



An-Najah National University
Faculty of Graduate Studies

**THE EFFECT OF THE AUDIT COMMITTEE
CHARACTERISTICS ON THE EXTENT OF
VOLUNTARY DISCLOSURE IN PALESTINE:
ASSESSING THE MODERATING EFFECT OF
CORPORATE GOVERNANCE**

By
Farah Nabeel Sleem

Supervisor
Dr. Islam Abdeljawad

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**By
Farah Nabeel Sleem**

This thesis was Defended successfully on 05/09/2024, and approved by:

Dr. Islam Abdeljawad
Supervisor


Signature

Dr. Raed Iriqat
External Examiner


Signature

Dr. Mofeed Thaher
Internal Examiner


Signature

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Declaration

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

THE EFFECT OF THE AUDIT COMMITTEE CHARACTERISTICS ON THE EXTENT OF VOLUNTARY DISCLOSURE IN PALESTINE: ASSESSING THE MODERATING EFFECT OF CORPORATE GOVERNANCE

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

Student's Name:

_____ فوج بنيل سيلم

Signature:

_____ 

Date:

_____ 5 / 9 / 2024

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THE EFFECT OF THE AUDIT COMMITTEE CHARACTERISTICS ON THE EXTENT OF VOLUNTARY DISCLOSURE IN PALESTINE: ASSESSING THE MODERATING EFFECT OF CORPORATE GOVERNANCE

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Abstract

This study seeks to investigate how Audit Committee (AC) and Corporate Governance (CG) influence the extent of Voluntary Disclosure (VD) in Palestine considering transparency and disclosure as fundamental pillars of CG system. In. It aims to investigate this conflict of interest by investigating what are the possible factors that influence the extent of voluntary disclosure in Palestine.

It has been conducted on non-financial sectors in Palestine including 36 companies from 2009-2021. The analysis has been conducted by using multiple linear regression of Ordinary Least Square method (OLS) by using three models. AC effectiveness, CG effectiveness and VD index data were collected from disclosures on annual reports using a checklist. To begin with, the effect of AC on the extent of VD has been investigated as well as the effect of CG on the extent of VD, and the interaction term between AC and CG on the extent of VD. It has been found that AC and GG have direct influence on VD,; however, this impact is moderated by CG as the interaction term between AC and CG positively affect the extent of VD.

This Study recommends that companies in Palestine adopt more voluntary disclosure practices, given the unique economic challenges posed by the Isreali occupation. Additionally, fostering stakeholder engagement through platforms for information sharing can enhance transparency and accountability. Introducing incentives for transparency practices and regularly evaluating corporate governance and disclosure methods are also critical for ensuring compliance and identifying areas for improvement.

Keywords: voluntary disclosure, investigation committee, annual reports, transparency and accountability, corporate governance

Chapter one

Introduction

1.1 Preface

Corporate financial disclosure is very important in today's business environment because it helps firms to gain greater market share (Akhtaruddin & Haron, 2010). Agency and information asymmetry problems remain significant concerns for companies; however, many solutions were suggested to mitigate the impact of these problems. For example, Healy and Palepu (2001) argued that transparency and monitoring by the board helps in reducing agency problem. Also, Ho and Wong (2001) viewed disclosure as the best tool to link the gap between shareholders and managers.

According to Nasir (2004), financial disclosure can be classified into two types, namely: mandatory and voluntary. The former includes financial information required by accounting regulators while the latter is optional. It means that managers have the free choice to communicate and disclose more information. Disclosure is not only essential for shareholders, but also for stakeholders, like creditors, employees and government (Sweiti & Attayah, 2013). Therefore, voluntary disclosure strengthens the communication and helps to build confidence between corporations and stakeholders (Sweiti & Attayah, 2013).

In response to successive accounting scandals in the USA and other countries worldwide, the USA Congress addressed it by enacting a crucial law known as Sarbanes-Oxley-act 2000 (SOX), which has had a significant impact on the business in US. The Enron scandal was unfolded when the CFO employed a strategy known as off-balance sheet, presenting financial results in healthier appearance through conceal debts and World.Com declaring bankruptcy in 2002 after revealing accounting violations, by the head of internal audit.

After these accounting scandals, the demand for disclosures significantly increased, so there was a heightened emphasis on understanding the various aspects of governance, especially with the rise ACs as their presence became a crucial necessity, drawing considerable attention to CG encompassing various relationships and responsibilities among several parties, ensuring transparency in these relationships (Drogalas et al., 2016). The existence of ACs has emerged a key factor encouraging institutions to

disclose information, thereby enhancing the quality of financial information, ensuring transparency in financial reports, and installing confidence among stakeholders. Additionally, ACs play important role in assisting board of directors in overseeing management's performance as the existence of ACs contributes in solving the information asymmetry problem through continuous supervision of the disclosure process (Drogalas et al., 2016).

According to agency theory, firms are motivated to voluntarily disclose information to lower agency problem leading to lower agency cost because VD acts as evidence that managers are operating effectively to achieve shareholder's goals (Akhtaruddin & Haron, 2010). Furthermore, Agency problem leads to conflict of interest and information asymmetry because of the separation and control, where management have the motivation to achieve its goals rather than shareholder's goals. Akhtaruddin & Haron (2010) suggest that there must be monitoring procedures to mitigate the influence of information asymmetry and agency problem since higher disclosure leads to decrease information asymmetry (Chang et al., 2008).

This study is conducted due to consideration of agency and information asymmetry problems in Palestinian context since Palestine has an emerging economy with unique political and economic conditions. It is characterized by a high degree of political and economic uncertainty, the capital market is not efficient as other countries and the regulatory environment tend to be less mature because of Israeli occupation has imposed movement restrictions and barriers to international trade and economic development (Almusli, 2014).

The Palestinian Stock Exchange (PEX), whose most important goals were to provide a safe environment for the development of investments, was established in 1995. However, the political and economic instability in that period resulting from the failure to reach a comprehensive peace for the Palestinian territories and the Gaza Strip reinforced the problems.

Finally, the majority of Palestinian companies are family owned, and the market is small with a number of dominant firms (Jaradat, 2024). Which exacerbates the agency problem. Consequently, the main question that this study is; what are the possible mechanism that affect the extent of voluntary disclosure in Palestine?

1.2 Problem of the Study

While the previous studies on the determinants of voluntary disclosure have predominantly concentrated on companies in the USA and other developed countries (e.g., Buzby, 1975; Camfferman, 1997; Cerf, 1961; Choi, 1973; Cooke, 1989; Depoers, 2000; Ferguson et al., 2002; Firth, 1979; Frost & Pownall, 1994; Gray et al., 1995; Inchausti, 1997; Malone et al., 1993; Meek & Gray, 1989; Meek et al., 1995; Mitchell et al., 1995; Raffournier, 1995; Turpin & DeZoort, 1998). However, as Samaha and Dahawy (2011) noted, only a limited number of studies have explored disclosure practices in developing economies (Needles, 1997), highlighting the need for more research in such contexts

Talpur, Lizam, & Zabri, (2018). Highlighted that there is a limited understanding of the influence of corporate governance on the association between voluntary disclosure and the existence of audit committee and its effectiveness. Therefore, this study seeks to fill this gap, by investigating the relationship between voluntary disclosure and existence of audit committee with primary focus on how corporate governance might affect and moderate this relationship. To address the objectives of this study, it will be an attempt to answer the following questions:

1. What is the relationship between the efficiency of audit committee and the extent of voluntary disclosure?
2. How does corporate governance influence the relationship between existence of audit committee and the extent of voluntary disclosure?

Therefore, by addressing these questions, this study seeks to provide valuable insights into the relationship between audit committees, corporate governance and the voluntary disclosure landscape.

1.3 Importance of the Study

This study has diverse contributions to various layers of society and different categories. It assists governments and decision-makers in applying governance in their country's laws and systems leading to increased transparency in the market. Governments recognizing the importance of voluntary disclosure enforce policies that encourage such disclosures.

Additionally, VD address the issue of information asymmetry facilitating optimal resource allocation creating a competitive environment in the financial market and urging companies to disclose more to attract investors and reduce the cost of capital. When companies disclose more, this will make it in a stronger position by gaining competitive advantage because it will improve the relationship with customers and investors, and a good reputation in the market (Bolton & Kacperczyk, 2021).

Furthermore, it helps the board of directors in shaping a structure that aligns with the disclosure policy, making companies more aware of the suitable structure that ensures transparency enhancing investor trust. Understanding the significance of having audit committees that safeguard the company from managerial exploitation prompts companies to adopt the right disclosure structures (Al Amosh & Khatib 2021).

When all or most companies adhere to corporate governance, it results in an economic uplift for the entire country (Velashani & Mehdi, 2008). Companies prioritize experienced and competent audit committees because it leads to better strategic planning and risk management. According to (Velashani & Mehdi, 2008), voluntary disclosures also improve a company's image when revealing its social responsibility, appealing to investors and customers, and reducing information asymmetry, which in turn lowers transaction cost.

It also seeks for investor protection, because once the investors invest in a firm, they gain certain rights and powers. All of them including minority shareholders and creditors have the right to receive corporate information because they exposed to risk of exploitation and not receiving the return on investment and to keep returns and profits to themselves instead of returning the money to outside investors (Alyousef, & Alsughayer, 2021).

The finding of this study has the following contributions. To begin with, prior literature and empirical studies focus on only on firm characteristics, and didn't take into consideration the big picture which, includes AC efficiency and BOD in effecting the level of voluntary disclosure. Also, most of the literature has focused on the mandatory disclosure, insufficient attention was given to voluntary disclosure although it is complementary to financial disclosures, and can help investors to take rational decisions by examining where the company is going and its policies, values, vision, etc.

Then, Palestine, as an emerging an occupied country its situation, is more critical and very essential to study it, so our study has contributed in understanding the CG in Palestine. Finally, the finding of this study has implications on Palestinian firms and regulatory authorities, since there is a heavy reliance is placed on CG to enhance transparency and disclosure

1.4 Objectives of the study

The main objective of this study is to analyse and understand the relationships between corporate governance mechanisms, especially, the role of AC, and VD in Palestinian companies. The study seeks to:

1. Investigate how the effectiveness of the audit committee affect the level of voluntary disclosure
2. Examine the role of corporate governance in shaping and moderating the relationship between the audit committee and voluntary disclosure

1.5 The study structure

The structure of this study is as follows: the first section contains the introduction of the study where the study problem and importance are reviewed. The following chapter presents theoretical framework including definitions and discussion of VD theories, reasons and consequences, CG and its importance and AC. Chapter 3 reviews the relevant literature review and hypothesis development. Chapter 4 explains research methodology, data collection and data analysis methods used in this thesis, Chapter 5 discusses research analysis and hypothesis testing. The sixth section previews recommendations and limitations of the study.

