



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

**THE IMPACT OF AUDIT COMMITTEE  
CHARACTERISTICS ON ACCOUNTING  
CONSERVATISM WITH RISK MANAGMENT  
AS A MODERATOR VARIABLE: EVIDENCE  
FROM THE BANKING SECTOR IN THE ARAB  
WORLD DURING THE PERIOD 2016-2021**

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**This Thesis is Submitted in Partial Fulfilment of the Requirements for the  
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## **Dedication**

To The Person Who Provided Me with Giving, Strength and Glory... My Dear Father

To The Person Who Provided Me with Love, Tenderness, Giving and Loyalty....My  
Dear Mother.

To My Support, My Consolation, My Joy, And My Medal... My Dear Brothers.

To The Giving Hands That Spared No Effort in Reaching Me. To My Professors at An-Najah University, Each with His Name and Surname. I Especially Mention Dr. Muiz Abu Alia, Who I Was Proud to Be the Main Supervisor of This Thesis of Mine.

I also thank Dr. Saed Al-Koni, who provided the necessary support to complete this  
work.

To The Defenders of The Country's Soil and Dignity, Who Have Sacrificed Their Lives  
on The Path of Steadfastness and Sacrifice.

**To all of them I dedicate my research.**

## **Acknowledgment**

I thank everyone who helped and supported me in completing this work.

## Declaration

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

### **THE IMPACT OF AUDIT COMMITTEE CHARACTERISTICS ON ACCOUNTING CONSERVATISM WITH RISK MANAGMENT AS A MODERATOR VARIABLE: EVIDENCE FROM THE BANKING SECTOR IN THE ARAB WORLD DURING THE PERIOD 2016-2021**

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

**Student's Name**

**Mahmoud Bassam Majed Daraghmeh**

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**Signature:**



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**Date:**

**23/06/2025**

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# List of Contents

Dedication.....	iii
Acknowledgment.....	iv
Declaration.....	v
List of Contents.....	vi
List of Tables.....	ix
List of Figures.....	x
Abstract.....	xi
Chapter One: A General Framework of the Study and Its Background.....	1
1.1 Introduction.....	1
1.2 Problem Statement.....	3
1.3 Research Significance.....	4
1.4 Research Purpose and Objectives.....	5
1.5 Research Hypothesis.....	6
Chapter Two: Theoretical Background, Literature Review & Hypotheses Development.....	7
2.1 Theoretical Background.....	7
2.1.1 Introduction.....	7
2.1.2 Overview of Accounting Conservatism.....	7
2.1.2.1 Accounting Conservatism Definition.....	7
2.1.2.2 Explanation for Conservatism.....	8
2.1.2.3 Types of Accounting Conservatism.....	9
2.1.2.4 The Importance of Accounting Conservatism.....	10
2.1.2.5 Accounting Conservatism Criticisms.....	11
2.1.3 Audit Committee.....	11
2.1.3.1 Definition of the audit committee.....	11
2.1.3.2 Characteristics of the Audit Committee.....	12
2.1.3.3 Importance of Audit Committees.....	14
2.1.4 Risk Management.....	14
2.1.4.1 Definition of risk management.....	14
2.1.4.2 Purpose of risk management.....	15
2.1.4.3 Risk management in banks.....	15
2.1.4.4 Definition of Risk management in banks.....	15
2.1.4.5 Types of Risks.....	16
2.1.4.6 Risk management strategies.....	16

