent variable is financial failure, measured using the Altman Z-score model. Additionally, the study includes control variables, which are the return on assets (ROA), leverage, and working capital. Analyze the data descriptive and correlation and A linear regression was employed To test the hypotheses. The study sample consists of industrial companies listed on the Palestine and Amman Stock Exchanges, covering the period from 2018 to 2022. The study found that the number of committee members, the independence of members, the frequency of meetings, and the concentration of member ownership have no impact on the financial failure of companies. The study also found a negative impact on the experience of AC members regarding financial failure; the more experienced the AC members, the less likely the companies are to experience financial failure. Based on the results, the study concluded that the audit committee does not play its role efficiently and effectively in reducing financial failure. companies must adhere to the application of corporate governance rules, laws, regulations, and special instructions when organizing their work.

This is especially important for those dealing with the characteristics of the audit committee. Furthermore, attention must be paid to the audit committee and its members because of their important role in maintaining the company. Consequently, this ensures

that misleading financial information is not provided to stakeholders, which may lead to decisions that negatively affect the company. Additionally, the existence of an effective audit committee ensures that reliable, credible, and fair financial statements are presented.

**Keywords:** Audit Committee Characteristics, Financial Failure, PEX & ASE

# Chapter One

## General framework for research

### 1.1 Introduction

Companies face financial challenges during periods of economic, technological, health, and political volatility. Predicting financial failure is crucial to understanding the effects that limit it, given the high risk of corporate failure and bankruptcy (Ekapol & Hensawang, 2022). The COVID-19 pandemic has had a significant impact on most companies worldwide (Alansi, 2022). Additionally, fraud and manipulation of financial listings have affected companies worldwide. This has led to a loss of confidence by users in FR. However, governance rules have helped reduce financial pressures during these times (Widyasari & Kurn, 2020). The idea of establishing an audit committee to detect corporate manipulations and fraud, and help predict financial failure, has been emphasized and has been effective in reducing the manipulation of financial statements (Fuad, 2017).

The financial failure of a company is the inability of the company to repay and fulfill its financial obligations. It is considered one of the serious challenges facing the company. It can also lead to bankruptcy or liquidation, caused by weak cash liquidity, financial management failures, increased debt size, low sales volume, financial and administrative corruption, and manipulation of the company's financial statements (Abudik, 2022).

Governance is a set of rules and practices that guide a company in achieving transparency and fairness in its decision-making processes. It also protects the interests of relevant parties. Governance and the Audit Committee work to reduce financial failure by monitoring financial performance (Alansi, 2022). The AC reviews the financial reporting (FR) and ensures that they are accurate and free of errors and manipulation, so as not to issue misleading financial reports that may lead to failed financial decisions, which enhances confidence among investors. The lack of governance rules and an effective audit committee can cause financial failure, such as Enron, which worked to manipulate financial statements due to weak oversight and an audit committee (Nour et al., 2024).

The Audit Committee of Governance Rules helps companies reduce and avoid failures, insolvency, manipulation, and financial faltering, thereby improving the value of the company and reducing the risks it faces. The AC is one of the rules of corporate governance (CG) and is responsible for overseeing companies to examine data, verify its validity, and fairness (Yaseen & Dawood, 2019).

Audit committees are important in the framework of corporate governance because they help the Board of Directors fulfill its financial responsibilities to shareholders by engaging with financial management, internal and external auditors. The Audit Committee and the external auditor play an important role CG (Hamdan et al., 2012). The Committee is an internal governance tool that protects shareholders' rights and reduces financial failures. Studies have examined the characteristics of AC independence, experience, and skill in enhancing the concept of internal control and its role in reducing financial failures and insolvencies, as well as increasing the independence of the external auditor. The holding of recurrent meetings improves oversight, but these meetings must be effective to reduce failure, as they are specialized in oversight and control, and should not be multiplied to avoid losing focus (Bosnia, 2020).

Due to the failures experienced by various companies, accounting and professional bodies have shifted their attention to audit committees, as these committees play a crucial role in identifying and anticipating instances of financial manipulation and collapse. Mitigating financial failure involves the implementation of an effective governance oversight system, particularly through the audit committee (AC), to minimize defaults and enhance financial stability (Khalid et al., 2020). Consequently, this has led to a growing interest in examining the characteristics of audit committees and their relationship with financial failure, specifically to understand how these characteristics influence the financial performance of publicly listed companies on the Palestine Exchange and the Amman Stock Exchange.

## **1.2 Research Problem and Question**

The study's problem lies in the recent changes facing companies and the major challenges in the world of competition and openness to global financial markets caused by globalization (Nour et al., 2024). Interest in financial statements and lists by investors and decision makers because it helps decision makers make investment decisions to preserve the value of the company, preserve its resources and provide cash liquidity in order to help the company meet its obligations and ensure the conduct of its operations (Hussein, 2015), Because financial statements are a mirror reflecting the company's financial situation, it is necessary to rely on correct and reliable information in decision-making (Abdelhaq et al., 2024). Sudden financial collapses have led to weak internal control procedures (Khalaf & Belkadi, 2021), hence attention was paid to the idea of audit committees emanating from the company's Board of Directors under the governance rules, which is one of the most important effective tools that help reduce financial failure through its supervisory and control procedures and contribute to the activation of the role of external auditor by enhancing its independence and effectiveness to reduce the manipulation of transactions of stakeholders (Yaseen & Dawood, 2019).

Corporate financial crises, such as those involving Enron and WorldCom, demonstrated a lack of control over corporate financial reports, leading to dissatisfaction with the content of financial reports among users, who required accurate information about the company. There were instances of financial statement manipulation, a practice known in profit management, that are difficult for external auditors to detect (Lou & Rafi, 2019). Because the auditor does not trust internal control reports as a result of their corporate governance, new tools were needed to increase corporate oversight and seek to detect financial data manipulations through the establishment of effective and independent audit committees to enhance investors' confidence in financial reporting ,which was concerned with the agency theory (Bosnia, 2020).

Questions are raised about the role and functions of audit committees in increasing management accountability, particularly in light of increased corporate distress and financial failures.

The question arises as to the title of the research with the following question:

Is there any effect on the characteristics of the Audit Committee in detecting financial failure in public shareholding companies listed on the Palestine market and Amman Stock Exchange?

From this question, several questions are derived:

1. What is the impact of the size of the Audit Committee in detecting financial failures in public shareholding companies listed on the Palestine Market and Amman Stock Exchange?
2. What is the impact of the Audit Committee's independence in detecting financial failures in public shareholding companies listed in the Palestine Market and Amman Stock Exchange?
3. What is the impact of the Audit Committee's experience in detecting financial failures in public shareholding companies listed in the Palestine Market and Amman Stock Exchange?
4. What is the impact of the Audit Committee's meetings on detecting financial failures in public shareholding companies listed in the Palestine Market and Amman Stock Exchange?
5. What is the impact of the Audit Committee's concentration of ownership in detecting financial failures in public shareholding companies listed in the Palestine Market and Amman Stock Exchange?

### **1.3 Research Objectives**

Some companies attempt to manipulate financial data by misrepresenting their profits to serve the personal goals and interests of their managers. This manipulation undermines the quality of financial reports that stakeholders rely on to make informed investment decisions. Consequently, stakeholders may struggle to make sound decisions (Alomari et al., 2021). One of the primary causes of the collapse of major global companies was the failure of internal control systems to perform their mandated functions, coupled with

inadequate external audits that failed to detect the manipulations and fraud perpetrated by these companies in their financial statements (Rashid, 2015).

The quality of financial reports reflects significant issues in the present, particularly in the aftermath of financial crises and in light of financial and administrative corruption within companies. These reports contain crucial and valuable information for decision-makers. Governance rules serve as a mechanism for companies to mitigate the manipulation of financial statements (Bosnia, 2020). The Audit Committee is focused on the disclosure of financial information, as transparency and accountability are enhanced through such disclosure. The company aims to improve its financial position and increase profitability. The board's responsibility to provide reliable information enhances the efficiency of financial markets (Alansi, 2022).

After experiencing financial failures and setbacks, companies are increasingly focused on corporate governance. This system regulates organisation and enhances decision-making and behaviour through supervisory and control mechanisms. The Audit Committee (AC) is one of the most important tools that management relies on for decision-making, as it oversees financial statements, enhances accountability and transparency, and promotes management independence (Khalid et al., 2020).

The primary objective of this research was to investigate the impact of AC characteristics on the financial failure of public shareholding companies listed on the PEX and ASE markets, and to present the results and recommendations to relevant entities, Focusing on the concept of the audit committee and financial failure, This is aimed at assessing the effectiveness of audit committees as a governance in mitigating financial risks and improving financial performance and institutional sustainability.

#### **1.4 The importance of research**

The importance of research arises from the risks that struggling companies pose to the economy, particularly through corporate failures and liquidations. Since the economy serves as a fundamental pillar of the state and a source of income for employees, it is crucial to prioritize its stability. Many sectors of the corporate world were adversely affected by the financial crisis. One contributing factor to this crisis was the inadequate

oversight of financial statements, which created opportunities for manipulation. This increased the frequency of crises and diminished companies' ability to sustain operations compete effectively, and fulfill their obligations.

Emphasis must be placed on the crucial role of audit committees in restoring confidence in financial statements. The audit committee serves as the company's mechanism for ensuring the fair disclosure of financial information and enhancing the external auditor's effectiveness in their responsibilities

In scientific terms, research into the phenomenon of financial failure (FF) is of great importance. The characteristics of the accounting concept (AC) as a contemporary factor contributing to financial failure must be thoroughly examined. Practically, this study provides the Public Exchange (PEX) and (ASE) with findings and recommendations that aid in the development of the AC, thereby enhancing the interest and functionality for AC users and investors. Interest in this subject has grown due to discrepancies in the findings of previous studies, which highlighted the impact of AC characteristics on financial failure. The importance of conducting a study on the Audit and Financial Failure Committee extends beyond mere research; it aims to improve compliance with corporate governance regulations and enhance financial stability.

## **Chapter Two**

### **Theoretical framework for research**

#### **2.1 Audit Committee**

An audit is an examination of internal control systems, financial statements, documents, and accounts to provide an opinion on the fairness of the financial statements. The audit profession enhances transparency and integrity in financial statements, preserves shareholders' rights, and ensures the fairness of the financial statements. Auditing promotes adherence to business ethics standards and prevents cases of fraud and financial statement manipulation (Widyasari & Kurn, 2020).