Chapter Two

Literature Review and Hypothesis Development

2.1 Introduction

This chapter provides a theoretical framework of voluntary disclosure, discussing the reasons behind VD and consequences of VD. Moreover, it aims to discuss the concept of corporate governance and its importance and how it might differ across the economies. Also, the concept of AC and its importance have been discussed. Chapter two provides a comprehensive understanding of all variables that we are testing in this thesis, also shows hypothesis development. Finally, it outlines the hypothesis development process.

2.2 Voluntary Disclosure

Disclosure means to timely release all relevant information of company performance that may influence investor's decision including positive and negative data. There are two types of information that companies disclose, including: mandatory and voluntary. The former includes financial information related to fiscal year that aims to convey basic information (Ho & Wong, 2001). On the other hand, the latter goes beyond minimum requirement, encompassing areas like corporate social responsibility, forward looking information and strategic plans that reveal company's plans for future unlike, mandatory information that discloses past performance. (Ho & Wong, 2001)

There are many types of voluntary disclosure: total disclosure, social environmental disclosure and intellectual capital disclosure. Each type of which disclosures targets a specific category of investors. The first type helps investors in stock markets in predicting future earnings because this type of information includes all historical and financial information. The second type also serves investor's needs because it discloses deal with strategic and competitive information which are main part of firm's future prospect. Finally, the third type targets stakeholder's need for protects and a proof of firm's legitimacy in its society (Samaha et al., 2015).

The more types of voluntary disclosure the narrower the problem of information asymmetry, so voluntary disclosure is about communication all economic information, whether financial or nonfinancial to create a clear picture and expectations about the

company's financial performance (Mwangi & Mwiti, 2015). Voluntary disclosure depends on company's decision to disclose or not in other words its management's choice to communicate accounting and other information to end users. The management considers the voluntary disclosure useful since it knows more about the company protecting the company legally (Asava, 2013). Moreover, when a company relies on voluntary disclosure, it anticipates a favourable response from investors, the availability of this information allows investors to efficiently allocate scarce resources and help them in assess investment options in way that is more rational. When one company decides to release more voluntary information, others are likely to follow suit by providing and disclosing additional details as this collective action contributes to market efficiency (Mwangi & Mwiti, 2015).

2.3 Motivations of Voluntary Disclosure

Capital Market Transaction Theory

According to a study of Healy & Palepu (2001), when managers want to raise capital by attracting investors, information asymmetry creates a problem for them in attracting capital since they know more information about company more than external investors who will ask for a higher rate of return because of information asymmetry (Velashani & Mehdi, 2008). Consequently, managers have reasons to share more information to bridge this information gap, making it easier and less costly for company to attract external funding. Similarly, Petrova et al. (2012) mentioned that investors demand premium for bearing information risk due to information asymmetry. Therefore, voluntary disclosure can reduce company's cost of capital, attract more investors, and reduced information asymmetry problem.

Corporate Contest Theory

Corporate contest theory is based on fact where board of directors and investors hold manager accountability for company's current performance. Shehata (2014) mentioned that a relationship between CEO turnover and poor stock performance as poor stock performance leads to the risk of hostile takeover that results to high CEO turnover. Therefore, managers prefer to disclose more information to protect their reputation because stock performance is tied with their ability to manage and enhance stock earnings.

Management Talent Signalling Theory

This theory mainly focuses on the problem of information asymmetry and how it can be reduced. That the party possessing more information will signal it to others. (Cotter et al., 2011). Signalling theory states that when managers want to communicate the quality of their company relying on voluntary disclosure to assist investors in making more rational investment decisions. Cotter et al. (2011) points out that high quality companies openly communicate its quality to market without hesitation. However, managers of firms with neutral results have the incentive to disclose positive news, to avoid being suspected of poor performance.

Smart and skilled managers have a greater incentive to disclose more information because the value of the company is determined based on the manager's ability to create a good image for investors of the company in terms of their ability to anticipate and deal with future changes. Marfou et al. (2023) reveals that investors value the company in the market depending on the talents and ability for managers to understand and adapt the continuous economic changes in the company, which encourage investors to have more trust in the company.

Litigation Cost Hypothesis

Litigation cost theory suggest that the fear of being sued influence when and how the managers choose to disclose information. In other words, there are two main effects: the first is the threat of legal action encourage management to disclose more information voluntarily while the second is that litigation cost might reduce manager's incentive to disclose certain types of information specially looking for information. Cotter et al. (2011) noticed that managers tend to disclose bad news about the company's earning earlier, because they think by doing, so they reduce the likelihood of being taken to the court.

Propriety Cost Theory

This theory states that firms do not have the incentive to voluntary disclose because they have concerned that disclosure might damage their competitive in the market (Healy & Palepu, 2001). These studies suggest that firms will not disclose information because of the market sensitivity, like the threat of new entry, or even for the existing

competitors. This theory is unlike the five theories above because it assumes that there is no conflict between managers and shareholders (Shehata,2014)

Political economy theory

This theory is based on the idea that all social, economic and political events are interconnected. (Cotter et al., 2011) defined it as “the social, political and economic framework within which human life takes place”, so it focuses on the concept that business operation must take into consideration the interplay of society and politics (Cotter et al., 2011).From political economy theory, other theories have been developed, which are the stakeholder theory and legitimacy theory

Stakeholder Theory

Stakeholder theory views the organization as an integral part of social system, and system involves various groups that work and collaborate to achieve their goals. They are crucial part of the system because the achievement of organization’s goals cannot be achieved without satisfying stakeholder’s needs and interests. Cotter et al. (2011) elaborates that corporation have stakeholders, that is, groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, corporate actions.

Therefore, in addition, stakeholder theory states that when firm’s management make decisions it must take into consideration stakeholder’s interest which creates incentive for firms to share more and specific information to stakeholders in order to inform them that the firm is complying with their needs and requirements.

2.4 The Main Theory of Voluntary Disclosure

Agency theory

In alignment with Jensen and Meckling’s agency theory, they mentioned that concept of information asymmetry is an important aspect in viewing and understanding the nature of relationship between principals and agents in organization. Therefore, the concept of information asymmetry refers to situation where one-party agents or managers have more information compared to other party or shareholders.

One of the most fundamental challenges in the economy is that entrepreneurial companies are trying to attract household savings, so that they can help them in funding

their new business, however, matching the interest between household saving and entrepreneur is not an easy task. This is because companies know more information about their business, so they may overstate its value, which results in information asymmetry problem, and will by default encourage companies to exploit their savings.

The problem of information asymmetry, calling it "lemon problem" in his study "The market for lemons, quality uncertainty and the market mechanisms" which occurs when one party knows more than the other. Suggesting that half of business ideas in market are good and the other half is bad, the investor is rationale he will make a rationale decision based on his knowledge about a particular company (Panda & Leepsa, 2017).

Nevertheless, here is the predicament: companies know more about their performance more than investors do, so they may overstate bad ideas, so the investors will think that both good and bad ideas are the same making capital market undervalue some good ideas and overvalue some good ideas (Jensen & Meckling, 2019).

Agency problem as mentioned earlier in the literature occurs because investors who invest their money in a business do not run the show because this is management's role. As a result, once the investors invest their money, management is likely to use their money for their own gain, like paying themselves too much, or take decisions that hurt investors like investing in risky projects (Jensen & Meckling, 2019).

This issue can be better explained by agency theory because it is considered one of the oldest and well-known theories in finance. In the literature of the 1960s and 1970s, they refer to agency problem as the problem of risk sharing among parties in the corporation (Panda & Leepsa, 2017).

The problem of agency with its simple definition is as follows: It is based on the existence of the agent responsible for managing the capital and operations of the company, and the owners of shares or capital. In brief, it arises due to the separation of ownership from management, and the pursuit of managers to achieve their own goals, instead of pursuing the basic goal of the institution and it is the maximization of the wealth of the owners.

It is worth noting that the agency problem has many types, including principal agent problem, and it is one of the most famous and widespread types, that occurs between the

owners and the managers, because managers in these type managers are more familiar with and know what is happening in the company. They seek behind their personal interest and compensation maximization (Panda & Leepsa, 2017) This type of conflict between interests occurs because of the lack of adequate oversight from the owners of capital over the work of managers, in addition to the costs and effort to monitor the performance of managers and their decisions.

However, the second type of agency problem, it is widely spread in the developing countries like Palestine because it has a lot of family business companies, which is called principal-principal problem, this type occurs among the owners themselves. In a public shareholding company, there are two types of investors. Investors, who own a large share of the company's shares, and investors who own limited share of company's shares. In short, there is major owners and minor owners. Major owners have more power to vote and make decisions that serve their own interests. In contrast, minor owners face difficulties in protecting their funds and interests (Panda & Leepsa, 2017)

The last type of agency problem exists between creditors and principal; shareholders prefer to invest in risky projects to generate higher gains. If the project succeeds, the creditors will only receive the interest amount and wont share in the profits, however if the projects fail, shareholders will default on debt and won't be able to pay the original loan and interest amount.

2.5 Consequences of Voluntary Disclosure

2.5.1 More efficient markets (EMH)

Studying the characteristics of effective board of directors, audit committee plays curtail role in corporate governance guaranteeing timely and high quality of information and oversee reporting process and ensure transparency and accuracy. In efficient markets, where investors rely on available information to make informed decisions, voluntary disclosure becomes strategic imperative.

The efficient market hypothesis was first developed in the 1960s, suggesting that financial markets are efficient as they absorb and reflect all available information. Later, (Pesaran 2010) contributed to this discussion by introducing the concept of random

walks, which assumes that stock price movements are unpredictable and follow a random pattern, as they are not influenced by past price movements.

The important issue is that this hypothesis discusses is the impossibility of achieving higher than the average return, because all information is equally available to everyone, adding to previous point that it's impossible to achieve higher return using past historical data because all ready all available information reflected in asset or security price (Panda & Leepsa, 2017).

It has three forms, namely: weak, semi-strong, and strong. The weak form of EMH consists of historical prices, and trading volumes that is already reflected in the market, that is why studying past data is not useful for making profitable trades. While the semi-strong form of EMH claims that prices include all publicly available information, which means that it is impossible to achieve higher return because stock prices reflect fast to new information. Finally, the strong form of EMH takes into account all information, public and private information, although it includes private information but it is also impossible to make higher return because stock prices would already reflect these information (Mwangi & Mwiti, 2015).