2.1.4.7 How to Measure Risk Management.....	17
2.2 Related Theories .....	18
2.2.1 Agency theory.....	18
2.2.2 Positive Accounting Theory .....	19
2.2.3 Signaling Theory.....	20
2.3 Literature Review and Hypotheses Development .....	20
2.3.1 Introduction.....	20
2.3.2 Audit Committee Independence .....	22
2.3.3 Audit Committee Size.....	23
2.3.4 Audit Committee Frequency of Meeting .....	23
2.3.5 Audit Committee Financial Expertise.....	24
2.3.6 Audit Committee Ownership .....	25
2.3.7 Risk Management .....	25
Chapter Three: Research Methodology .....	28
3.1 Introduction.....	28
3.2 Research Population and Sample Selection.....	29
3.3 Data Collection .....	30
3.4 Variables Measurement .....	30
3.4.1 Dependent Variable (Accounting Conservatism).....	30
3.4.2 Independent Variables (Audit Committee Characteristics).....	31
3.4.3 The Moderating Variable (Risk Management).....	32
3.4.4 Control Variables.....	34
3.4.5 Macroeconomic variable.....	35
3.5 Data Analysis and Procedures .....	37
3.6 Study Model.....	39
3.7 Study Design and Empirical Model.....	40
Chapter Four: Results and Discussions .....	42
4.1 Introduction.....	42
4.2 Descriptive Statistics Results.....	42
4.3 Correlation Matrix Test Results.....	44
4.4 Multiple Linear Regression Test Results.....	45
4.5 Implications .....	55
4.6 Additional points.....	56
4.7 Conclusion .....	56
4.8 Recommendations.....	58

4.9 Future Research .....	58
4.10 Limitations of the study .....	59
List of Abbreviations .....	60
References.....	61
الملخص.....	ب

## List of Tables

Table (1): List of studied banks .....	30
Table (2): Measurement of study variables .....	36
Table (3): Descriptive Statistics.....	43
Table (4): Matrix of correlations .....	44
Table (5): Regression Result.....	45
Table (6): R egression Result (model 3).....	47
Table (7): I nteracting with the moderator variable (Risk Management) .....	50
Table (8): I nteraction Terms (Moderating Effects)- model 2 .....	51
Table (9): The degree of accounting conservatism int the arab world country .....	55

## List of Figures

Figure (1): Study Model .....	39
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**THE IMPACT OF AUDIT COMMITTEE CHARACTERISTICS ON ACCOUNTING CONSERVATISM WITH RISK MANAGMENT AS A MODERATOR VARIABLE: EVIDENCE FROM THE BANKING SECTOR IN THE ARAB WORLD DURING THE PERIOD 2016-2021**

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**Abstract**

This study investigates the influence of audit committee characteristics on accounting conservatism in listed banks in Arab countries, and the role of risk management as a moderating variable. Accounting conservatism is considered an important accounting policy that impacts the quality of financial reporting by limiting management's manipulation of financial information. Therefore, the study examined audit committee characteristics, including independence, size, financial expertise, number of meetings, and committee ownership, and their impact on accounting conservatism, measured by the market value-to-book value ratio. Risk management was measured by the loan loss provision ratio to total loans.

The study sample consisted of 71 banks listed on 10 Arab stock exchanges during the period 2016-2021 By using pooled regression analysis. Data was collected from annual reports and official disclosures.

The study results showed a positive impact of both the independence and financial expertise of audit committee members on accounting conservatism, while size and committee ownership had a negative impact on accounting conservatism. The study results also showed Risk management as a moderating variable has a positive impact on the relationship between audit committee independence and size and accounting conservatism, However, it does not affect the relationship between financial expertise, number of meetings, committee ownership, and accounting conservatism. The study results showed that the Saudi Stock Exchange appeared with the highest conservative level at 4.90, followed by Kuwait at 1.54, then the United Arab Emirates at 1.27, the Qatar Stock Exchange at 1.27, and the Palestine Stock Exchange at 1.16. In contrast, these

countries appeared with low levels, such as Bahrain at 0.50, Oman at 0.57, Egypt at 0.67, and Amman at 0.92.