The Audit Committee is considered one of the most important committees in the corporate governance structure because it works to ensure transparency and credibility in the financial statements, which enhances confidence in the financial statements. The committee works to monitor accounting operations and follows up on accounting policies and procedures and the extent of their compliance with standards, laws and regulations (Abudik, 2022). It communicates with the external auditor and discusses the audit results. The observations made by the auditor evaluate the performance of the external auditor, allowing the contract to be renewed or cancelled. It focuses on the risk management process and reducing corruption, fraud, manipulation, and misuse of financial resources (Omar, 2019). It works to submit periodic reports to the BOD that include the company's financial and supervisory status and help them make decisions based on accurate and reliable reports (Alansi, 2022).

The Audit Committee (AC) is a management structure established by the Board of Directors and comprises non-executive members. Its primary function is to oversee and regulate accounting policies, financial reports, and compliance with standards to mitigate issues that can lead to corporate collapse, financial crises, fraud, and manipulation (Shabeetah & Shatnawy, 2020).

The importance of audit committees has increased the demand for their establishment in companies, particularly in public joint-stock companies. These committees support the

Board of Directors in operating efficiently and effectively, ensuring that financial statements are accurately prepared and fairly presented, without misleading users(Sartawi et al., 2013).

The significance of the Audit Committee (AC) to the Board of Directors (BOD) cannot be overstated. The AC supports the BOD in fulfilling its responsibilities and offers valuable insights based on its observations. The external auditor contributes to the effectiveness and independence of the audit process, as they set their own fees and are accountable for their appointment and removal. Regarding internal oversight, the internal control system is strengthened by qualified personnel dedicated to enhancing financial performance, who conduct regular meetings with internal oversight to review and address observations (Choi & Park, 2022).

The importance of the Audit Committee in mitigating financial crises among companies is paramount, especially for those striving to enhance profitability and overall financial performance, thereby maintaining liquidity and meeting their obligations. An effective audit committee is essential for overseeing corporate operations. One of the critical responsibilities of audit committees is to uphold integrity, objectivity, and financial expertise, which are vital for strengthening supervisory and monitoring capabilities. This includes dedicating time to timely discussions regarding financial conditions. Additionally, the Audit Committee plays a crucial role in managing the relationship with the external auditor to ensure the auditor's independence and integrity, as well as in resolving disputes between the external auditor and management concerning various issues and policies (Kundous & Daas, 2017).

States are interested in audit committees due to their active role, particularly following financial collapses and the emergence of fraudulent activities. The concept of audit committees in Britain originated in 1872 in response to significant financial failures. The rise of fraud cases in major American companies in 1977, which involved the manipulation of financial statements, underscored the necessity of disclosing the existence or absence of an audit committee. This concept emerged in response to issues such as bankruptcies, financial misrepresentation, manipulation, fraud, errors, and financial irregularities, to increase the independence of external auditors and enhance

transparency and confidence in financial statements (Yaseen & Dawood, 2019). The audit committee is regarded as one of the most crucial governance mechanisms and garners considerable interest from shareholders and other stakeholders to ensure the integrity of financial statements and protect against manipulative practices, especially in the wake of the Enron and Arthur Andersen scandals.

The features of the audit committee can reduce conflicts of interest through the provision of high-quality and reliable financial reports to users, which improves the company's value from the investor's perspective, as it provides a fair assessment of the company's performance (Bosnia, 2020).

Characteristics of the Audit Committee ((Fuad, 2017):

1. Independence of audit committee members.
2. Number of audit committee members.
3. Audit Committee members' experience in accounting and auditing.
4. Number of audit committee members' meetings.
5. The ownership of the audit committee members is concentrated.

The relationship between the characteristics of the Audit Committee and governance rules is integral. The Audit Committee is regarded as one of the most crucial components of governance (Alansi, 2022). Independence within the committee enhances transparency, accountability, and fairness while preventing conflicts of interest. Additionally, financial and accounting expertise contributes to the improvement of financial reports. Regular meetings and periodic reports ensure the provision of accurate information to the Board of Directors. The more independent, experienced, and effective the Audit Committee is, the greater the company's ability to implement governance rules that enhance market performance, attract investors, and improve financial outcomes (Abudik, 2022).

The establishment of the Financial Failure Audit Committee has heightened the responsibilities of corporate audit committees following the financial collapses of major global companies. This is because financial statements often fail to accurately reflect reality and provide a fair representation of the company's financial health. As a result, the

significance of audit committees in their supervisory and oversight roles regarding financial reports and internal controls has been amplified. They are now tasked with assessing the extent of a company's involvement in profit management through the manipulation of financial statements (Ekapol & Hensawang, 2022).

## **2.2 Corporate Financial Failure**

After scandals and financial crises, such as those involving Enron and Arthur Andersen, there has been a growing interest in establishing committees to conduct audits aimed at predicting and detecting financial failures before they occur. This proactive approach is crucial for safeguarding investors' funds, especially in cases where a company is unable to meet its obligations and faces potential cash flow issues. Financial failure is often seen as a precursor to bankruptcy, making the forecasting of such failures crucial for investors. Furthermore, effective auditing has been shown to enhance financial performance and safeguard a company's resources (Saeed, 2021).

Financial performance is a crucial source of cash liquidity for meeting obligations and securing financing. Companies often struggle with their balance sheets when income fails to cover accrued liabilities, leading to concerns about fiscal failure, which can have significant repercussions for the economy. Since the onset of fiscal failures in the 1930s, interest in this issue has grown in the United States, particularly following the financial crisis, which heightened the focus on audit committees. The financial implications of bankruptcy are of paramount importance (Ekapol & Hensawang, 2022).

Researchers examined the periods of financial failure for companies experiencing cash deficits due to the inability to pay liabilities, despite having more assets than liabilities. However, there is difficulty in converting current assets into cash liquidity to pay liabilities, as well as a period of double revenue and sales (Lou & Rafi , 2019).

Causes of financial failure (Salloum et al., 2014):

- Challenges and risks facing companies.
- High costs and low financial resources.
- Expansion of Corporate Size.

- Weak financial and internal oversight of companies.
- Political and Economic Reasons Facing Companies.
- Inefficient management in administrative and financial operations.
- Difficulty of cash liquidity.
- Changes in exchange rates and interest rates.
- Repeat installment postponement.
- Frequent staff turnover.

Earnings management refers to the practices employed by senior management to manipulate financial statements for their own benefit. It includes altering the timing of income and expense recognition, as well as financial results, to meet pre-established objectives set by management. It often involves exploiting accounting policies in ways that impact the company's value (Hamdan et al., 2012). For instance, management may influence real profits through sales strategies by streamlining the sales process and increasing production to lower fixed costs and enhance profit margins. Additionally, they may manage expenses related to advertising, maintenance, research and development, and optimize the procurement process (Omar, 2019).

Governance and the Mitigation of Financial Failure. Governance refers to the framework of rules and practices that directs and manages a company. Its primary objectives are to enhance transparency and credibility, safeguard the rights of stakeholders, and minimize corruption (Ekapol & Hensawang, 2022). Effective governance plays a crucial role in reducing financial failure by promoting transparency, ensuring the accuracy of financial reports, establishing an independent audit committee, and implementing robust control systems that can detect errors. Additionally, governance helps mitigate manipulation and fraud by distributing power, managing risks, and protecting shareholder rights (Widyasari & Kurn, 2020). The reasons are improved clarity and readability by refining sentence structure, enhancing vocabulary, and ensuring technical accuracy.

The weakness of governance rules contributed to Enron's collapse, primarily due to its manipulation of financial statements and the subsequent financial crisis in 2008, as well

as the inadequate supervision of banks and real estate financing companies. Governance is not only about regulatory measures, but rather an important element in protecting companies from financial failure by adopting rules. Good governance enables companies to enhance confidence, improve their financial performance, and reduce the possibility of falling into financial crises (Yaseen & Dawood, 2019).

Many researchers and analysts have developed financial models that thoughtfully integrate various financial ratios, thereby enhancing their ability to evaluate financial performance effectively.

1. (Altman Z-score, 1968):

In the 1960s, there was progress in developing predictive models for financial failure. The Altman model, introduced in 1968, was the most reliable predictor of financial failure in previous studies, as it distinguishes between struggling and non-struggling companies and provides an accurate measurement. It is one of the most important models and the most used because of the ease of measurement and the continuous development of the model, because it consists of the ratio of liquidity, profitability, activity, solvency, and proven effectiveness (Yaseen & Dawood, 2019).

$$Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5$$

$$Z\text{-Score} = 1.2(WC/TA) + 1.4(RE/TA) + 3.3(EBIT/TA) + 0.6(MVE/BVL) + 1.0(Sales/TA)$$

X1 WC = Working Capital, current assets minus current liabilities \ Total assets

X2 RE = Retained earnings \ Total assets

X3 EBIT = Earnings before interest and tax \ Total assets

X4 MVE = Market value of equity / BVL = Book value of liabilities

X5 sales = net sales \ Total assets

Z-degree more than 3.0 or more is the security area

Degree from 1.8 to 2.9 in the "danger zone"

Grade below 1.8 to high probability of failure

2. (Kida,1980):

The model, developed in 1982, is based on a set of financial ratios, including liquidity, leverage, profitability, and activity, which can predict financial distress or failure. However, there is an inaccuracy in measuring economic performance (Abu Hijleh, 2019).

$$Z = 1.042X_1 + 0.42X_2 - 0.461X_3 - 0.463X_4 + 0.271X_5$$

X1: "Net profit before taxes to total assets".

X2: "Total shareholders' equity to total liabilities".

X3: "Current assets to current liabilities".

X4: "Net sales to total assets".

X5: "Cash assets to total assets".

Companies not at risk of bankruptcy if  $0 < Z$ .

Companies at risk of bankruptcy if  $0 > Z$ .

3. (Sherrod, 1987):

A financial failure prediction model was developed in 1987, extending researchers' efforts to identify predictive models of economic failure. This model consists of several financial ratios, including liquidity, solvency, profitability, risk assessment, and company continuity (Abu Hijleh, 2019).

$$Z = 17X_1 + 9X_2 + 3.5X_3 + 20X_4 + 1.2X_5 + 10X_6$$

X1: Working capital to total assets.

X2: Cash assets to total assets.

X3: Total shareholders' equity to total assets.

X4: EBITDA to total assets.

X5: Total assets to Total liability.

X6: Total shareholders' equity to total fixed assets.

Companies that are not at risk of bankruptcy, if they are ( $Z \geq 25$ ).

Companies that hank the risk of being exposed to bankruptcy, if they ( $25 \geq Z \geq 20$ ).

Companies that are difficult to make a decision about (the foggy area) if they ( $20 \geq Z \geq 5$ ).

Companies at risk of bankruptcy, if they are ( $5 \geq Z \geq -5$ ).

Companies at high risk of bankruptcy, if ( $-5 > Z$ ).