In addition, many empirical studies have proved that companies with robust governance means having effective board of directors and audit committee are likely to engage more in voluntary disclosure, which enhances market efficiency. (Ho & Wong 2001) proved that there is a positive relationship between corporate governance and voluntary disclosure. In conclusion we have to know that efficient market hypothesis is not a crystal ball for predicting future market moves, it helps us understand the general direction in market, and voluntary disclosure contributes in making the market more efficient.

It involves correcting any misevaluation in the market, because information asymmetry and agency problem impedes allocating resources in capital market. Therefore, management have the incentive to correct this misevaluation by disclosing more, since stock value depends on information available in efficient markets (Velashani & Mehdi, 2008).

2.5.2 Influence the financial decisions of corporation (Pecking order theory)

Information asymmetry significantly influences a company's capital structure and financial decisions, and this relationship is closely tied to both the pecking order theory and voluntary disclosure. According to (Wang et al., 2011), information asymmetry between management and investors is a central driver of the pecking order theory. This theory suggests that companies prefer internal financing first, followed by debt, and use equity financing as a last resort.

(Chen and Chen 2011) explain that companies initially rely on retained earnings to avoid the costs associated with disclosing additional information. When internal resources are insufficient, debt financing is chosen over equity because debt is less costly and signals the company's strong financial health. Equity financing, however, is less preferred because external investors demand higher returns, and it may signal that the company's resources are inadequate, potentially lowering stock prices.

The pecking order theory can be seen as a consequence of voluntary disclosure practices. Increasing voluntary disclosure helps to reduce information asymmetry by providing investors with more transparent and accurate information about the company's financial position. This transparency builds trust among investors and enhances the company's ability to access financing options. For instance, when a company improves voluntary disclosure, it mitigates the negative signals associated with equity financing, thus lowering the reluctance to use this option. Additionally, increased transparency can help companies attract strategic investors and creditors by clarifying their financial health (Wang et al., 2011).

2.6 What is Corporate Governance?

Corporate governance has many definitions depending on the perspective and context. Under narrow definition, the big picture is not complete focusing only on finance aspect, like how the outsider shareholders will protect themselves from the exportation from the insiders, and discusses creditor's rights that are reflected in collateral and bankruptcy laws. Shleifer & Vishny (1997) has defined CG in their seminal review as: "corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting return on their investment". However, the concept of CG can be extended to include other parties not limited to suppliers of finance.

A broader definition of corporate governance can make the big picture more complete and clearer. The head of Cadbury Sir Adrian has defined the CG as: “the system by which companies are directed and controlled” as Cheffins (2013) defined it as:” the complex set of constraints that shape the ex-post bargaining over the quasi rents generated by the firm”

CG can be defined as: “the process of supervision and control...intended to ensure that the company’s management acts in accordance with the interests of shareholders” (Parkinson, 1993, p. 159).

Corporate governance (CG can be classified into two-man categories. The first category is concerned with behavioural pattern, which focuses on the actual behaviours of corporations and how they operate, this pattern can be measured by efficiency, company’s growth, company’s relationship with stakeholders (Claassen, 2006). While the second category is concerned with normative framework referring to the rules and regulations under which company operates, including legal system, financial and labour market. In other words, studying a single country or firm, the behavioural category will be needed because a pattern of behaviour or practices within the same country or firm should be focused on.

This category goes into details of the mechanisms that is used in a specific entity or country, for example, it looks in how a board function the connection between company and other multiple stakeholders. On the contrary, normative framework is used when comparing and investigating differences in two areas, it studies how rules and regulation differs across the countries and how it will likely to influence the behavioural pattern in the firm. In normative framework, the definition of CG makes more sense because it takes into consideration how the difference in framework across the countries will affect the behavioural pattern.

2.6.1 Why Corporate Governance Has Received A lot of Attention Lately?

The world is rapidly changing and evolving, and challenges always exist and ongoing. In 1973, many world conditions have changed to include economic changes resulting from the technological improvement, industrial revolution has affected the corporate governance because the technological improvement has led to excess capacity and declining costs. In 1890s, the capital market contributed in dealing with excess capacity

by depending on merger strategy to absorb the capacity, while in 1980s it played a major role in dealing with excess capacity by leverage acquisition and takeover.

However, in 1800s this era was criticized because of “Robber Barons” that has emerged; they took advantage and exploiting workers, so the way they were accumulate wealth was unethical and unfair. In 1980s, it was criticized due to hostile takeover is when one company seeks to acquire another company against the wishes of the target company's management, the total value of mergers and acquisitions during the 1980s amounted to \$2.6 trillion. Criticisms often lead to public discourse and, in some cases, influence changes in policies or regulations. It is stated in the text that criticisms in both eras eventually led to changes in public policy, including restrictions on the functioning of capital markets. This has also led to an excess of productive capacity, due to excess capacity, companies face the necessity of exiting or withdrawing from the market, is also happening now (Jovanović & Grujić, 2016)

Therefore, Jensen & Meckling (2019) mentioned that there is an urgent need for managers, policy makers, and researchers to understand the magnitude of these forces and their general implications. In other words, what happened in industrial revolution one and two is always happening since there is always a continuous improvement, which emphasize the importance of giving attention to create a strong corporate governance system that has the ability to deal with rapid changes and uncertain events. In this section, previous literature has discussed, to discover how companies are managed because crises are signals and manifestations of many structural reasons of why CG has become a significant element in economic development and a more important policy issue in many countries.

According to Jovanović & Grujić (2016) many reasons were identified, starting with: privatization, when companies used to be owned and controlled by government, then shifted to be privately owned, this changing that occurred in company's structure from being public to be private will be challenge in matters of shifting in ownership and changing finance method. The second reason is technological progress that already happened before in the industrial revolution, new technologies that emerged in 19th century like innovations that includes sewing machine, and high-speed consumer packaging led to a surge in productivity, these all-new technologies has transformed various industries to make old methods outdated.

Hence, Liberalization, which refers to reduce government restrictions, made markets more open and increased competition. Also, price deregulation limited the government role in controlling prices in some industries. Furthermore, globalization that reduced trade barriers, makes governance more complex and more difficult. Also, increasing business volume and the continual growth of financial intermediaries made the mobilization of capital not in the hand of principal owner, due to large volume of business they cannot catch all details the concerns finance methods. Therefore, delegating the responsibility of run the investments, the presence of governance system becomes an urgent matter (Jovanović & Grujić,2016)

In addition, deregulation and reforms by changing in regulations have significantly influence financial environment locally and globally because the established rules of governance have replaced by new ones, which create inconsistency. Finally, the international financial integration has increased, which led to increase in cross border activities, including trade and investment. This has introduced difficulties in CG, as different cultures and practices may clash when companies from different regions engage with each other (Jovanović & Grujić,2016)

2.6.2 How Corporate Governance Varies Between Developing and Developed Countries and the Reasons Behind the Distinctions?

Examining and investigating distinctions in CG between developing and developed countries, and studying business structure and environment in both countries, allows us to gain a deeper understanding of how GC will differ depending on the current state of the country It is because what holds true for developed countries may not necessarily be applicable to developing countries.

Millar et al. (2005) has discussed the differences of CG in emerging markets in Asia and US. The business system in emerging countries includes countries that are in the process of entering the global business environment, including China, Malaysia, Thailand, Indonesia and India, these countries are experiencing rapid economic growth and more participation in international trade, it is structured on relationship system, for example in Thailand and Indonesia, the market is dominated and overseen by the largest 10 families.

This relationship structure will lead to conflict of interest between large shareholders, managers and the minority shareholders, because this kind of business structure raises the risk of minority shareholders being exploited. Hence. Relationship based business system has a higher chance for resource misallocation. This relationship-based system is likely to have lower transparency, however insufficient level of transparency will prevent the company from attract external capital, higher cost of capital (Millar et al., 2005).

Developed countries adopt market-based relationship, or Anglo-Saxon business system, or capitalism system. This system was dominated in the 19th and 20th centuries emphasizing on shareholder value, and often prioritize their interest over other stakeholders as well as on adaptability and responding to market conditions (Millar et al., 2005).

2.7 What is Audit Committee and Its Role in Corporations?

To successfully have strong governance system, two strategies should be relied on according to. The first strategy is external discipline mechanisms such as takeover threat, competition and real market factors the ones discussed previously in this study. However, the second strategy depends on internal mechanisms in the company itself like owner ship structure, board of directors, large shareholders and audit committees (Al-Baidhani, 2014).

Audit committees play important role on many perspectives, including its relationship with internal audit, external audit, board of directors, and management. Audit committee (AC) ensures transparency and integrity in financial reports by reviewing them before approval of the board of directors. In this section, the concept and history of AC and its history will be examined and discussed which will eventually influence the extent of voluntary disclosure (Al-Baidhani, 2014).

Consequently, AC is one of the CG tools or mechanisms that assist in achieving strong CG structure, it contributes in monitor company's management, internal and external auditors to protect and ensure achieving shareholder's goal to increase their wealth (Al-Baidhani, 2014). The success of AC is contingent on its ability to fulfil its oversight responsibility and its relationships with other participants in CG, including board of directors, external and internal audit (Rezaee et al., 2003).

Rezaee et al. (2003) pointed out that, companies in mid-twentieth has voluntarily created ACs to provide effective communication and relationships between board of directors and external audit. Rezaee et al. (2003). states that high quality of CG means that everyone in the company should work together making sure that management actions are align with decision makers (board of directors), and Board of Directors (BOD) are working for achieving owner goals. BOD oversees and ensure that managers are going in the right direction, therefore, BOD and management must work together to ensure that company is following the rules and acting ethically.

The report of the public oversight Board (POB) has stated that the failure of CG in US is due to the failure of board of directors of not making the system operate as it should. The former president of America George W. Bush has mentioned the seriousness of CG, manipulation and fraud problems, by saying:” Through stricter accounting standards and tougher disclosure requirement, corporate America must be made accountable to employees and shareholders and held to the highest standards of conduct” (Rezaee et al., 2003).

The Blue-Ribbon Committee (BRC) came up with three conclusions regards monitor and oversight responsibility of CG, including AC: A) High quality of financial reports can be achieved by open and continual communication among board of directors, AC, internal audit and external audit. B) When CG apply oversight function in financial reports in publicly traded companies this mitigate financial stamen manipulation. C) High quality and transparency of financial reports will increase investor’s trust in capital market.

In addition, the authorized voice for American business has proposed six significant principals of CG: 1) the board of directors should select CEO chief executive officer to manage and supervise other executives and management. 2) Management is responsible for achieving shareholder’s goals, through effective and ethical practices. 3) Management has to prepare financial statements with supervision of board of directors and audit committee. 4) Board of directors and audit committee should hire independent accounting firm for conducting financial statement audit to main integrity and transparency in company’s financial reporting. 5) The independent accounting firm should be independent. In other words, it must not have any personal relationship with

the company being audited. 6) Corporations must deal with their employees in fair and equitable manner (Rezaee et al., 2003)

ACs responsibilities include: making recommendation for BOD, reviewing and oversee financial statements and discuss it with management and independent auditors, issuing an audit report that must be included in company's statements, manage internal audit activities and external audit (Rezaee et al., 2003).