### **2.3 Laws and legislation governing audit committees**

In 1972, the SEC proposed the establishment of audit committees in publicly held companies, requiring them to disclose the committee's composition, the number of meetings held, as well as its independence, expertise, and functions (Almhairat & Al-Sulaihat, 2022).

Accounting practices in Palestinian companies are governed by the Palestinian Association of Certified Public Accountants (PACPA) and the Palestinian Companies Law, which defines the requirements for financial reporting and disclosure for companies operating in Palestine. The Palestinian Capital Market Authority also regulates the financial markets and supervises the application of accounting standards by companies. Its accounting practices are consistent with International Financial Reporting Standards (IFRS), as well as the Jordanian Association of Certified Public Accountants (JACPA) and the Jordanian Companies Law, which guide companies. Regarding accounting practices, the Jordan Securities Commission (JSC) oversees the financial reports of companies, and the audit committee has become mandatory for all listed companies.

The Sarbanes-Oxley Act of 2002 in the United States aims to regulate financial practices, manage risks, and enhance the quality of information in financial reporting. A specialised audit committee, as defined by Hussein & Syed Ali (2010), composed of at least three members, including an expert in auditing and accounting, is responsible for overseeing the audit process. This Committee must consist of non-executive managers and is tasked with appointing the external auditor, terminating contracts, and determining fees (Hussein, 2015).

The Palestinian Companies Act No. 42 of 2021 mandates the establishment of a Board of Directors (BOD) Committee composed of three members. The majority of the Committee

members must be non-executive managers. Additionally, the Chairman must be independent and possess expertise in finance and auditing. The Committee is responsible for reviewing policies and procedures, appointing an external auditor, determining the auditor's fees, reviewing the auditor's report, and discussing it with the auditor (Palestine Exchange, 2023).

The Palestinian Corporate Governance Manual is outlined in Decree No. 20 of 2016, which mandates the establishment of an audit committee by the Board of Directors. This Committee must consist of three non-executive members who possess independence, as well as practical and academic experience in accounting, auditing, and financial matters. The members are responsible for independently overseeing and supervising companies and their financial statements before these documents are presented to the Board of Directors. Additionally, they are tasked with meeting with both the External Auditor and the Internal Auditor (Palestine Exchange, 2023).

In 2017, the Monetary Authority defined specific characteristics of the Audit Committee, including expertise, the number of meetings, independence, and the number of members. The Monetary Authority mandated that Palestinian banks establish audit committees to review financial policies and reports, as well as to perform supervisory and control functions over the banks (Madhoun, Ashi, & Madi, 2021).

The Capital Heads Market Authority requests the formation of an audit committee to fulfill supervisory and oversight responsibilities, as well as to oversee the internal audit department. This committee assesses both internal and external risks and supervises the work of the auditors. It is composed of three members, one of whom possesses expertise in accounting and auditing. All members are independent and convene four times a year (Ghazali & Durgham, 2015).

The Palestine Securities Exchange requests the establishment of a three-member audit committee, along with the disclosure of their names, experience, ownership ratios, and the number of meetings held (Palestine Exchange, 2023).

The legal framework governing the accounting profession in Jordan is established by several key laws, including the Law Regulating the Chartered Accounting Profession No. (73) of 2003, which oversees the accounting and auditing sectors. Additionally, the Companies Law No. (22) of 1997, the Income Tax Law, and the Securities Law No. (76) of 2002, which regulates the operations of joint-stock companies, is also integral to this framework. The Securities Commission (JSC) is responsible for monitoring the compliance of listed companies on the Amman Stock Exchange with international accounting standards. Furthermore, the Jordanian Association of Certified Public Accountants (JACPA) plays a crucial role in advancing the profession by providing training, professional qualifications, and promoting ethical standards.

## **2.4 Theories**

### **Agency Theory**

The first to speak about agency theory in accounting and economic management (Jensen & Meckling) in 1976 in their paper "Theory of the Firm Managerial Behavior, Agency Costs and Ownership Structure" (Yaseen & Dawood, 2019). The audit committee draws its theory from the Agency's theory and the Agency's costs increase as the audit committee increases because companies work to separate ownership from management as managers continually seek to improve the company's financial position to increase cash flows in order to obtain concessions, Conflicts of interest between owners and management must be reduced (Bosnia, 2020) When public shareholding companies appear, companies are interested in corporate governance because they solve the agency problem, help control managers and reduce the risk of manipulation (Widyasari & Kurn, 2020).

The Agency's problem arises when a conflict of interest between owners and management leads to the manipulation of financial statements. Profits are the most manipulated by exploiting the flexibility of accounting principles. Manipulation is a source of unethical business in the business environment (Bendickson et al, 2016). It hurts the fairness of financial statements. Furthermore, manipulating financial statements to achieve personal benefits by presenting data unrealistically can lead to reduced confidence among financial statement users, ultimately contributing to financial crises and bankruptcy (Riah, Zaidi, & Zarai, 2022).

The going concern principle, as outlined in International Financial Reporting Standards (IFRS), emphasises the continuity of operations in the preparation of financial statements. Companies operate under the assumption that they will continue their activities without entering a liquidation scenario or ceasing operations. Additionally, the Audit Committee plays a crucial role in addressing financial crises, reforming the economy, and predicting potential financial failures. Members of the Audit Committee are selected from the Board of Directors to enhance internal control and improve the quality of both internal and external audits. It ensures adherence to internal procedures, achievement of organizational objectives, improved financial performance, and increased confidence in financial statements, which are vital for decision-makers (Kundous & Daas, 2017).

The agency theory framework examines the relationship between hiring practices, the self-interested performance of delegated agents, their tasks and responsibilities, and the self-interest of principals (Abdullah & Valentine, 2009).

### **Stakeholder theory**

Stakeholder theory suggests that companies take into account the interests of all parties affected by their decisions, including employees, customers, suppliers, society, government, and shareholders. The theory is based on a balance of interests and focuses on social and ethical responsibility, as well as establishing lasting relationships with them (Donaldson & Preston, 1995). The company must balance the interests of all parties affected by its decisions. If the audit committee ignores the interests of relevant parties such as employees, investors, or society, financial failure may occur.

### **Stewardship Theory**

The Stewardship Theory is one of the fundamental theories in understanding the behavior of managers within companies. It considers excessive trust without supervision that may lead to financial failure (Bosnia, 2020). The theory assumes that managers act as trustees of the company's assets, seeking to achieve the best interests of the company, not just their own, even though they have a personal motive for success. The company is enhancing its reputation and brand, and securing financial incentives (Abdullah & Valentine, 2009). In many cases of financial failure, boards of directors relied excessively

on executive management, neglecting the role of practical auditing and oversight, as seen with Enron. The directors in the company were considered trusted by the board of directors and investors, which led to a lack of oversight and the manipulation of financial statements, ultimately resulting in financial failure (Alansi, 2022).

## **2.5 Previous studies and hypothesis development**

The subject matter of this study has garnered increased attention from researchers, particularly following financial crises. Based on the existing literature related to this topic, the study focuses on the characteristics of audit committees (AC) in relation to financial failure. Researchers are particularly interested in understanding how the characteristics of the AC such as its size, experience, independence, frequency of meetings, and ownership concentration affect financial failure. Additionally, the study examines financial ratios, including return on assets, leverage, and liquidity, which can help predict financial failure.

The Audit Committee (AC) is a committee of the Board of Directors (BOD) comprising members who are both scientifically and practically qualified, possessing the necessary authority to effectively fulfil their mandated responsibilities. The Committee serves as a liaison between the Department, the Internal Auditor, and the External Auditor, overseeing the preparation of financial statements and ensuring the Company's compliance with applicable standards, laws, regulations, instructions, and policies.

Accounting and professional organizations in several countries are interested in forming audit committees. The United States Securities and Exchange Commission has proposed the formation of audit committees comprising non-executive members and the disclosure of their composition, the frequency of meetings, and the number of members (Oroud, 2019).

The Executive Committee of the American Institute of Chartered Accountants has also recommended the formation of an AC from independent members and the maintenance of their independence. At the local level, the Palestine Stock Exchange has paid attention to audit committees to encourage investments, attract foreign investments, and enhance confidence in financial statements (Omar, 2019).

## 1. Size of the AC

The size of the Audit Committee (AC) is closely linked to the agency's theory, and its effectiveness is largely determined by its membership. A sufficient number of committee members is essential for understanding the company's operations and ensuring a diversity of experience, particularly in accounting and auditing. It is crucial to have experienced members who can carry out the necessary tasks effectively. The number of members should not exceed the required amount, as an increase in membership can diminish the committee's effectiveness due to internal conflicts that may arise during meetings (Fouad, 2017). The number of members varies by country, influenced by local laws and the nature of their activities. According to the Sarbanes-Oxley Act of 2002, the committee must comprise at least three non-executive directors to effectively fulfil its functions. This ensures that the committee has a sufficient and diverse range of skills and experiences to facilitate meaningful discussions within the audit committee (Khaled & Dergham, 2021). Based on the above considerations, the hypothesis is as follows:

H1- The number of Audit Committee members has a significant impact on the financial failure of public shareholding companies listed on the Palestine Exchange (PEX) and the Amman Stock Exchange (ASE).

## 2. Independence Audit committee

To provide high-quality information and protect shareholders' rights, it is essential to have an independent and effective audit committee (Alansi, 2022). There has been considerable interest from companies in establishing such committees due to their crucial role in corporate governance. Investors are particularly interested in companies with strong and effective governance systems, as these systems ensure that credible information is provided and accurately reflects the company's true situation. To restore investor confidence in published financial statements (Abudik, 2022), it is crucial to establish a specialized and independent audit committee that meets the needs of the Board of Directors. Studies have shown that an effective audit committee has a positive impact on decision-making, minimizes the manipulation of financial information, and reduces errors in financial statements. Companies with more credible and less compromised audit committees tend to perform better (Halim, 2021).

The Commission should be independent of management in order to perform its supervisory and oversight functions and protect shareholders' interests financial performance, the Audit Committee has a positive impact on financial performance because it reduces errors in financial reports and increases the quality of financial reports, The committee's independence is that the audit committee should include non-executive board members so that the committee members should be independent and not involved with other committees (Salehi, Tahervafaei & Tarighi, 2018). The principle of independence of members in order to enhance the efficiency of the audit committee, because the center of effectiveness of the audit committee on the independence of members so that it has no substantial financial relationship with the company or persons working in the company or its affiliates and there is no conflict of interest and that there is no external pressure affecting his work in controlling the financial statements, The independent member does not accept any indemnities from the company other than board membership fees or from its subsidiaries(Salloum et al., 2014). There is a link with Stakeholders' theory.

Based on the foregoing, the hypothesis is as follows:

H2-There is an impact on the independence of Audit Committee members regarding the financial failure of public shareholding companies listed on the PEX and ASE markets.

### 3. experience of the audit Committee

The Audit Committee serves as one of the governance mechanisms in promoting investor and decision maker confidence in financial statements through the role of the Audit Committee in enhancing the quality of financial statements (Yaseen & Dawood, 2019) The scientific and practical expertise of audit committee members reduces incoming errors, reduces manipulation of financial statements and increases the efficiency of the internal control system Investment decisions are influenced by members' experience, skills, qualifications, law and legislation, which require expertise because it limits profit management practices, increases the quality of financial information, and the association of experience and efficiency among members has an impact on the effectiveness of the Committee (Hussein, 2015).

The AC experience is linked to the Agency's theory, and the scientific, financial, and accounting qualifications of the committee member help in understanding complex financial processes, accounting standards, policies, and financial statements, as well as developing plans to address financial problems and mechanisms to reduce the risks facing the company and its operations (Abudik, 2022). The member must be well defined in accounting standards, suitably qualified scientific and practical and possesses appropriate expertise to exercise the oversight and supervisory role on the financial statements (Alansi, 2022), expertise and qualifications are required in audit committees in order to increase the Committee's effectiveness to understand, analyze and discuss problems and increase the control of financial reports. Financial experts are required on the audit committee to read and understand financial matters, comprehend financial standards, and evaluate internal control procedures (Bosnia, 2020).

Based on the foregoing, the hypothesis is as follows:

H3-There is impact of Audit Committee members' experience on the financial failure of public shareholding companies listed on the PEX and ASE market.

#### 4. Frequency Meetings of audit committee

The supervisory and control role of the company is audited through meetings information is exchanged between the Department and the Committee, ensuring the integrity and transparency of information and reducing risk, Governance rules require one meeting every three months. the committee meets 4 times annually Because the number of times the company meets is important in order to fulfill its commitment to stakeholders and to discuss matters and issues related to the company, The agenda of the meetings is to discuss and examine the company's policies, financial conditions and risks (Khaled & Dergham, 2021).

The Audit Committee is convened on an ongoing basis and is better and further discusses important financial conditions, which helps to reduce financial failures because they are instrumental in reducing financial failures. And it has to be enough meeting time to discuss company matters, the effectiveness of the Audit Committee in using time for reform and continuous improvement in the early detection of errors in the financial

statements (Khalid et al., 2020). The Audit Committee members' meetings is linked to the Agency's theory Addresses conflicts of interest that arise between managers and shareholders. Managers work to achieve their personal interests over the interests of shareholders. Holding and repeating meetings is a corporate governance rule that helps reduce disputes through increased monitoring and supervision by the BOD and the Directors AC because it works to identify risks and guides management to achieve the company's objectives (Nour et al., 2024).

Based on the foregoing, the hypothesis is as follows:

H4- There is an impact number of audit committee members' meetings on the financial failure of public shareholding companies listed on the PEX and ASE markets.

#### 5. Percentage Concentration of Ownership

The proportion of committee members who own shares in the company enhances oversight of the company's operations. A higher percentage of committee members with equity ownership fosters greater interest in the company's financial statements, aims to mitigate fraud and misinformation in financial reports, and increases the incentive to monitor management and focus on the company's performance. However, equity ownership among committee members may also heighten the risk of collusion with management to safeguard their interests, potentially compromising their independence and diminishing the quality of financial reporting (Alansi, 2022). The concentration of ownership within the audit committee is associated with agency theory.

H5- There is impact that the ownership of members of the AC focuses on the financial failure of public shareholding companies listed on the PEX and ASE market.

What distinguishes this research from previous studies?

Previous studies have examined the characteristics of the Audit Committee (AC) and Financial Failure (FF); however, not all of these studies have considered the full range of characteristics of the Committee when assessing its impact on financial failure. The focus of this study is to analyze these variables collectively and evaluate their effects—whether they have a significant impact or not—on publicly traded companies listed on the

Palestine Exchange (PEX) and the Amman Stock Exchange (ASE). This analysis aims to assist decision-makers in making informed investment and financing choices that maximise the company's value and enhance stakeholder interests. This study distinguishes itself from previous research ( Halim, 2021) (Fuad, 2017) (Salloum et al., 2014) by adopting a comprehensive approach.

## **Chapter Three**

### **Methodology and procedures**

#### **3.1 Research Method and Methodology**

To achieve the study's objectives and answer its questions, the descriptive and analytical approaches were employed through the collection, arrangement, and presentation of data variables. The study employed linear regression, analytical approach to data analysis and hypothesis testing, which enabled the derivation of the study's findings and recommendations. The use of the descriptive and analytical approaches is appropriate to the nature and purposes of the study. Since this descriptive and analytical approach is as concerned with the phenomenon as it is, it works to describe, analyze, and link the phenomenon to other phenomena, aiming to provide data and facts on the study's problem, interpret them, and identify their implications. To investigate the impact of the Audit Committee's characteristics on the prediction of financial failure in PEX and ASE listed companies between 2018 and 2022.

This research was conducted following these steps:

- Formulate a research question and hypotheses based on the final objective of the study.
- The population and sample of the research.
- A collection of relevant information for the study and data required to analyze the annual reports of companies listed on the PEX and ASE markets from 2018 to 2022.
- The data were coded and statistically processed to conduct the analysis using STATA Version 16.
- Test the correlation analysis using a significance level of 0.05 to measure the relationships between the independent variables and the dependent variable in the study.
- Conduct a regression analysis with a significance level of 0.05 to examine the impact of the study's independent variables on the dependent variable.
- The results of the study were compared with those of earlier research.

### **3.2 Method of collecting research data**

To achieve the study's objective, data were obtained from multiple sources. The required data for the study was collected through a search for relevant topics and information from scientific research and financial reports concerning companies listed on the PEX and ASE markets.

### **3.3 Population and sample study**

To achieve the study's objectives, the financial statements of public shareholding companies listed on the PEX market were analysed from 2018 to 2022.

The Palestine Exchange (PEX) was established as a private joint-stock company in 1995 to promote investment in securities. Companies listed on the PEX are categorized into five economic sectors: banking and financial services, insurance, investment, industry , and services.

The Amman Stock Exchange (ASE) was established in 1999 as an independent, non-profit institution that serves as a regulated market for securities trading in the Kingdom . The exchange consists of three main sectors: the financial sector, the services sector, and the industrial sector.

**Table (1)***Study population and sample PEX&ASE*

<b>Economic sector</b>	<b>Frequency</b>	<b>Percentage</b>
Investment sector - PEX	12	%25
banking sector - PEX	8	%17
Insurance sector - PEX	8	%17
Services sector - PEX	9	%18
Industry sector - PEX	11	%23
The total - PEX	48	%100
Industry sector - ASE	33	19%
Services sector - ASE	43	25%
Financial sector - ASE	96	56%
The total - ASE	172	100%

Note: (Palestine Exchange, 2023) (ASE, 2023)

- The population of the study comprised 48 public shareholding companies listed on the PEX and 172 public shareholding companies listed on the ASE market.
- The Sample of study specifically on the industrial sector on the PEX 11 Industrial company and 33 Industrial company on the ASE market.

### **3.4 Research Limits**

Spatial determinants: The public shareholding company is listed on the PEX and ASE.

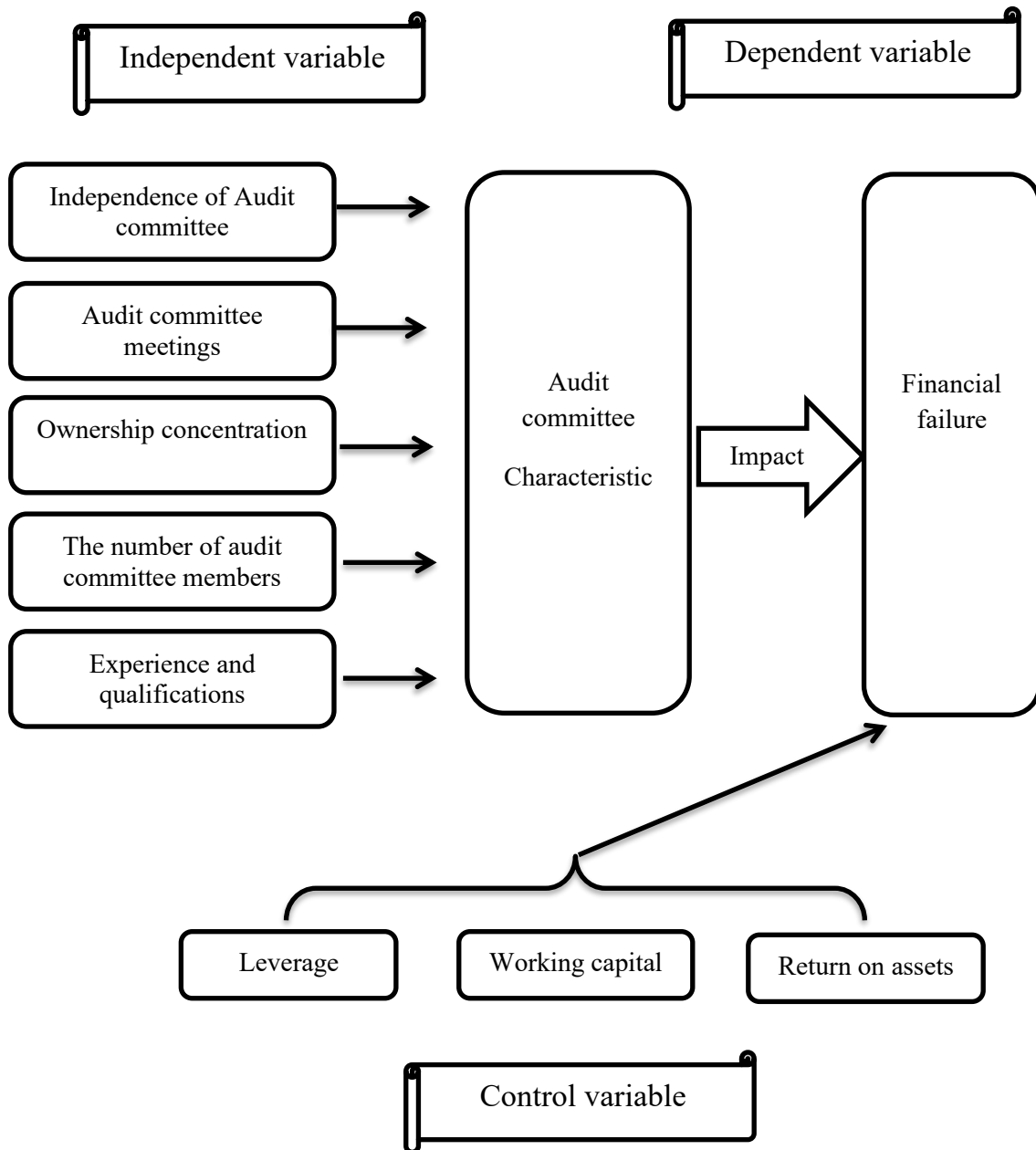
Timelines: Data of public shareholding companies listed on the PEX and ASE market between 2018 and 2022.