2.7.1 Role of Audit Committee in Corporate Governance

AC, is the main significant mechanism of CG, to mitigate agency problem and improve disclosure, (Ho & Wong, 2001) is consistent with this view agency theory suggest that, the creation of AC is established to reduce information asymmetry, managerial manipulation, and enhancing disclosures (Salehi et al., 2014). AC is a significant part of the firm's monitoring system, so it is considered a crucial component of CG system (Cohen et al., 2002).

The strength of CG is tied with the efficiency of AC, because its responsible for risk assessment and the backbone that ensures that there is no manipulation is exercised by management. (Cohen et al., 2002). The AC oversees financial statement quality (e.g., documented that usually weakness in governance structure is because of low financial statement quality, earning manipulation and fraud (Cohen et al., 2002).

There is a recent demand by investors for more accountability from corporate board and AC; Corporate board means the system by which company is controlled, which includes AC who oversight management and ensure transparency that investors are demanding for (Cohen et al., 2002). Most AC duties and responsibilities are connected directly to AC roles in CG, because the independence of AC, its composition and experience are strongly related to company's CG. AC is a very essential part because all company's stakeholders have relationship with it, even the regulatory bodies.

In 1987, Treadway report has described AC as an effective mechanism for CG; however, companies must review AC's nature and its performance to make sure that it is doing its role appropriately. Al-Baidhani (2014) suggest that there is a positive market reaction when AC has accounting and financial experts. Also, Al-Baidhani (2014) point out that in order to have effective AC that seeks to enhance audit quality,

then external auditors must not provide non-audit services. In addition, Chan & Li (2008) found out that having independence directors for both AC and BOD will increase firm value.

The Sarbanes-Oxley Act of 2002, that was its main purpose to protect shareholders, has an important impact on CG and corporate disclosure as well. If organizations want to be accepted in stock exchange market, they have to adopt and implement good governance, and ACs must play broader role in CG role and must be strongly supported, so good CG can be achieved through the existence of AC.

2.7.2 Audit Committee Role in Internal and External Audit

Internal audit refers to evaluation of company's processes, practices and its actions, its main purpose is providing feedback and assurance to management and the BOD. In other words, the company's operations are effective, financial statements are reliable and it is aligned with acceptable law and standards. However, the scope of internal audit task and role is determined by AC.

The AC is responsible to enhance internal auditor's independence, which means that they are not involved in day-to-day activities, which allows them to provide unbiased judgments. Internal audit provides all necessary information to AC in order to allow AC accomplish its oversight function. While AC supports internal audit's opinions and feedbacks, and bring up any irregularities in management and financial problems as well to BOD after discussing it with internal audit, it is responsible for hiring the head of the internal audit. Hence, they manage the frequency and durations of meetings with internal audit, and make sure that the head of internal audit can communicate always and directly with AC.

AC members should have financial experience because one of its main responsibilities is to monitor financial reporting and internal audit, so they must have the financial or accounting experience to understand any technical issues related to internal audit. The AC takes care of any obstacle or problem that may appear with internal audit, by conducting the necessary investigations and depending on internal feedback (Younus, 2021). The relationship between AC and internal audit has been supported by many studies. Al-Baidhani (2014). assured that independence and having financial experience has a complementary influence on the relationship between AC and internal audit.

AC also has a major role in determining the scope of external audit function that Al-Baidhani, (2016), and (Younus, 2021) indicated that AC chooses external audit by reviewing their proposals, and then gives its recommendations to BOD whom it believes are most suitable to perform external audit. It is also must have direct interference when changing external auditor. In order to protect and preserve shareholders interest, it must review and oversee the nature of work that external auditors are doing, it must evaluate their effectiveness, and ensure that there are no personal relationships between management and external auditors. It also may ask external audit to provide a report of feedback of any disagreement between them and management.

It must make sure that external audit only provides audit services, to prevent any conflict of interest, and to guarantee high quality of audit. Beasley et al.(2009)'s findings focus on very important matters and qualification that AC members must possess, which are, greater governance experience about the best practices and financial reporting standards.

In fact, they have to be more independent, not influenced by management, and having lower stockholding in the company because it contributes in increasing independence. All of these previous qualifications allow the AC to deal with any unfavourable audit reports by external audit, protecting external auditors from dismissal from BOD, by communication and discussions with external audit. That leads to more effective decision making, and preventing knee-jerk reactions like dismissal of external auditors.

In other words, effective AC facilitates the communication between BOD and external audit. Al-Baidhani (2014) also support these findings, they found that when AC is more independent and have financial experience, the company would place a higher value of external audit, because this contributes in improving governance structure.

2.7.3 The Role of Audit Committee in Internal Control and Preventing Fraud in Financial Reporting

Al-Baidhani (2014) has defined internal control as: the system, procedures and policies that the company has established to enhance and maintain the overall health and effectiveness of company, on all aspects and especially the following:

- The financial aspect that relates to the quality and accuracy of financial reports, ensure.
- The compliance of laws and regulations to protect itself from any potential legal issues.
- The efficiency and effectiveness of operations that aim to achieve company's goals and the optimal allocation of resources.

In other words, the internal control is realm and cornerstone for the governance system. However, it is important to emphasize that internal control contributes in mitigate errors and problems, but that does not guarantee the prevention of all errors since it seeks to create a structure that facilities the transparency, communication and increasing the accuracy in financial reports.

AC oversees internal control through the reports that received from management, internal and external audit. it has the right and the power to receive any information at any time, which allow it to make the required investigation about any issue appropriately. AC discusses and communicates any issue with management internal and external audit, and then submits its feedback and reports to BOD, about the discussions, results and recommendations regard the performance of internal control, and its suggestions to maintain efficient internal control system.

The most important responsibility for AC is to monitor and oversee internal control, the importance of internal control has mentioned and indicated in BOD and shareholders may have enquiries regard the performance of internal control, in order to evaluate its effectiveness and efficiency (Al-Baidhani, 2014). External and internal audit assist AC in reporting internal control performance and deficiencies for the concerned authorities.

In other words, to enhance internal control system, AC must monitor and oversee company's financial reports and ensure company's compliance with rules and regulation. Al-Baidhani (2014): suggests a positive relationship between independent AC, and AC with financial and accounting experience are less likely to have problems with internal control Hence, the there is a higher opportunity for fraud to exist when the monitoring on internal control is poorly designed. It is a significant component of internal control system (Asare et al., 2008) The quality of AC performance is crucial

because it directly affect the possibility of existence of fraud in financial statements and management (Beasley,1996).

2.8 What Are the Possible Ways that Help Mitigating Agency Problem?

The literature has discussed possible ways that might the mitigate agency and information asymmetry problems like:

Incentive Contracts

Incentive contracts aim to motivate agents (managers) to act and take the decisions that align with interest of organization including a variety of forms, like shareowner ship, stock option (giving the right to purchase the stock at pre-determined price) and the threat of dismissal (it creates motivation through linking job security to performance) (Milosevic et al., 2015). However, incentive contracts might be expensive, because when unfavourable scenarios happen and the company does poorly, the managers still have the right to get their part of compensation that is the concern when managers are self-dealing and prioritize their interest over what is the best for company.

In addition, Milosevic et al. (2015) suggest that managers strategically plan when to get the option, they plan to get it before the announcement of positive news, because these stocks might become more valuable.

Large Shareholders

The significance of large shareholders lies in the alignment of their interest with the interest of shareholders, and their role in mitigate the agency problem is substantial because of their possession of control and authority, derived from their significance ownership stake in the company. This ownership enables them to actively supervise and oversee management practices to ensure that their interest is consistently given priority. However, the effectiveness of large shareholders role in mitigating agency problem depends on the legal environment. For example, in countries that have sophisticated legal systems, where the rights are well protected, there will be more effective in reducing agency problem. On the contrary, countries with weak legal system, the protection of shareholders right is less robust (Milosevic et al., 2015).

Having large shareholders is healthy and useful but to a certain point because ownership proportions must be taken into consideration to choose the optimal percentage of

ownership. Milosevic et al. (2015) found out those large shareholders who have ownership in the range of 0-5 percent are likely to have positive influence on profitability. The existence of large shareholders is beneficial but at the same time, there are costs associated with it, because sometimes-high ownership leads to entrenchment effect, which will eventually harm the company's performance. On the other hand, spreading ownership can also bring the problems due to difficulty in decision-making process.

Takeovers

The literature revealed the managers resist takeover because they want to safeguard their own personal interests, so shareholders may end up losing because they miss the opportunity of take over and the added value (new strategy, new management, adopt changes for better performance) that they could take advantage of.

Takeover is seen as tool to rapidly concentrate ownership of a company. However, takeover might be expensive, because it might increase agency cost. Therefore, in order to be an effective takeover; there is certain conditions that CG must meet, including: liquid capital market and venerable to political pressures.

Voluntary Disclosure

Voluntary disclosure is one of the most significant solutions to mitigate the extent of agency problem, due to disclosing additional information, which guarantees more transparency and eliminate information asymmetry problem. Saidin et al. (2024). point out that VD aims to provide investors with clear picture about company's current performance and its plans, in this way VD contributes in connecting all stakeholders together. Hence, Koduah (2020). mentioned that VD helps in enhancing company's reputation and attracting new opportunities (Koduah, 2020).. In addition, as mentioned in capital theory it enables firms to attract fund at lower costs (Koduah, 2020).

Corporate Governance

Corporate governance is a system that ensures the flow and access of information for all parties by aligning management's interest with other shareholders since CG has significant role in mitigating agency problem and information asymmetry problem (Hidalgo et al., 2011).

2.9 Literature Review and Development of Hypothesis

CG is a tool and solution to achieve transparency and accountability to all stakeholders, hgclear and accurate information. When there is no sufficient level of transparency in a country, the higher the cost of capital and lowers the chances for country to attract new business. The literature at the beginning has focused to achieve transparency and corporate governance by investing in the internal control of the company such as focusing on the efficiency of audit committees and characteristics of board of directors. However, the level of transparency and corporate governance differs from country to country (Brennan & Solomon, 2008).

Corporate Governance and Voluntary Disclosure

According to Brennan & Solomon (2008), there is a positive relationship between independent directors and financial performance, therefore managerial turnover, the independence of board, CEO duality are considered a crude proxy for measuring board effectiveness. Additionally, Brennan & Solomon (2008) highlights that audit committee and internal audit plays a significance role in achieving transparency, because it works on improving financial reporting quality.