### **3.5 Research model**

Based on the information presented in the study's problem statement, objectives, and hypothesis, the study model was developed as follows.

**Figure (1)**

*Research model*



Source: by researcher

IV: "Independent variable"

DV: "Dependent variable"

CV: "Control variable"

### 3.6 Research Variables

**Table (2)**

*Research Variables*

<b>Variable</b>	<b>abbreviations</b>	<b>The type of variable</b>	<b>The variable and the measurement</b>	<b>Reference</b>
Independence of audit committee members	IAC	independent variable	The number of non-executive members to the total members of the committee	(Fuad, 2017) (Al Farooque et al, 2019)
Experience and qualifications of AC members	EAC	independent variable	The number of members who hold degrees in financial, accounting and auditing sciences to the total members of the committee	( Widyasari & Kurn, 2020)
Audit committee meetings	MAC	independent variable	Meetings are held 4 times annually	(Khalid et al., 2020)
The number of audit committee members	NAC	independent variable	More than 3 members of the committee	(Khalaf & Belkadi, 2021) (Al-Matari, Al-Swidi, Fadzil,& Al Matari,2012)
Ownership concentration of audit committee members	OAC	independent variable	Own more than 5% of the company's shares	(Ekapol & Hensawang, 2022)
Return on assets	ROA	control variable	An indicator of the company's operational performance =net profit/total assets	(AlMetwally, 2021)
leverage	LEV	control variable	Financial ratio that determines the amount of assets that are financed by debt. =total liabilities/total assets	(AlMetwally, 2021) (Al Farooque et al, 2019)
Working capital	WC	control variable	=Total current assets - total current liabilities	( Halim, 2021) (Al Nimer, Warrad& Al Omar, 2015)
financial failure	FF	Dependent variable	It is bankruptcy, insolvency, or financial failure. The financial failure of companies measured by using the Altman model in 1968, which measures the prediction and financial failure of companies. $Z = 1.2X1 + 1.4X2 + 3.3X3 + 0.6X4 + 1.0X5$	(Lou & Rafi , 2019) (Yaseen & Dawood, 2019) (Ekapol & Hensawang, 2022)

**Model:**

$$= \beta_0 + \beta_1 \text{NAC} + \beta_2 \text{IAC} + \beta_3 \text{EAC} + \beta_4 \text{MAC} + \beta_5 \text{OAC} + E$$

- $\beta$ : Slope coefficients
- IAC: Independence of AC members
- EAC: Experience and qualifications of audit committee members
- MAC: AC meetings
- NAC: The number of AC members
- OAC: Ownership concentration of AC members
- E: error

## Variable

1. Independent variable (IAC, NAC, EAC, MAC and OAC)
2. Control variable (ROA, LEV and WC)
3. Dependent variable (FF)

**3.6 Statistical Analysis Methods**

To test the hypotheses and process the data obtained, the researcher used the following statistical methods to achieve the objectives of this study:

1. Descriptive Statistics: This includes percentages and means, medians, standard deviations, and maximum and minimum values of study variables that provide explanatory analysis.
2. Variance Inflation Factor "VIF": This measures the strength of the model by assessing the absence of overlap between the study's variables, which is indicative of multicollinearity.
3. Correlation Coefficient: To determine the relationship between the independent variables and the dependent variable.
4. Linear Regression Analysis: The study used fixed effects and random effects linear regression models to examine the impact of independent variables as well as control variables on the dependent variable. This statistical analysis method allows us to

understand the strength of the correlation or effect between the independent and dependent variables.

"The criteria used to test the hypotheses include the direction of the T-statistic of the independent variable and the value of Sig as follows":

- "If the estimated direction of the T-statistic is the same as the expected direction, then the hypothesis is supported".
- "If the value of SIG is  $\leq 0.05$ , then the support is significant; to accept a hypothesis, both criteria have to be met".

**Table (3)**

*Descriptive Statistical Analyses for the PEX*

Variables	Sample	N(miss)	Mean	Median	SD	Minimum	Maximum
IAC	11	55	0.93	1	0.13	0.67	1
NAC	11	55	3.09	3	0.52	2	5
EAC	11	55	0.43	0.33	0.33	0	1
MAC	11	55	4.84	6	1.51	1	7
OAC	11	55	0.06	0	0.12	0	0.44
ROA	11	55	0.06	0.06	0.05	-0.09	0.15
LEV	11	55	0.34	0.29	0.15	0.13	0.64
WC	11	55	10,422,324	4,476,613	15,748,109	5,243,567	60,650,229
FF	11	55	3.3	3.58	1.59	0.46	6.65

Table (3) presents the descriptive statistics for PEX, with 55 observations, reflecting the underlying distribution of several variables used in this study. The sample statistics showed that the variables IAC, NAC, EAC, MAC, OAC, ROA, LEV, and FF recorded, respectively, the mean (93%, 3.09, 43%, 4.84, 6%, 6%, 34% and 3.3). the IAC Very close to the maximum (1). The median (1, 3, 33%, 6, 0, 6%, 29% and 3.58). the standard deviation (13%, 52%, 33%, 1.51, 12%, 5%, 15% and 1.59). the minimum (67%, 2, 0, 1, 0, -9%, 13% and 46%). The maximum (1, 5, 1, 7, 44% 15%, 64% and 6.65).

The WC recorded (mean 10,422,324), (median 4,476,613), (standard deviation 15,748,109), (minimum 5,243,567), and (maximum 60,650,229).

**Table (4)***Descriptive Statistical Analyses for the ASE*

<b>Variables</b>	<b>Sample</b>	<b>N(miss)</b>	<b>Mean</b>	<b>Median</b>	<b>SD</b>	<b>Minimum</b>	<b>Maximum</b>
IAC	33	165	1	1	0.03	0.67	1
NAC	33	165	3.19	3	0.63	3	7
EAC	33	165	0.38	0.33	0.24	0	1
MAC	33	165	4.33	4	1.08	1	9
OAC	33	165	0.19	0	0.27	0	0.9
ROA	33	165	0.01	0.01	0.09	-0.61	0.35
LEV	33	165	0.38	0.33	0.24	0.01	1.11
WC	33	165	3,426,597	2,609,090	13,943,499	-56,343,061	70,099,700
FF	33	165	3.06	1.99	4.1	-2.01	35.45

Table (4) shows the descriptive statistics in ASE, with the number of observations being 165, which depicts the underlying distribution of several variables used in this study. The sample statistics showed that the variables IAC, NAC, EAC, MAC, OAC, ROA, LEV, and FF recorded, respectively, the mean (1, 3.19, 38%, 4.33, 19%, 1%, 38% and 3.06). The median (1, 3, 33%, 4, 0, 1%, 33% and 1.99). the standard deviation (3%, 63%, 24%, 1.08, 27%, 9%, 24% and 4.1). the minimum (67%, 3, 0, 1, 0, -61%, 1% and -2.01). The maximum (1, 7, 1, 9, 9% 35%, 1.11 and 35.45).

The WC recorded (mean 3,426,597), (median 2,609,090), (standard deviation 13,943,499), (minimum -56,343,061), and (maximum 70,099,700).

**Table (5)***Descriptive Statistical Analyses for the PEX-ASE*

<b>Variables</b>	<b>Sample</b>	<b>N(miss)</b>	<b>Mean</b>	<b>Median</b>	<b>SD</b>	<b>Minimum</b>	<b>Maximum</b>
IAC	44	220	0.98	1	0.08	0.67	1
NAC	44	220	3.17	3	0.61	2	7
EAC	44	220	0.39	0.33	0.26	0	1
MAC	44	220	4.45	4	1.22	1	9
OAC	44	220	0.16	0	0.24	0	0.9
ROA	44	220	0.02	0.02	0.09	-0.61	0.35
LEV	44	220	0.37	0.31	0.22	0.01	1.11
WC	44	220	5,175,529	3,481,363	14,695,698	-56,343,061	70,099,700
FF	44	220	3.12	2.52	3.64	-2.01	35.45

Table (5) presents the descriptive statistics for PEX & ASE, with 220 observations, illustrating the underlying distribution of the variables used in this study. The sample statistics showed that the variables IAC, NAC, EAC, MAC, OAC, ROA, LEV, and FF recorded, respectively, the mean (98%, 3.17, 39%, 4.45, 16%, 2%, 37% and 3.12). The median (1, 3, 33%, 4, 0, 2%, 31% and 2.52). the standard deviation (8%, 61%, 26%, 1.22, 24%, 9%, 22% and 3.64). the minimum (67%, 2, 0, 1, 0, -61%, 1% and -2.01). The maximum (1, 7, 1, 9, 9% 35%, 1.11 and 35.45).

The WC recorded (mean 5,175,529), (median 3,481,363), (standard deviation 14,695,698), (minimum -56,343,061), and (maximum 70,099,700).

**Table (6)***Correlation PEX*

	FF	IAC	NAC	MAC	EAC	OAC	ROA	LEV	WC
FF	1								
IAC	0.08	1							
NAC	-0.16	-0.04	1						
MAC	0.33	0.25	0.11	1					
EAC	-0.04	0.46	-0.19	-0.23	1				
OAC	-0.11	-0.18	0.54	0.17	-0.16	1			
ROA	0.78	0.03	-0.27	0.43	0.12	-0.16	1		
LEV	-0.79	-0.15	-0.07	-0.27	-0.06	-0.24	-0.61	1	
WC	0.47	0.12	0.32	0.35	-0.43	0.24	0.24	-0.53	1

Table (6) presents the linear correlation in PEX between the independent, control, and dependent variables, with the highest correlation of ROA&FF (78%) A very strong positive relationship, indicating that companies with high financial performance (higher return on assets) are less likely to experience financial failure. and the lowest correlation of LEV&FF (-79%) A strong inverse relationship, which is a logical relationship that an increase in indebtedness (financial leverage) increases the likelihood of financial failure. and A moderate positive relationship of WC&FF (47%), indicating that companies with better working capital are less likely to experience financial failure. and Values close to zero indicate no correlation or a weak correlation.

**Table (7)***Correlation ASE*

	FF	IAC	NAC	MAC	EAC	OAC	ROA	LEV	WC
FF	1								
IAC	-0.01	1							
NAC	-0.07	0.02	1						
MAC	0.03	0.02	0.47	1					
EAC	-0.22	-0.10	0.09	-0.04	1				
OAC	-0.04	0.06	-0.04	0.04	-0.1	1			
ROA	0.56	-0.03	-0.03	0.07	-0.04	0.09	1		
LEV	-0.65	0.05	0.09	0.02	0.12	0.36	-0.44	1	
WC	0.41	-0.01	-0.06	-0.09	-0.04	-0.22	0.41	-0.48	1

Table (7) presents the linear correlation in ASE between the independent, control, and dependent variables, with the highest correlation positive of ROA&FF (56%) This may indicate that a higher return on assets is associated with a lower likelihood of financial failure. and the lowest correlation negative of LEV&FF (-65%) It means that the higher the financial leverage (debt), the greater the likelihood of financial failure . and A moderate positive relationship of WC&FF (41%), indicating that companies with better working capital are less likely to experience financial failure. and Values close to zero indicate no correlation or a weak correlation of IAC&FF.

**Table (8)**

*Correlation PEX- ASE*

	FF	IAC	NAC	MAC	EAC	OAC	ROA	LEV	WC
FF	1								
IAC	0	1							
NAC	-0.08	0.02	1						
MAC	0.09	0.06	0.33	1					
EAC	-0.17	0.2	0.01	-0.09	1				
OAC	-0.05	0.06	0.03	0.01	-0.11	1			
ROA	0.57	-0.1	-0.08	0.20	0.02	0	1		
LEV	-0.66	0.08	0.07	-0.06	0.07	0.32	-0.47	1	
WC	0.39	-0.03	0.02	0.11	-0.15	-0.19	0.4	-0.48	1

Table (8) illustrates the linear correlations among PEX and ASE regarding the independent, control, and dependent variables. The highest correlation is observed between ROA and FF at (57%) It means that companies with high financial performance (higher return on assets) are less likely to experience financial failure., while the lowest correlation is found between LEV and FF at (-66%) It means that higher indebtedness increases the likelihood of financial failure. and A moderate positive relationship of WC&FF (39%), indicating that companies with higher working capital are more financially stable and less prone to financial failure. and Values close to zero indicate no correlation or a weak correlation of IAC&FF and EAC&NAC.

### 3.7 LR analysis for each separately

**Table (9)**

*Linear Regression Analysis for PEX*

Variable	Fixed effect regression model			Random effect regression model			R2	AR2	Ph test	VIF
	Beta	SD	P	Beta	SD	P				
NAC	-0.028	0.152	0.858	0.006	0.151	0.967	0.728	0.58	0.759	2.46
IAC	-0.063	0.104	0.552	-0.087	0.102	0.391				3.72
EAC	0.016	0.143	0.911	0.063	0.139	0.649				3.82
MAC	-0.331	0.119	0.011	-0.321	0.117	0.006				3.31
OAC	-0.667	0.279	0.026	-0.731	0.272	0.007				2.62
ROA	1.232	0.344	0.002	1.173	0.341	0.001				2.31
LEV	-2.362	0.625	0.001	-2.466	0.617	0.001				3.3
WC	-0.29	0.144	0.056	-0.318	0.143	0.026				4.07

- “If Housman test (Ph test) < 0.05, then we choose the fixed effect model, otherwise we choose the random effect model”. Based on the results, the random effects model was chosen.

H1- There is an impact of the number of members of the Audit Committee on the financial failure of the public shareholding companies listed on the PEX market.

To test the validity of the hypothesis at the indicative level ( $\alpha=0.05$ ), regression analysis has been used, and the results of the following table show this.

Notes from the data in Table 9, the calculated value (Beta) was (0.006), and the indicative level (P) was (0.967), greater than 0.05. It requires rejection of the hypothesis.

The model's interpretative power is the determining factor R-squared (R2) of 0.728 and the adjusted R-squared (AR2) of 0.58, which means that the independent variable explains the amount (58% of the dependent variable).

Table 9 shows that the value of the internal association (VIF) is 2.46, which is less than 5, indicating no problems with collinearity statistics.

The outcome of the study was similar to that of a study (Abudik, 2022), ((Fuad, 2017), (Salloum et al., 2014), and the outcome of the study conflicted with that of a study (Ekapol & Hensawang, 2022), (Khalaf & Belkadi, 2021).

H2-There is an impact of the independence of the Audit Committee members on the financial failure of public shareholding companies listed on the PEX market.

In order to test the validity of the hypothesis at the indicative level ( $\alpha=0.05$ ), regression analysis has been used, and the results of the following table show this.

Notes from the data in the previous table 9 show that the calculated value (Beta) was (-0.087) and the indicative level (P) was (0.391), greater than 0.05. It requires rejection of the hypothesis.

Table 9 shows that the value of the internal association (VIF) is 3.72, which is less than 5, indicating no problems with collinearity statistics.

The outcome of the study was similar to that of a study (Fuad, 2017) and a study (Salloum et al., 2014), and the outcome of the study conflicted with that of a study (Abudik, 2022) and a study (Lou & Rafi , 2019).

H3-There is an impact of Audit Committee members' experience on the financial failure of public shareholding companies listed on the PEX market.

In order to test the validity of the hypothesis at the indicative level ( $\alpha=0.05$ ), regression analysis has been used, and the results of the following table show this.

Notes from the data in the previous table 9, the calculated value (Beta) was (0.063), and the indicative level (P) was (0.649), greater than 0.05. It requires rejection of the hypothesis.

Table 9 shows that the value of the internal association (VIF) is 3.82, which is less than 5, indicating that there are no problems with collinearity statistics. The outcome of the study was similar to that of a study by Ekapol & Hensawang (2022), but it conflicted with

the outcomes of two other studies: one by (Fuad, 2017) and another by Salloum et al. (2014).

H4- There is an impact of the number of audit committee members' meetings on the financial failure of public shareholding companies listed on the PEX market.

In order to test the validity of the hypothesis at the indicative level ( $\alpha=0.05$ ), regression analysis was used, and the results of the following table show this.

Notes from the data in the previous table 9, the calculated value (Beta) was (-0.321), and the indicative level (P) was (0.006), less than 0.05. It requires acceptance of the hypothesis.

Table 9 shows that the value of the internal association (VIF) is 3.31, which is less than 5, indicating that there are no problems with collinearity statistics. The outcome of the study was similar to that of a study (Salloum et al., 2014) and (Khalid et al., 2020), and the outcome of the study conflicted with that of a study (Abudik, 2022) and (Fuad, 2017).

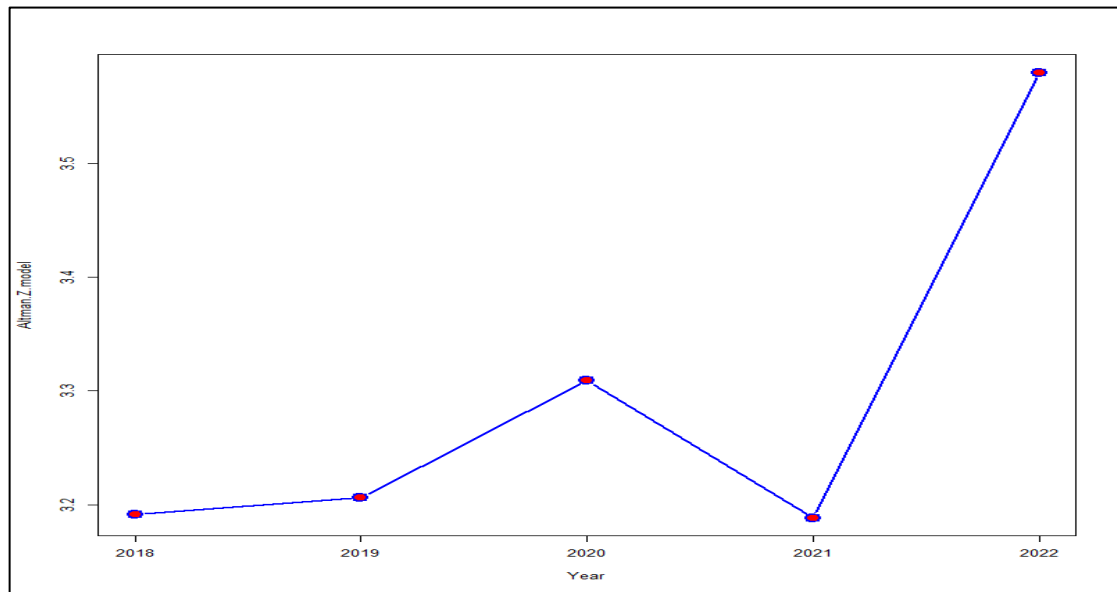
H5- There is an impact that the ownership of members of the Audit Committee focuses on the financial failure of public shareholding companies listed on the PEX market.

In order to test the validity of the hypothesis at the indicative level ( $\alpha=0.05$ ), regression analysis has been used, and the results of the following table show this.

Notes from the data in Table 9 indicate that the calculated value (Beta) was (-0.731), and the indicative level (P) was (0.007), which is less than 0.05. It requires acceptance of the hypothesis.

Table 9 shows that the value of the internal association (VIF) is 2.62, which is less than 5, indicating no problems with collinearity statistics.

The outcome of the study was similar to that of another study (Abudik, 2022), but it conflicted with the outcome of a third study (Ekapol & Hensawang, 2022).

**Figure (2)***Trend of Altman from 2018 to 2022 in PEX***Table (10)***Linear Regression Analysis for ASE*

Variable	Fixed effect regression model			Random effect regression model			R2	AR2	Ph test	VIF
	Beta	SD	P	Beta	SD	P				
NAC	-0.045	0.305	0.882	0.007	0.299	0.983	0.415	0.29	0.958	1.66
IAC	0.505	0.262	0.059	0.394	0.251	0.116				1.04
EAC	-0.124	0.174	0.480	-0.166	0.171	0.331				1.21
MAC	0.031	0.21	0.884	0.007	0.208	0.972				1.31
OAC	0.184	0.215	0.395	0.166	0.212	0.433				2.19
ROA	0.576	0.231	0.015	0.634	0.224	0.005				1.22
LEV	-1.124	0.263	0.001	-1.13	0.26	0.001				1.76
WC	0.157	0.161	0.335	0.157	0.16	0.326				1.23

H1- There is an impact of the number of members of the Audit Committee on the financial failure of the public shareholding companies listed on the ASE market.

In order to test the validity of the hypothesis at the indicative level ( $\alpha=0.05$ ), regression analysis has been used, and the results of the following table show this.

Notes from the data in Table 10, the calculated value (Beta) was (0.007), and the indicative level (P) was (0.983), greater than 0.05. It requires rejection of the hypothesis.