A study conducted by Abdelhaq (2019) on 45 Palestinian firms investigated the impact of board compositions, board committees and firm characteristics on VD, its findings were that firms with lower board size encourage to disclose more voluntary information, because smaller board size will be easily managed according to. It also found that there is no relationship between the portion of non-executive directors and level of VD; they claim that in emerging countries like Palestine, those board members are not truly independent that may have family or friend relationship with insider directors.

Moreover, the findings suggest that CEO duality has negative relationship with level of voluntary disclosure in Palestine. It also found a positive relationship between board size and the level of VD, this is because larger board has a wider variety of experience and knowledge which encourages disclosure practices accountability and transparency, on the other hand, the study suggest that board independence has no influence on the level of VD.

Roodposhti & Chashmi (2011) found a positive relationship between stock market return when board has more outside directors, because outside directors are more

objective. They suggest that firm who has manipulating earnings; usually have CEO, who also serves as board chairperson. Therefore, (Jensen & Meckling, 2019) state that for more effective BOD, it is important to separate CEO and chairperson positions. For board size, some studies suggest that smaller board is more effective because it enhances board control, consistent with this finding. Cohen et al. (2002) found that the likelihood of increasing fraud in financial statements, and arises as BOD size increases. However, other studies suggest that larger size of board reflects more efficiency and experience, which is more effective in protecting the company from failure (Chaganti et al., 1985).

Ramadhan (2014) conducted a study on Bahrain market conducted discussing board composition, AC, ownership structure and voluntary disclosure. It consists of all listed companies in Bahrain 48 companies. It found that there was no significant relationship between voluntary disclosure and the proportion of independent directors. Also, it interpreted the reason behind this result is that independent directors might not involve in decision making process and business. In addition, results show that there is no relationship between CEO duality and voluntary disclosure.

Al-Janadi et al. (2013) examined how internal and external corporate governance mechanisms affect voluntary disclosure (VD) in Saudi Arabia. They found that independent directors positively influence VD, while the presence of family members do not have a negative impact because of their limited presence on boards. Moreover, the study found that board size positively affects VD, but there is a significant negative relationship between the separation of the CEO and chairman roles and VD. The authors suggested that combining these roles develop company's ability to shape its strategies and objectives, this align with stewardship theory, which emphasizes empowering managers and aligning their interests with those of shareholders.

These findings suggest that CG structures influence VD differently across regions.

Given these insights, we propose the following hypothesis:

H1: Corporate governance has a positive relationship with the extent of voluntary disclosure.

Audit committee efficiency and voluntary disclosure

Audit committee has a critical role for many reasons. It guarantees that international accounting standards have been applied, moreover keeps the firm in good image and reputation, that it creates trust and credibility in potential and existing investors. Audit committee is a subpart from the board of director. Exaggeration of profits does not happen in companies that have audit committees. Devi & Seewoo (2011) found that the existence of audit committee is a critical issue must be taken into consideration, because it will affect firm's performance and the degree of voluntary disclosure especially in developed countries.

The audit committee usually consists of the company's board of directors, whose main task is to protect the interests of shareholders and oversee the reporting process. It consists of a group of non-executive managers who are independent, and they have financial and accounting skills. Previous studies agreed that the effectiveness of the audit committee depends mainly on the characteristics of the members of the committee (Ernawati & Aryani, 2019).

Independence is one of the most important elements that increase the efficiency and effectiveness of the audit committee. Independence means the independence of the audit committee from the executive management of the firm (Ernawati & Aryani, 2019). This is to appear not biased towards the views of the executive management and to increase the quality of the financial reports, and to ensure that the managers work for the benefit of the shareholders and protect (Ho & Wong, 2001). More non-executive auditors will decline fraud and wrong and misinformation, which leads to reduce agency problem and increase voluntary disclosure (Ho & Wong, 2001).

One of the basic conditions that must be met in an audit committee is the availability of accounting expertise and qualifications for the members of the audit committee, which enables them to understand many different accounting issues and treat them properly, in accordance with accounting standards (Musallam, 2020). The presence of individuals with accounting skills reduces the risks related to the preparation of financial reports (Musallam, 2020).

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enables them to understand many different accounting issues and treat them properly, in accordance with accounting standards (Musallam, 2020).The presence of individuals with accounting skills reduces the risks related to the preparation of financial reports (Musallam, 2020). Increasing the size of the audit committee increases its effectiveness because this leads to a diversity of experiences for its members and a better ability to perform the tasks assigned to the audit committee, and increases its ability and accuracy in supervising the financial reporting process (Altawalbeh, 2020).

However, other studies in the literature examined that impact of AC attributes on voluntary disclosure, for example, Talpur et al. (2018) studied 146 Malaysian companies and found that effectiveness of AC increase the levels of voluntary disclosure. Although, another study conducted by Altawalbeh (2020). suggested that four AC attributes (size, experience, independence, and meeting frequency) have no influence on voluntary disclosure

Samaha and Dahawy (2011) analyzed the corporate governance structure and voluntary disclosure (VD) in Egypt, emphasizing the role of the audit committee (AC) in enhancing the flow of information and communication between shareholders and management. In a related study, Samaha et al. (2012) found that the presence of an AC positively influences VD levels, identifying it as the strongest predictor and driver of VD.

Ramadhan (2014) suggests that there is no relationship between AC independence and voluntary disclosure, the study consider the reason behind this that the code of CG in Bahrain recommends the existence of AC, who believes that its main responsibilities is to focus on enhancing the communication between BOD and shareholders, it extends beyond putting pressure on companies to increase voluntary disclosure. Also, Altawalbeh (2020) investigated the impact of AC attributes on VD in Jordan from 2013 to 2016 on 72 companies.

It is found out that there is a positive relationship between AC independence and meetings frequency on the extent of VD, which means that independent AC will enhance transparency and increase VD, and increasing the frequency of AC meetings will increase AC effectiveness in its monitoring function. AC size and experience has

no impact on VD. However, Pearson (2009), found that firms that tend to disclose more, have larger independent AC.

The literature presents mixed findings regarding the potential influence of the efficiency of AC on the extent of VD, which varies from country to country according to their rules. However, in this study, we emphasize the role and influence that AC has on the extent of VD.

H2: Audit committee efficiency has positive relationship on the extent of voluntary disclosure.

The Moderating Role of Corporate Governance

In Canada, ACs requirements exist in acts on incorporations. Which states that at least three members of ACs should be independent (outside directors) (DeZoort & Salterio, 2001). They suggest that firms with outside directors, who are independent and objective, tend to voluntarily increase AC strength and effectiveness to reduce information asymmetry problem, also the larger the size of the board the more ability for outside directors to add more outside member to AC.

For increasing AC effectiveness in oversight function, AC members should possess accounting and financial experience and knowledge (DeZoort & Salterio, 2001). Al-Baidhani (2014) found out in their study that when BOD have more outsider director and larger size is to have ACs with more than the mandated minimum required majority of outside directors on the AC which increases AC effectiveness. This study shows us that the effectiveness of AC is tied with the existence and the effectiveness of BOD moderator

Drogalas et al. (2016) examined the relationship between CG, internal audit and AC. CG is important tool because it contributes in economic growth and maintain stable environment, firms that don't adopt CG suffer from higher agency cost, more conflict of interest between managers and shareholders. They found that a strong relationship between AC and CG for example. Bhasin & Shaikh, (2012). has mentioned the importance of AC as tool between auditors and corporate management. CG has an effective role in increasing the quality of financial reporting.

Hence Drogalas et al. (2016) found a positive relationship between AC and CG, because AC plays an important role in facilitating the communication between board of directors and other parties.

H3: Corporate governance moderates the relationship between audit committee and the extent of voluntary disclosure.

Other Determinants of VD

Many control variables should be taken into consideration while studying the effect of AC and CG on voluntary disclosure like profitability, firm's size, growth option, and leverage.

Profitability

The company's desire to disclose increases when it has high profitability levels, for several aspects and reasons, and one of these reasons is to encourage current and potential investors to invest and increase investment in the company. The most important reason is to convince shareholders by disclosing profits that the management is actually working for their interests (Samaha & Dahawy, 2011).

Firm's size

Abdelhaq et al. (2019) found that there is a positive relationship between company size and level of VD. They conducted a study on Italian companies, and the results of his study show that firm size has a significant positive relationship with extent of VD. Also, Akhtaruddin & Haron (2010) found out that firm size has an impact on the extent of VD. Moreover, they suggested that disclosing information would decrease agency cost between company and providers of funds. Hence, they point out that larger firms are smart enough to realize the benefits of VD, for example: greater marketability and easier access to funds.

Growth Option

Market-to-book value is an accounting measure used as an indicator for firm's potential growth, this ratio helps in evaluating firm's growth and reflects investor's expectations about the future. Mendes-Da-Silva & De Lira Alves (2004) in their study measured firm's value using Tobin Q ratio, calculated through taking into consideration the value

of the company in stock market, compared to its book value in balance sheet by deducting value of liabilities from the value of assets. If the Tobin's Q greater than 1 this results in high signal for firm's future growth, which gives the firms greater incentive to strategically disclose more information to build trust and attract more investors.

The literature review has mixed results regard the relationship between growth option and voluntary disclosure. Studies argue that its negative relationship because disclosing more information is first costless, second competitors might take advantage of knowing firm's plans and investors may misunderstand or suspect the intentions of company to provide more information to the market.

However, increasing disclosure helps to increase cash flow to managers by lower the cost of monitoring, lower agency cost which, increases firms' value others suggest to trade-off between the cost and benefits of voluntary disclosure on growth option to decide whether to disclose or not (Hassan & Hijazi, 2015). In this study, it is suggested that there is a positive relationship between voluntary disclosure and growth option. It contributes in creating positive image and trust, protect the firm from litigation cost, which increases investor's loyalty and increases its value in the market.

Degree of Leverage

The degree of leverage and the extent of voluntary disclosure has mixed results. Some believe that there is a positive relationship between leverage and voluntary disclosure (Alturki, 2014). Other suggest that it's not related like (Wang et al., 2011). However, it is believed that negative relationship, exist between leverage and voluntary disclosure. Higher levels of leverage mean higher agency problem, which leads to higher agency cost. Therefore, leveraged firms tend to disclose more in order to guarantee the comfort and trust of creditors (Alturki, 2014).

Chapter Three

Research Methodology

3.1 Introduction

In this section, we are identifying the methodology used in analysing data, clarifying how each variable was measured, it also reviews population and sample, and data collection method. The definition for all variables. This section aims to provide high transparency and detailed techniques employed in the research process.