The model's interpretative power is the determining factor R-squared (R<sup>2</sup>) of 0.415 and the adjusted R-squared (AR<sup>2</sup>) of 0.29, which means that the independent variable explains the amount (29% of the dependent variable).

Table 10 shows that the value of the internal association (VIF) is 1.66, which is less than 5, indicating no problems with collinearity statistics.

The outcome of the study was similar to that of a study (Abudik, 2022), (Fuad, 2017), (Salloum et al., 2014), and the outcome of the study conflicted with that of a study (Khalaf & Belkadi, 2021), (Ekapol & Hensawang, 2022).

H2-There is an impact of the independence of the Audit Committee members on the financial failure of public shareholding companies listed on the ASE market.

In order to test the validity of the hypothesis at the indicative level ( $\alpha=0.05$ ), regression analysis has been used, and the results of the following table show this.

Notes from the data in Table 10, the calculated value (Beta) was (0.394), and the indicative level (P) was (0.116), greater than 0.05. It requires rejection of the hypothesis.

Table 10 shows that the value of the internal association (VIF) was 1.04 and is less than 5, which means that there are no problems with the Collinearity Statistics.

The outcome of the study was similar to that of a study (Fuad, 2017) and a study (Salloum et al., 2014), and the outcome of the study conflicted with that of a study (Abudik, 2022) and a study (Lou & Rafi , 2019).

H3-There is an impact of Audit Committee members' experience on the financial failure of public shareholding companies listed on the ASE market.

In order to test the validity of the hypothesis at the indicative level ( $\alpha=0.05$ ), regression analysis has been used, and the results of the following table show this.

Notes from the data in Table 10, the calculated value (Beta) was (-0.166), and the indicative level (P) was (0.331), greater than 0.05. It requires rejection of the hypothesis.

Table (10) indicates that the value of the Variance Inflation Factor (VIF) is 1.21, which is less than 5. It suggests that there are no issues with collinearity statistics.

The results of this study were consistent with those of Ekapol and Hensawang (2022), while they conflicted with the findings of (Fuad, 2017) and Salloum et al. (2014).

H4- There is an impact of the number of audit committee members' meetings on the financial failure of public shareholding companies listed on the ASE market.

In order to test the validity of the hypothesis at the indicative level ( $\alpha=0.05$ ), regression analysis has been used, and the results of the following table show this.

Notes from the data in Table 10, the calculated value (Beta) was (0.007), and the indicative level (P) was (0.972), greater than 0.05. It requires rejection of the hypothesis.

Table 10 shows that the value of the internal association (VIF) is 1.31, which is less than 5, indicating no problems with collinearity statistics.

The outcome of the study was similar to that of a study (Abudik, 2022) and a study (Fuad, 2017), and the outcome of the study conflicted with that of a study (Khalid et al., 2020) and a study (Salloum et al., 2014).

H5- There is an impact that the ownership of members of the AC focuses on the financial failure of public shareholding companies listed on the ASE market.

In order to test the validity of the hypothesis at the indicative level ( $\alpha=0.05$ ), regression analysis has been used, and the results of the following table show this.

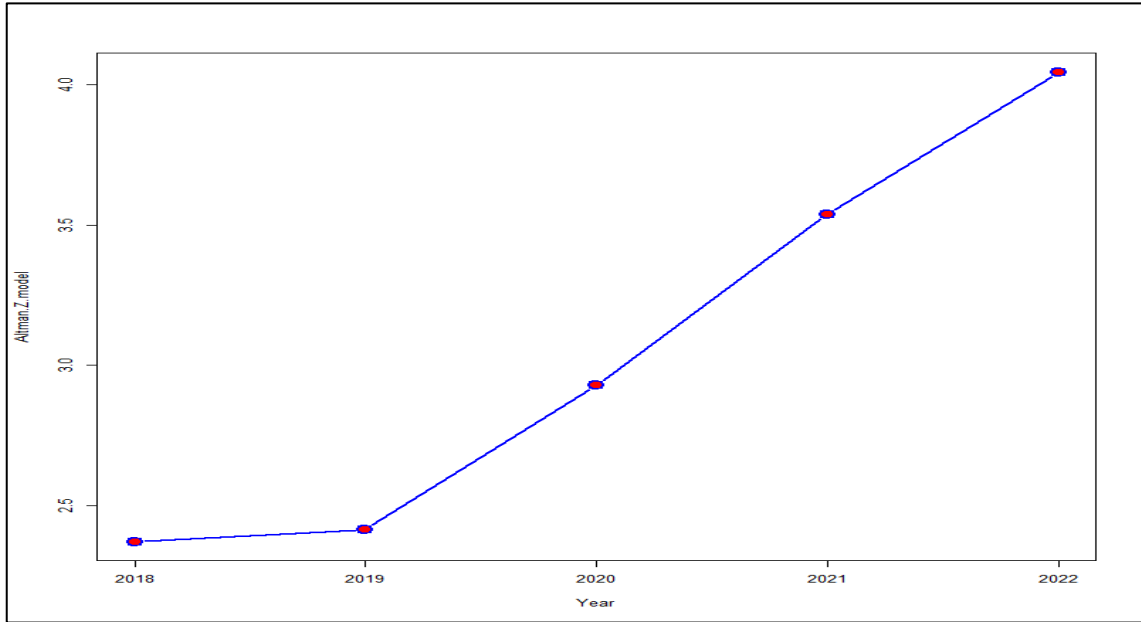
Notes from the data in Table 10, the calculated value (Beta) was (0.166), and the indicative level (P) was (0.433), greater than 0.05. It requires rejection of the hypothesis.

Table 10 shows that the value of the internal association (VIF) is 2.19, which is less than 5, indicating no problems with collinearity statistics.

The outcome of the study was similar to that of a study (Ekapol & Hensawang, 2022), and the outcome of the study conflicted with that of a study (Abudik, 2022).

**Figure (3)**

*Trend of Altman from 2018 to 2022 in ASE*



H1- There is an impact of the number of members of the Audit Committee on the financial failure of the public shareholding companies listed on the PEX and ASE markets.

In order to test the validity of the hypothesis at the indicative level ( $\alpha=0.05$ ), regression analysis has been used, and the results of the following table show this.

Notes from the data in the previous table (11) in appendix (A) show that the calculated value (Beta) was (-0.187) and the indicative level (P) was (0.252), greater than 0.05. It requires rejecting the hypothesis.

The model's interpretative power is the determining factor by an R-squared ( $R^2$ ) value of 0.398 and an adjusted R-squared ( $AR^2$ ) value of 0.319 , which means that the independent variable explains the amount (31.9%) of the dependent variable.

Table (11) in appendix (A) shows that the value of the internal association (VIF) is 1.41, which is less than 5, indicating no problems with collinearity statistics.

The outcome of the study was similar to that of a study (Abudik, 2022), (Salloum et al., 2014), (Fuad, 2017), and the outcome of the survey conflicted with that of a study (Ekapol & Hensawang, 2022), (Khalaf & Belkadi, 2021).

H2-There is an impact of the independence of the Audit Committee members on the financial failure of public shareholding companies listed on the PEX and ASE markets.

To test the validity of the hypothesis at the indicative level ( $\alpha=0.05$ ), regression analysis has been used, and the results of the following table show this.

Notes from the data in the previous Table (11) in appendix (A) show that the calculated value (Beta) was (0.126) and the indicative level (P) was (0.184), greater than 0.05. It requires rejecting the hypothesis.

Table (11) in appendix (A) shows that the value of the internal association (VIF) is 1.24, which is less than 5, indicating no problems with collinearity statistics.

The study's outcome was similar to that of Salloum et al. (2014) and (Fuad, 2017), but it conflicted with the outcomes of (Abudik, 2022) and (Lou & Rafi , 2019) .

H3-There is an impact of Audit Committee members' experience on the financial failure of public shareholding companies listed on the PEX and ASE markets.

In order to test the validity of the hypothesis at the indicative level ( $\alpha=0.05$ ), regression analysis has been used, and the results of the following table show this.

Notes from the data in the previous Table (11) in appendix (A) show that the calculated value (Beta) was (-0.303) and the indicative level (P) was (0.004), less than 0.05. It requires acceptance of the hypothesis.

Table (11) in appendix (A) indicates that the value of the Variance Inflation Factor (VIF) is 1.33, which is less than 5. It suggests that there are no issues with collinearity statistics.

The outcome of this study was consistent with the findings of previous research (Salloum et al., 2014; (Fuad, 2017) but conflicted with the results of another study (Ekapol & Hensawang, 2022).

H4- There is an impact of the number of audit committee members' meetings on the financial failure of public shareholding companies listed on the PEX and ASE markets.

In order to test the validity of the hypothesis at the indicative level ( $\alpha=0.05$ ), regression analysis has been used, and the results of the following table show this.

Notes from the data in the previous Table (11) in appendix (A) show that the calculated value (Beta) was (-0.054) and the indicative level (P) was (0.635), greater than 0.05. It requires rejecting the hypothesis.

Table (11) in appendix (A) indicates that the value of the Variance Inflation Factor (VIF) is 1.67, which is less than 5. It suggests that there are no issues with collinearity statistics.

The outcome of this study was consistent with the findings of previous research (Abudik, 2022); (Fuad, 2017) but conflicted with the results of other studies (Salloum et al., 2014); (Khalid et al., 2020).

H5- There is an impact that the ownership of members of the Audit Committee focuses on the financial failure of public shareholding companies listed on the PEX and ASE markets.

In order to test the validity of the hypothesis at the indicative level ( $\alpha=0.05$ ), regression analysis has been used, and the results of the following table show this.

Notes from the data in the previous Table (11) in appendix (A) show that the calculated value (Beta) was (0.041) and the indicative level (P) was (0.784), greater than 0.05. Thus, rejecting the hypothesis.

Table (11) in appendix (A) indicates that the value of the Variance Inflation Factor (VIF) is 1.15, which is less than 5. It suggests that there are no issues with collinearity statistics.