3.2 Research design

The study uses a correlation research design. This approach allows for objective measurement of variables through numerical data, which ensures accuracy in the analysis. The correlation method is suitable for identifying patterns and relationships among variables, making it most suitable choice for this study.

3.3 Population and Sample

The population for this study consists of all companies listed on the Palestine exchange (PEX) during the period 2009-2021, except banks, total of 36 companies as presented in table (3-1):

Table (3.1)

Summary of the study sample

Industry	Palestine listed companies	year
Manufacturing	14	2009-2021
Service	12	2009-2021
Insurance companies	10	2009-2021
Total companies	36	

3.4 Data collection

To test the hypothesis of the study, time series data were collected from companies' annual reports published on the Palestine Exchange, covering the period from 2009 to 2021. Data on Firm-specific factor were obtained from financial reports, while information on effectiveness of the Audit Committee (AC), Corporate Governance (CG) and Voluntary Disclosure (VD) were gathered from annual report disclosures

using a checklist. This dataset includes a total of 473 observations from 2009 to 2021. For reference, the detailed checklists used in the study can be found in Appendices A, B, and C

3.5 Variables Measurement

3.5.1 The Dependent Variable: Voluntary Disclosure Index

Voluntary disclosure is the dependent variable in this study. VD is essentially based on the information that firms are likely to disclose in its annual financial reports to the shareholders. To measure to what extent firms, disclose and provide information in its annual report to shareholders an index designed to help us measure voluntary disclosure, which is voluntary disclosure index (VDI)

A score sheet is used as shown in appendix A to contribute in measuring voluntary disclosure. This index relies on seven categories that should be taken into consideration, including general company information, corporate strategy, financial performance, employee information, segmental information, corporate governance information, and capital market data. This index was used by Jallad (2020)

It is assumed that indicators mentioned in the index are un-weighted, as Soliman (2013) argue that each indicator in category is equally Therefore, the suitable way to measure the disclosure level of each company is calculated by dichotomous procedure, which assigns one if the firm discloses an item and zero if the firm does not Soliman (2013). suggest that index will be measured as the ratio of actual score divided by the maximum score.

3.5.2 Independent Variables:

In this study, independent variables encompass Corporate Governance Index, which is represented by characteristics and governance attributes and board of directors, and the efficiency of AC.

AC Efficiency

This variable is represented by audit committee index. It was assessed through a checklist compromise of various points of Jallad (2020) that the audit committee index is represented by four points: 1. Company has an AC 2. Chairperson of committee is

non-executive director 3. All members of committee are non-executive director and 4. Chairperson of the board is not the chairman or member of the AC. Assigning a value of 1 if the firm disclose information and 0 if the firm does not disclose it. The index is then calculated by summing the scores and by the total four points.

CG Index

The Corporate governance index used in this study is based on seven criteria outlined by Jallad (2020), which are: 1.chairperson and CEO are two different individuals 2. Chairperson is non-executive director 3. The composition of the board of directors has two independent directors 4. Board has governance committee 5. All directors attend 75% of board meetings or had a valid excuse 6. Company has remuneration committee 7. Board size is greater than 5 but less than 11.

Each criteria is assigned a value of one if the firm disclose information and zero if the firm does not disclose it. The index is then calculated by summing the scores and by the total seven points. Refer to Appendix B&C.

Corporate governance moderating variable

To evaluate the moderating role of corporate governance (CG) on the relationship between the Audit committee (AC) and Voluntary disclosure (VD), and interaction term was developed. This term, designated as (AC x CG), by multiplying the independent variable (AC) with the moderator (CG). This approach is utilized in moderation analysis, as seen in studies by Bepari and Mollik(2015).

3.5.3 Control Variables

The study includes four control variables. The profitability of firm, expressed through return on assets which is calculated by dividing net income by total assets as Cheng & Courtenay (2006) used in their study “ board composition, regulatory regime and VD” This metric serves as indicator of how effectively a firm utilize its resources and assets to generate profits (Amara & Mabrouki, 2019)Firm size is calculated by the logarithm of total assets. Leverage is calculated by the ratio of total debt to total assets which indicates how much money is borrowed that used to increase potential gains or losses in firm.

3.6 The Regression Model

The study aims to empirically test impact of AC, CG and the interaction term between AC and CG on the extent of VD in the annual reports of Palestinian non-financial companies listed in on Palestine exchange between 2009 and 2021, the following multiple regressions were developed:

- Model 1: $VD = C + BAC + BSIZE + B LEV + B ROA + BGTH + e$
- Model 2: $VD = C + B CG + BSIZE + B LEV + B ROA + B GTH + e$
- Model 3: $VD = C + BAC + BCG + BAC * CG + BSIZE + B LEV + B ROA + B GTH + e$

Where VD is the dependent variable

AC: The variable that represents audit committee characteristics

CG: The variable that represents corporate governance

AC*CG: The interaction term of corporate governance and audit committee

SIZE: Represents firm's size

LEV: Represents financial leverage

ROA: Represents profitability

GTH: Growth option

C: constant

E: error term

3.7 Estimation Methods

To empirically test the impact of AC, CG characteristics on the extent of VD in Palestine, various estimation methods were employed.

Starting with descriptive statistics, like mean, median, standard deviation, and range are used to summarize the central tendency, dispersion, and distribution of variables under investigation. This helps in providing a clear understanding of the characteristics of the data and identifying any outlier or patterns.

The correlation matrix is constructed to examine the strength and direction of the relationship between variables. It allows identifying and potential for multicollinearity issues and provides insights into which variables may be significantly correlated to each other. It allows researchers to choose subset of variables that are moderately or weakly

related to ensure that regression focuses on most relevant and independent predictors. In short, it helps ensure that regression analysis produces accurate and meaningful results.

In my study, the researcher will apply the least square method in regression analysis. the researcher chose this method because it effectively estimates the coefficients of the independent variables by minimizing the sum of the squared differences between observed and predicted values of the dependent variable. It provides unbiased and efficient estimates of the coefficients, enabling the interpretation of magnitude and significance of the relationships between variables.

Additionally, the Hausman test is employed to assess the consistency of the estimated coefficients in the presence of endogeneity or correlation between independent variables and error term. This test helps determine whether ordinary least square method estimates are consistent or whether alternative estimation methods, such as instrumental variables or fixed effects, should be considered.

The combination of descriptive statistics, correlation analysis, least square estimations, and the Hausman test allows for comprehensive examination of the relationships between AC efficiency, CG and VD in Palestinian non- financial companies.

Chapter Four

Results and Discussion

4.1 Descriptive Statistics

Descriptive analysis plays an important role in summarizing data and by presenting key characteristics of data including mean median and mode and measure of dispersion like standard deviation and variance.

Table (4.1)

Descriptive statistics

Variable	Mean	Median	Maximum	Minimum	Std. Dev.	Observations
VD	0.385	0.371	1.171	0.000	0.223	473
AC	0.429	0.250	1.000	0.000	0.455	473
CG	0.581	0.571	1.000	0.000	0.238	473
FSIZE	17.186	17.202	20.744	13.618	1.555	473
FLEV	0.381	0.362	1.057	0.000	0.233	473
ROA	0.034	0.050	0.557	-2.632	0.227	473
GTH	0.974	0.928	2.471	0.065	0.372	473

The VD has mean of 0.385, which means that the average percentage of VD in Palestine is 0.385 which is relatively low and inconsistent with previous findings. For example, Almusli, et al (2014) found that the mean of VD is 46%, because she studied only firm determinants and its influence on VD. While Ramadhan (2014) found that VD is 50%, and in Jordan, Altawalbeh (2020) found that the mean of VD is 50%.

Ismail & El-Shaib (2012) investigated organizational determinants of VD in Egypt and found that the mean of VD is 40%, so it is noticed that average of VD is relatively close for developing countries. For AC, it has the mean of 42.9% compared to the study conducted by Agyei-Mensah, (2019) to examine the impact of AC effectiveness on VD, the mean of AC 47.3% which is close to our findings.

Nsour & Al-Rjoub (2022) conducted a study using the following points to measure CG index: board structure, board procedure, disclosure, ownership and minority shareholders rights on 191 companies including bank sector, CG has a mean of 67.8%,

which is higher than Palestinian firms are because Jordan has more developed CG regulations compared to Palestine.

Moreover, the stock market in Jordan has more diversified stocks and Palestine and Jordan have different political and economic environments. Firm size has a mean of 17.18 similar to Jallad, (2020) study which has a mean of 17.14 and Abdelhaq et al (2023) in their study having a mean of 17.62. For leverage has mean of 38%, which means that Palestinian firms rely on 38% of financing its operations, and the rest on equity. For ROA, it has the mean of 0.036, which is very low. In addition, growth option in Palestine is 0.974, which is low because market value of Palestinian firms is below their book value.

4.2 Correlation Matrix

Correlation analysis conducted to examine the bivariate association between variables, if it has a value of -1 this means that there is perfectly negative linear relationship between two variables, and value of 1 means perfectly positive relationship. Correlation matrix investigates the associations between dependent and independent variables, and the independent variables together:

Table (4.2)

Correlation Analysis

Correlation	VD	AC	CG	SIZE	LEV	ROA	GTH
VD	1.000						
AC	0.228	1.000					
CG	0.505	0.354	1.000				
FSIZE	0.141	0.356	-0.057	1.000			
FLEV	0.112	0.235	0.036	0.254	1.000		
ROA	0.031	-0.016	-0.001	0.181	-0.173	1.000	
GTH	0.313	0.140	0.238	-0.053	0.122	-0.033	1.000

In this correlation matrix, I checked the relationships between the variables to assess the risk of multicollinearity, which occurs when explanatory variables are highly correlated with each other. If correlations exceed 0.7, it could undermine the stability and reliability of the regression results. However, in my analysis, none of the correlations

reached this level. The highest correlation was 0.356 between FSIZE and AC, and 0.354 between CG and AC, both of which are quite low.

This suggest that the variables are mostly independent of each other, minimizing the risk of multicollinearity affecting the results. As a results the analysis remain reliable, and the model's robustness is well supported.

4.3 Regression Analysis

This study, a statistical method was employed to investigate the relationships between dependent variable and the independent variables. Specifically, multiple regression analysis was conducted using three models to test three hypothesis. The hypothesis examined the relationship between AC and VD, GG and VD, and the interaction term of CG and AC on VD, alongside control variables (firm size, leverage, growth option and return on assets), using panel OLS fixed effect method.

Fixed effect model was selected based on Hausman test, it was performed to check whether fixed or random effects panel regression was more appropriate to estimate the regression. The Hausman test results shows that P value equals 0.0065, which is less than 0.05 so we reject the null hypothesis and confirming that fixed effect model is more suitable for the analysis. To address potential issues of auto correlation and heteroscedasticity, robust standard errors using the PCSE method were employed, ensuring more reliable results.

Table (4.3)*The impact of AC effectiveness, firm specific factors on the extent of VD*

Dependent Variable: VD_INDEX				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
AC_INDEX	0.094	0.016	5.786	0.000
FSIZE	0.097	0.015	6.341	0.000
FLEV	-0.055	0.055	-0.998	0.319
ROE	-0.033	0.023	-1.413	0.159
MB	0.148	0.027	5.458	0.000
C	-1.438	0.246	-5.842	0.000
R-squared	0.805			
Adjusted R-squared	0.784			
F-statistic	39.090			
Prob(F-statistic)	0.000			
Durbin-Watson stat	0.669			

Total panel (unbalanced) observations: 473
Cross-section weights (PCSE) standard errors & covariance (d.f. corrected)
Cross-section fixed (dummy variables)

In model 1, the regression indicates that audit committee index (AC_index) has a positive and significant effect on voluntary disclosure, with a coefficient of 0.094 and a p-value of 0.000, showing that audit committee efficiency is associated with a 0.094 increase in voluntary disclosure, holding other variables constant. Which supports H2 that indicates: Audit committee efficiency has positive relationship on the extent of voluntary disclosure.. The result aligns with previous study by (Abdelhaq, 2019)and Sweiti et al 2013 who found that the existence of AC has positive impact on the extent of VD in Egypt and Palestine, respectively.

Firm size (FSIZE), shows a positive significant relationship with a coefficient of 0.097, which means that larger firms are more motivated to disclose information voluntarily.

However, financial leverage(FLEV) and return on equity (ROE) don't have significant effect, as their p-values are 0.319 and 0.159 respectively. The market to book ratio (MB) has a strong positive and significant relationship with the extent of voluntary

disclosure, with a coefficient of 0.148, suggesting that firms with greater growth opportunity are likely to disclose more information.

Table (4.4)

The impact of CG and firm specific factors on the extent of VD

Dependent Variable: VD_INDEX				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
CG_INDEX	0.279	0.038	7.412	0.000
FSIZE	0.107	0.014	7.707	0.000
FLEV	-0.018	0.053	-0.338	0.736
ROE	-0.037	0.024	-1.535	0.126
MB	0.111	0.027	4.174	0.000
C	-1.719	0.226	-7.594	0.000
R-squared	0.818			
Adjusted R-squared	0.799			
F-statistic	42.604			
Prob(F-statistic)	0.000			
Durbin-Watson stat	0.860			

Total panel (unbalanced) observations: 473
 Cross-section weights (PCSE) standard errors & covariance (d.f. corrected)
 Cross-section fixed (dummy variables)

In model two, the results indicate that corporate governance index (CG_INDEX) has significant positive effect on Voluntary disclosure index, with coefficient of 0.279 and p-value of 0.000, which support H1

Agency theory suggest that firms choose to voluntary disclose information to mitigate the conflict between shareholders and managers (Alyousef & Alsughayer, 2021)

Other theories like singling and stakeholder theory explain the relationship between VD and CG (Akhtaruddin et al., 2009; Alyousef & Alsughayer (2021) because CG take care of all relationships including stakeholders since the firm is main part of society and should share information to inform stakeholder that firm considers their needs and requirements.

In addition, in Signalling theory; managers seek to disclose more for their reputation and their image that the company rely on their talent in managing its operations. However, agency theory is the stronger explanation for the relationship between CG and VD, because it focuses on the main problem (agency problem), and suggest that CG main purpose is to solve agency problem (Alyousef & Alsughayer, 2021).

For control variables FSIZE and MB have positive relationship with VD. On contrast, ROE and FLEV do not have impact on VD. The findings of control variables align with the results on control variables in model 1

Table (4.5)

The impact of CG, and firm specific factors on the relationship between AC effectiveness and VD

Dependent Variable: VD_INDEX		Model 3		
Variable	Coefficient	Std. Error	t-Statistic	Prob.
AC_INDEX	-0.073	0.040	-1.814	0.071
CGBOD_INDEX	0.179	0.045	3.938	0.000
AC_INDEX*CGBOD_INDEX	0.210	0.068	3.088	0.002
FSIZE	0.097	0.014	6.792	0.000
FLEV	-0.025	0.052	-0.483	0.629
ROE	-0.039	0.024	-1.627	0.105
MB_NEW	0.098	0.027	3.706	0.000
C	-1.493	0.232	-6.433	0.000
R-squared	0.824			
Adjusted R-squared	0.805			
F-statistic	42.452			
Prob(F-statistic)	0.000			

Total panel (unbalanced) observations: 473
Cross-section fixed (dummy variables)
Cross-section weights (PCSE) standard errors & covariance (d.f. corrected)

In model 3 we examine the moderating role of corporate governance and its effect on the relationship between audit committee and voluntary disclosure. In model 3, the coefficient for AC index is -0.073 (p =0.071), indicating a negative relationship with

VD. This means that the interaction term has absorbed the variations of the AC variable, indicating that AC alone is not a crucial factor in increasing the VD. Rather, it is the combination of AC with CG that influence VD positively. While CG maintains a positive relationship of 0.179 with VD, this underscores the curtail influence of CG on VD, compared to AC alone.

The relationship between AC and VD is not consistent across the model one and model 3 because of the existence of the interaction term between AC index and CG index that has significant positive relationship with VD of 0.210, which supports H3.

The shift and change in the direction and significance of AC index between the two models; means that corporate governance is likely influences the relationship between Ac and VD. The characteristics of AC alone is not the main point in increasing VD without the support from CG. According to agency theory, our results are consistent because, information asymmetry and agency problem can be mitigated through implementing of good governance system. In addition, because AC and board of directors are internal mechanisms of CG (Alyousef & Alsughayer, 2021).

This means that there are two scenarios or two perspectives for companies. In model one it suggests a positive impact of AC index on VD, which match with our hypothesis that the existence of audit committee and its characteristics has positive relationship on the extent of voluntary disclosure, so the impact of AC in model one is sufficient for promoting VD.

However, in model three AC index is not significant, because of the interaction term (the joint influence of corporate governance and audit committee), which means in model three AC alone is insufficient for encouraging VD. In other words, the impact of AC in model two depends on the level of corporate governance.

The results are consistent with, Rezaee et al. (2003) point of view, they state:” The success of audit committees in fulfilling their oversight responsibility depends on their working relationships with other participants of corporate governance, including the board of directors, management, external auditors, internal auditors, legal counsel, professional advisors, regulators, and standard-setting bodies”.

The statement and my results in model three: emphasize the AC plays a significance role is monitoring and overseeing corporate activities and improving disclosure

practices, however, the effectiveness of AC alone may have limitations, the intervention CG mechanisms is essential to guarantee the success of AC in fulfilling its oversight responsibility, and increasing voluntary disclosure.

Another explanation, which is consistent with Al-Janadi et al., (2013) point of view that AC may not have the enough experience to meet the requirements of stakeholders for more VD, and focus on the tradition responsibilities to ensure internal control and the quality of financial reporting.

Also, Al Amosh & Khatib (2021) in their study in Jordan also point out that AC has no impact on the extent of VD because the objectives of AC do not align with stakeholders. Therefore, the intervene of CG moderate the relationship to reveal that in model 3 AC alone is in sufficient, because in model two CG moderate the relationship, because the power, knowledge and experience that AC has to learn is tied with good implementation of CG.

Our findings are consistent with Rezaee et al. (2003) who suggest that ACs alone are not effective enough and powerful to solve disputes with management, moreover, the composition of AC is determined by board of directors that Cohen et al., (2002) and AC effectiveness is also related to board composition (Cohen et al., 2002). In addition, according to agency theory, aligning the goals and interests of managers and shareholders can be achieved by strong CG, by establishing strong board of directors because they represent shareholders and sub committees like AC, compensation committee and nomination committee. Second by encouraging transparency by disclosing financial and non-financial information will mitigate the intensity of agency and information asymmetry problem (Elfeky, 2017).

The impact of the interaction term of (AC &CG) shows that they have complementary associations because AC alone cannot take control and guarantee higher VD. For example, board of directors provide guidance and information to support AC, and AC takes daily information from management, and interact with other committees (Cohen et al., 2002), The Audit Committee is an integral part of the Board of Directors and is one of its subcommittees. It has a role and great importance, as we discussed previously in the theoretical framework, but this role is enhanced by the combined effect of both

corporate governance and the Audit Committee in increasing disclosure and reducing the agency problem.

Cohen et al., (2002) point out that strong CG has positive impact on increasing AC effectiveness, by implying strong CG, which guarantee that company's operations are under control. Having timely and accurate financial reporting, and establish strong system to asses and identify possible threats and risks leads to lower uncertainty and auditors and perceives lower business risk which will increase their trust. Strong CG will lower control risk judgment; this will make AC have greater confidence in internal control implemented in the company.

Moreover, Cohen et al., (2002) tried to explain the link between CG and AC, they mentioned that AC is a significant part of CG system, therefore AC must collaborate and work with other parties in CG mosaic, to achieve shareholder's goals

Moving to control variables, firm size in model one, two and three has a significant positive relationship between FSIZE and the extent of voluntary disclosure, this is consistent with stakeholder theory that large firms have more pressure from stakeholders to disclose more information (Abdelhaq, 2019).

However, the coefficients of Lev in model one, two and three is not significant, resulting that there is no relationship between firm leverage and extent of VD. ROA also in model one, two and three is not significant which means that there is no relationship between ROE and VD. According to Signalling theory, Cotter et al. (2011) argued that companies with bad news will avoid disclosing it because market reacts more to bad news than good news. On the other hand, it might because of the threat of knowing the competitors more information about the company's situation.

An Italian study, conducted by Allegrini & Greco (2013), examined the impact of corporate board and AC on voluntary disclosure, Italy market tends to be less developed, Allegrini & Greco (2013) noticed that Italian companies have controlling shareholders; they also state that dominant shareholders prioritize their own interests and expropriate other stakeholders.

The results have examined that profitability and leverage are not significant, which mean that they don't have impact on the VD, which supports the results in my study,

because Italy and Palestine are both less developed and tend to have dominant shareholders, and more family business. In addition, this study's results are consistent with Abdelhaq, (2019) who also found a negative relationship between financial leverage and VD, they suggest that firms tend to be more conservative in disclosing voluntary information because of the higher risk that associated of having higher financial leverage.

Firm's growth, the results in model one, two and three show a positive significant relationship between VD and AC, the results is consistent with a study done by Mendes-Da-Silva & De Lira Alves (2004), the study shows a positive relationship between firm's value and voluntary disclosure.