The results of this study were consistent with those of a previous study (Ekapol & Hensawang, 2022), while they conflicted with the findings of another study (Abudik, 2022). See Table (12) in appendix (A)

### 3.8 Additional analysis

See table (13) in appendix (A) The descriptive statistical table illustrates the general characteristics of the study sample, consisting of 220 observations. The results showed that the overall mean of the financial stability index (Z-score) was 0.09, indicating an acceptable level of stability for most companies. The results also showed that audit committees are characterized by a high degree of independence (ACIND = 0.981), with an average size of approximately three members (3.17) and an annual number of meetings close to four and a half meetings (4.46). The proportion of members with financial expertise reached about 39% of the total members, reflecting a moderate diversity in financial expertise within the committees. Regarding financial performance, companies showed significant variation in return on assets (ROA), reflecting clear differences in operational efficiency and profitability among the companies. The WC ranged between 10.08 and 18.80 in natural logarithm units, with an average of 15.55, while the average financial leverage was 0.15, indicating a relatively low reliance on debt financing,

See table (14) in appendix (A) The correlation matrix table illustrates the relationships between the variables under study. The results indicate a relatively strong positive relationship between financial stability (Z-score) and return on assets (ROA), with a value of (0.555), reflecting that improved financial performance of companies is associated with a higher level of financial stability. Conversely, a moderate negative correlation is observed between the Z-score and WC (-0.499), which may suggest that larger companies are more exposed to financial risks or follow different financing policies that reduce the degree of financial stability. There is also a weak negative relationship between the Z-score and leverage (-0.190), which aligns with theoretical expectations that high debt levels may reduce financial stability. Regarding the characteristics of the audit committee, the results showed that the correlation between the number of committee meetings (AC MEET) and the Z-score was a weak positive (0.188), indicating a limited role of committee meetings in improving financial stability. Meanwhile, the correlations of committee independence (AC IND), committee size (AC S), and financial expertise of members (AC FE) with the Z-score were very weak, suggesting that the impact of these factors may be indirect or dependent on mediating variables,

See table (15) in appendix (A) The results indicate that the independence of the Audit Committee (ACIND) and , the size of the Audit Committee (ACS) has a negative and no significant effect with the z-score. the number of Audit Committee meetings (ACMEET) no significant effect with the z-score. and the financial expertise of its members (ACFE), they showed statistical significance, affect the financial stability of the companies in the studied sample. The return on assets (ROA) had a positive and highly significant effect at the 1% level, indicating that more profitable companies enjoy higher z-scores, meaning better financial stability. As for WC, it showed a negative and significant relationship with the z-score, suggesting that larger companies may be more exposed to financial risks, possibly due to the complexity of their operations and the diversity of their activities. Regarding leverage, it exhibited a positive and significant relationship, meaning that companies that rely more on debt financing may achieve higher z-scores, which could reflect effective financial management or the investment of debt in high-return activities. In general, the value of the coefficient of determination ( $R^2$ ) reached about 0.48, indicating that the model explains a good proportion of the variance in the Z-score.

## **Chapter Four**

### **Result and Recommendation Research**

#### **4.1 Results**

Based on the findings presented in the statistical analysis, the results can be summarized as follows:

The results indicate that the size of the Audit Committee, the independence of its members, the frequency of its meetings, and the ownership of its members do not have a significant effect on the likelihood of financial failure for public shareholding companies listed on the PEX and ASE markets. In contrast, the experience of Audit Committee members has a statistically significant impact on financial failure, highlighting the importance of professional competence and expertise in enhancing financial performance and mitigating potential risks. Furthermore, the Audit Committee places considerable emphasis on financial statements to ensure their reliability and fairness, reflecting its critical role in promoting financial transparency and safeguarding shareholders' interests. The quality of financial reporting, and adherence to regulatory compliance also play essential roles in reducing financial risks and improving overall corporate governance. These results collectively underscore the multifaceted responsibilities of the Audit Committee in supporting sustainable financial stability and protecting stakeholder value.

#### **4.2 Recommendations**

Based on the results, the researcher recommends the following:

The study recommends the necessity of educating companies about the importance of the Audit Committee and its characteristics, as understanding these attributes is essential for reducing or avoiding financial failures. It is also crucial to enhance corporate disclosure regarding the characteristics of Audit Committees, including age, educational qualifications, experience, professional certifications, and ownership percentages, in order to promote transparency and accountability. Furthermore, the establishment of a competent body within Audit Committees affiliated with the Capital Market Authority is highly recommended to ensure effective and independent oversight. The Audit Committee must also operate efficiently and effectively in performing its duties, with a

focus on implementing best practices in financial monitoring. Finally, the study emphasizes the importance of educating companies on compliance with corporate governance regulations and the laws governing corporate operations, thereby strengthening adherence to legal requirements and safeguarding shareholders' rights.

### **4.3 Future Research**

1. Conducting a study on the effectiveness of audit committees in mitigating financial failure.
2. Use alternative financial failure models to assess financial failure and compare the findings with the results of this study.
3. Conduct a study on various sectors, such as services, investment, banking, and insurance, to examine the characteristics of audit committees within each sector.
4. Utilizing additional variables to characterize the Advisory Committee (AC), including the ages and fees of its members, as well as modifying the membership and legal qualifications of AC members.

### **4.4 Limitations**

One of the primary limitations of the study is the lack of availability and the difficulty in obtaining data, particularly regarding the characteristics of audit committees and the information required to assess financial failure.

## List of Abbreviations

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<b>Abbreviation</b>	<b>Meaning</b>
PEX	Palestine Stock Exchange
ASE	Amman Stock Exchange
IV	Independent Variable
DV	Dependent Variable
CV	Control Variable
AC	Audit Committees
IAC	Independence of audit committee members
EAC	Experience and qualifications of audit committee members
MAC	Audit committee meetings
NAC	The number of audit committee members
OAC	Ownership concentration of audit committee members
ROA	Return on assets
LE	Leverage
WC	Working capital
FF	Financial Failure
CG	corporate governance
FR	financial reporting
BOD	Board OF Directors

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## Appendices

### Appendix (A)

#### Tables

**Table (11)**

*Linear Regression Analysis for PEX-ASE*

Variable	Fixed effect regression model			Random effect regression model			R2	AR2	Ph test	VIF
	Beta	SD	P	Beta	SD	P				
NAC	-0.215	0.165	0.195	-0.187	0.163	0.252	0.398	0.319	0.923	1.41
IAC	0.145	0.095	0.132	0.126	0.094	0.184				1.24
EAC	-0.29	0.105	0.007	-0.303	0.104	0.004				1.33
MAC	-0.063	0.113	0.577	-0.054	0.113	0.635				1.33
OAC	0.063	0.15	0.678	0.041	0.149	0.784				1.67
ROA	0.765	0.181	0.001	0.79	0.178	0.001				1.15
LEV	-1.031	0.199	0.001	-1.028	0.197	0.001				1.38
WC	-0.037	0.104	0.72	-0.043	0.103	0.675				1.24

**Table (12)**

*Summary of the Impact of AC Characteristics on FF in PEX, ASE*

Impact	NAC	IAC	EAC	MAC	OAC
PEX, ASE	Reject - no sig.	Reject - no sig.	Accept - sig.	Reject - no sig.	Reject - no sig.
PEX	Reject - no sig.	Reject - no sig.	Reject - no sig.	Accept - sig.	Accept - sig.
ASE	Reject - no sig.	Reject - no sig.	Reject - no sig.	Reject - no sig.	Reject - no sig.

**Table (13)**

*Descriptive Statistics*

Variable	Obs	Mean	Std. Dev.	Min	Max
z score	220	0.09	0.231	-0.353	0.452
ACIND	220	0.981	0.076	0.667	1
ACS	220	3.168	0.607	2	7
ACMEET	220	4.455	1.221	1	9
ACFE	220	0.392	0.263	0	1
ROA	220	1988565.5	11759220	-51763454	52865122
WC	220	15.546	1.796	10.079	18.798
leverage	220	0.15	0.2990354	0.05	0.73

**Table (14)****Matrix of correlations**

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) z score	1.000							
(2) ACIND	-0.121	1.000						
(3) ACS	-0.125	0.020	1.000					
(4) ACMEET	0.188	0.060	0.334	1.000				
(5) ACFE	-0.004	0.195	0.010	-0.099	1.000			
(6) ROA	0.555	-0.042	-0.062	0.213	0.001	1.000		
(7) WC	-0.499	0.001	0.044	-0.196	-0.008	-0.323	1.000	
(8) leverage	-0.190	0.044	0.064	-0.019	-0.018	-0.151	0.688	1.000

**Table (15)***Linear Regression*

VARIABLES	z_score
ACIND	-0.316*** (0.109)
ACS	-0.4311** (0.0189)
ACMEET	0.0918 (0.0114)
ACFE	0.0206 (0.0515)
ROA	7.68e-09*** (1.25e-09)
WC	-0.0656*** (0.00796)
leverage	5.35e-09*** (1.43e-09)
Observations	220
R-squared	0.48



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## الملخص

هدفت هذه الدراسة الى التعرف على أثر خصائص لجنة التدقيق على الفشل المالي للشركات وتكونت متغيرات الدراسة من متغير مستقل وهو خصائص لجنة التدقيق والتي تتكون من استقلالية اعضاء اللجنة وعدد اعضاء اللجنة وتكرار الاجتماعات والخبرة وتركز ملكية اعضاء اللجنة والمتغير التابع هو الفشل المالي للشركات وتم قياسها باستخدام نموذج التمان والمتغير الضابط العائد على الاصول والرافعة المالية وراس المال العامل ومن اجل الوصول الى نتائج الدراسة تم استخدام المنهج الوصفي التحليلي لفحص الفرضيات وتكونت عينة الدراسة من الشركات الصناعية المدرجة في بورصة فلسطين وعمان، وتم اختيار البيانات خلال فترة الدراسة من 2018-2022.

وتوصلت الدراسة الى النتائج التالية أن عدد اعضاء اللجنة واستقلالية الاعضاء وتكرار الاجتماعات وتركز ملكية الاعضاء لا يوجد لها تاثير على الفشل المالي للشركات، بينما يوجد تأثير سلبي لخبرة اعضاء لجنة التدقيق على الفشل المالي اي كلما زادت خبرة اعضاء لجنة التدقيق قلت احتمالية الفشل المالي للشركات . وبناء على النتائج السابقة توصلت الدراسة إلى ان لجنة التدقيق لا تقوم بدورها بكل كفاءة وفاعلية للحد من الفشل المالي ولا يوجد التزام من قبل اللجنة في قوانين وقواعد حوكمة الشركات ومما يجب على الشركات الالتزام بتطبيق قواعد حوكمة الشركات والقوانين والانظمة والتعليمات الخاصة في تنظيم عمل الشركات وخاصة التي تتناول خصائص لجنة التدقيق ويجب الاهتمام في لجنة التدقيق وفي اعضاء اللجنة لما لها من

دور مهم في الحفاظ على الشركة حتى لا يتم تقديم معلومات مالية مضللة لأصحاب المصالح والتي قد تؤدي الى اتخاذ قرارات تؤثر سلبا على الشركة ووجود لجنة تدقيق فعالة تجعلها تقدم بيانات مالية تتمتع بالثقة والمصداقية وتعتبر بعادلة.

**الكلمات المفتاحية:** خصائص لجنة التدقيق، الفشل المالي، بورصة فلسطين وعمان.