Model one, two and model three has shown high R squared values (0.805, 0.818 and 0.824, respectively), which means that a substantial percentage in VD can be explained by the variables in the model.

4.4 Summary and Conclusion

In this study, the extent of VD in Palestinian annual reports from 2009-2021 was investigated examining the efficiency of AC, efficiency of CG, and the joint effect of AC and CG, and other factors like firm characteristics on the extent of VD.

Samaha et al. (2015). conducted a study on the impact of board and audit committee characteristics on voluntary disclosure, they noted that there is an association between board size, CEO duality and audit committee characterizes on voluntary disclosure, which similar to our study here. It is noted a positive relationship CG and VD in both models.

In model one, a positive significant relationship between AC and VD, however in model three AC is not significant, model three emphasize on the importance of both AC and CG on the extent of VD.

This means that companies have two approaches to follow regard promoting VD disclosure. The first approach the company, which recommends to focus on strengthen the AC because it has positive influence on the extent of VD, on the other hand, the second approach encourages to implement more comprehensive approach, by considering both AC and CG, which guarantees better results. When CG intervenes, the

AC alone insufficient. Considering both of them (represented by interaction term), will emphasize on the important roles and contribution that both have.

In this study, Leverage and ROA have no impact on the extent of VD in Palestine and this might be that our firm's profitability and level of leverage is relatively low compared to developed countries, however, firm's size and growth option have positive significant impact on the extent of VD.

The level of leverage and profitability are not significant and have no relationship with voluntary disclosure because Palestine is a developing country under occupation it faces challenges in access finance, so the level of leverage will not prioritize. Therefore, firms in Palestine tend to use different capital structure to finance firm's operation comparing to developed countries. In addition, the lack of investor's sophistication gives an indicator to managers that it is not necessary to share detailed financial information like leverage and profitability.

The capital market in Palestine is small compared to international market, so this will affect the willingness of managers to share financial information, because few competitors and this in turn put the company in hard situation, so it is because of different culture and different market.

The results are connected to study problem and questions, to examine the association between VD and AC efficiency while taking into consideration the joint effect of AC and CG in moderate and strengthen the association, and we understood how firm specific factors (control variables) which of them is significant and affect VD in Palestine.

This study contributes significantly to important subject that has not given a lot of attention especially in developing countries like Palestine. Investigating the relationship between AC and CG, on extent of VD in Palestine is very important even though it's developing country and under occupation. That is to prepare a healthy strong capital market from now, by raising the awareness of Palestinian firms in capital market with possible ways to mitigate agency problem and enhance transparency by increasing VD.

This study showed the importance of applying both AC and CG. Therefore, it contributes to existing literature but with emphasizing on the role of both CG and AC.

On the other hand, it creates a better communication between investors and managers, and help in reducing of agency problem especially most firms in Palestine are family business, so when it decides to initial public offering, a legal environment through the role of both CG and AC will eliminate the possibility of agency problem and information asymmetry problem.

In capital market in Palestine, AC has no impact on the extent of voluntary disclosure in model two unless if CG system existed AC would have impact on the extent of VD. This study contributes to give hints of the proper strategies that companies should adopt to guarantee the high level of transparency in disclosing financial market. This study explores what is the right and suitable capital structure should companies follow and adapt especially in Palestine we found out that leverage has no impact on extent of voluntary disclosure.

It indicates how customer's expectations regard its performance has effect on its decision to strategically disclose more about its future plans. This study provides a healthy atmosphere for now and for the future development of capital market in Palestine. It is noticed that the relationship between board structure, audit committee characteristics and their impact on voluntary disclosure are almost similar in developing countries like Jordan, Egypt and Saudi

4.5 Recommendations

The following recommendations are based on the results of the study:

1. The government and policy makers in Palestine should take more serious actions about implementing robust corporate governance system to build trust among investors and encourage them to invest their saving in local companies rather than international companies. This will develop and create more strength in Palestinian economy. Moreover, from the findings of this study, the importance of engaging both strong independent audit committees with corporate governance should be emphasized the because the existence of audit committees alone is insufficient to encourage voluntary disclosure.
2. The companies in Palestine must adapt the strategy of more voluntary disclosure since the Palestinian economy is already under the control of Israeli occupation by disclosing more information, more transparency and efficiency in the market, the

more the confidence the investors will have. The investor will be able to understand where the company is going, and what its plans, which, create a better image for the potential investors. In addition, the company will protect itself from litigation cost and might have government support if it sticks with governance system and disclosures.

3. It is recommended to give courses for both companies and investors, to educate them about the importance of voluntary disclosure and in the same time helping the investors to allocate their resources properly without the need of relying on financial analysts because the company already disclose its insider information developing the communication between companies and potential investors, and lowers the cost of capital for the company.
4. Stakeholder engagement enhances the engagement and collaboration between companies, investors and other stakeholder to promote a culture of accountability and transparency. This could be achieved by establishing platforms for information sharing, and encourage active participation in CG processes and decision making.
5. Encouraging Transparency by implementing incentive or reward for companies who engage in disclosure and transparency practices. This could involve providing tax incentives, recognition and awards for companies which adhere best practices in transparency, corporate governance and voluntary disclosure.
6. Continues Evaluating establishes mechanisms for continuous evaluation of corporate governance and disclosure practices to ensure compliance with regulatory rules, by conducting regular audits and assessments to identify areas of strength and areas that need improvements, and taking corrective actions when necessary.

4.6 Limitations

Some of challenges and limitations we face in the study the difficulty of gathering data depending on the checklist. The absence of information in the financial reports from some companies and years, constructing a comprehensive index was a serious challenge. The difficulty in measuring additional variables like investor protection, family ownership, the disclosure method but it was all hard to measure because it requires many efforts and time. The Lack of literature review that discusses corporate governance in Palestine

List of Abbreviations

Abbreviation	Definition
VD	Voluntary Disclosure
VDI	Voluntary Disclosure Index
CG	Corporate Governance
AC	Audit Committee
ACs	Audit Committees
EMH	Efficient Market Hypothesis

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Appendices

Appendix (A)

Voluntary disclosure check list

General company information

1. company's mission statement
2. Brief history of the company
3. corporate structure/chart

corporate strategy

1. Statement of corporate strategy and objectives-general
2. statement of corporate strategy and objectives -Financial
3. Statement of corporate strategy and objectives- marketing
4. Statement of corporate strategy and objectives-social
5. Impact of strategy on current performance

financial performance

1. Liquidity ratios
2. Debt/equity ratio
3. Profitability ratio
4. Return on equity
5. Return on assets
6. Financial history or summary (3 or more years)

Employee information

1. Number of employees trained
2. Policy on employee training
3. Women empowerment
4. Employee's appreciation
5. Amount spent on training
6. Equal opportunity policy statement

Segmental information

1. Competitor analysis -qualitative

competitor analysis - quantitative

3. market share analysis - qualitative

4. market share analysis quantitative

corporate governance / directors' information

1. Shares held by board of directors of the company

2. Meeting held and Attendance

3. Educational qualifications of directors

4. Experience of directors

5. Other directorship held by executive directors

6.statment of internal control

Capital market data

1. The market value of shares at the end of the year

Forward looking information

1. Factors that may affect future performance

2. Earnings per share forecast

3. Sales revenue forecast

4. Profit Forecast

Appendix (B)

Audit committee checklist

1. Company has an audit committee
2. Chairperson of committee is non-executive director
3. All members of committee are non-executive director
4. Chairperson of the board is not the chairman or a member of the audit committee

Appendix (C)

Corporate Governance Checklist

1. Chairperson of board and CEO are two different individuals
2. Chairperson is a non-executive director
3. The composition of the Board of Directors has two independent directors
4. Board has governance committee
5. All directors attend 75% of board meetings or had a valid excuse
6. Company has remuneration committee
7. Board size is greater than 5 but less than 11



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تقييم الأثر المعتدل لحوكمة الشركات

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إشراف
د. اسلام عبد الجواد

قدمت هذه الرسالة استكمالاً لمتطلبات الحصول على درجة الماجستير في التمويل،
من كلية الدراسات العليا، في جامعة النجاح الوطنية، نابلس - فلسطين.

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إعداد

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إشراف

د. اسلام عبد الجواد

الملخص

تسعى هذه الدراسة إلى الكشف عن كيفية تأثير لجنة التدقيق وحوكمة الشركات على مستوى الإفصاح الطوعي في فلسطين، مع اعتبار الشفافية والإفصاح كركائز أساسية لنظام الحوكمة. تهدف الدراسة إلى استكشاف العوامل المحتملة التي تؤثر على مستوى الإفصاح الطوعي في فلسطين.

تم إجراء الدراسة على القطاعات غير المالية في فلسطين، شاملة 36 شركة من 2009 إلى 2021. فتم تنفيذ التحليل باستخدام الانحدار الخطي المتعدد بطريقة المربعات الصغرى العادية من خلال ثلاثة نماذج. تم جمع بيانات فعالية لجنة التدقيق، وفعالية حوكمة الشركات، ومؤشر الإفصاح الطوعي من الإفصاحات في التقارير السنوية باستخدام قائمة مراجعة.

في البداية، تم دراسة تأثير لجنة التدقيق على مستوى الإفصاح الطوعي، بالإضافة إلى تأثير حوكمة الشركات على مستوى الإفصاح الطوعي، وكذلك عبارة التفاعل بين لجنة التدقيق وحوكمة الشركات على مستوى الإفصاح الطوعي. وقد وُجد أن لجنة التدقيق وحوكمة الشركات لهما تأثير مباشر على الإفصاح الطوعي؛ ومع ذلك، فإن هذا التأثير يتأثر بحوكمة الشركات، حيث تؤثر عبارة التفاعل بين لجنة التدقيق وحوكمة الشركات بشكل إيجابي على مستوى الإفصاح الطوعي.

توصي هذه الدراسة الشركات في فلسطين بتبني مزيد من ممارسات الإفصاح الطوعي، نظراً للتحديات الاقتصادية الفريدة التي يفرضها الاحتلال الإسرائيلي. بالإضافة إلى ذلك، يمكن أن يساهم تعزيز مشاركة

أصحاب المصلحة من خلال منصات تبادل المعلومات في تعزيز الشفافية والمساءلة. كما أن تقديم حوافز لممارسات الشفافية وتقييم أساليب الحوكمة المؤسسية والإفصاح بشكل دوري يعد أمراً حاسماً لضمان الامتثال وتحديد مجالات التحسين.

الكلمات المفتاحية: الإفصاح الطوعي، لجنة التحقيق، التقارير السنوية، الشفافية والمساءلة، حوكمة الشركات