**Keywords:** banking sector, Accounting Conservatism, governance, risk management, Audit Committee.

# Chapter One

## A General Framework of the Study and Its Background

### 1.1 Introduction

Accounting conservatism has a crucial role to play in shaping financial reporting standards and regulatory frameworks, especially as regards the International Financial Reporting Standards, abbreviated as (IFRS) (Alia, 2010). Being an essential policy, accounting conservatism emphasizes that financial statements go hand in hand with the quality characteristics stipulated by the International Accounting Standards Board (IASB). As pinpointed by Zeghal & Lahmar (2016) accounting conservatism is much related to financial measurement, where it required accountants to act prudently and cautiously when there is uncertainty. Such a policy mandates recognizing potential losses more readily than unrealized gains, leading to conservative financial reporting choices, especially in uncertain business environments.

The impact on financial reporting neutrality is still under exploration. Therefore, accounting conservatism is because it enhances reliability and intelligence (Abu Alia et al., 2024). Based on conservative reporting methods, financial statements offer more cautious and realistic representation as regards financial position of the company, making optimism in financial disclosure less (Alia & AbuSarees, 2023). At the time that some individuals claim that conservatism leads to bias, its supporters ensure its importance and effectiveness to keep financial transparency, especially in unforeseen economic conditions.

Due to the increase noticed in financial scandals, the significance of conservative accounting practices has been underscored, especially from the perspectives of auditors. After these scandals, regulators and financial experts emphasized the significance of conservative reporting as a method to increase the dependability of financial statements and lessen the chances of misinformation (Li, 2010). Auditors, in particular, play a crucial role in advocating conservative accounting options, ensuring greater transparency and integrity in financial reporting. Additionally, accounting conservatism functions as a buffer against agency conflicts that take place between managers and shareholders, disappointing behaviors of opportunistic financial reporting like earnings manipulation (Alia & AbuSarees, 2023). Conservatism can improve corporate governance, reduce

information asymmetry, and increase confidence in financial statements by promoting prudence and aligning management's interests with those of shareholders (Basu, 1997). According to Alia & Awwad (2020) having more conservative policies applied in financial reporting will have a role in reducing the asymmetry of information among different stakeholders, hence discussing problems expected for the agency (Alia & Awwad, 2020). In case financial reporting is more conservative, a cautious and prudent approach is introduced to identify and report financial information. In this situation, this reduces the likelihood of managers manipulating or overstating financial results to the detriment of shareholders and other stakeholders (Alia & Barham, 2020).

Apart from corporate governance effects, accounting conservatism is greatly significant when dealing with debt contracts. It mitigates disputes between shareholders and debt holders by ensuring accuracy and reliability of (Abu Alia et al., 2020). Additionally, conservative accounting reduces the likelihood of overstatement of financial estimates, increasing creditors' confidence and facilitating debt negotiations more smoothly (Kim et al., 2023). Suluo et al. (2025) indicate that regulators incorporate governance frameworks for development. These frameworks have seen the rise of audit committees responsible for overseeing financial reporting processes and ensuring transparency. Their role helps prevent manipulation of financial reports, as it may raise capital costs (Gerayli et al., 2021). Effective audit committees are crucial in reducing such risks by overseeing accounting policies and financial disclosures. They also improve investor confidence and market stability (Abu Alia et al., 2020). Therefore, risk management is important for corporate governance after the global financial crisis. Organizations are now implementing risk management frameworks as part of corporate governance. (Abdeljawad et al., 2024). Companies are nowadays aware of the strategic importance of risk management. It helps them to reduce threats and improve financial stability and performance (Ellul, 2015).

To reduce financial risk, a well-structured risk management framework should be established, with a focus on limiting management's authority to prepare financial reports and reducing the likelihood of financial errors, by managing operational risks, effective risk management can improve the reliability of financial reports and reduce the risk of bankruptcy (Anton & Nucu, 2020).

Given their crucial role in shaping the economy (Siregar & Lim, 2010) banking institutions prioritize ensuring financial stability as a strategic priority. Following bank collapses and financial crises, it is becoming more necessary to conduct high-quality audits, which require strong governance mechanisms. Audit committees are instrumental in enhancing the quality of financial reports and preserving the credibility of financial statements (Buallay & Al-Ajmi, 2020).

Based on this governance framework, accounting conservatism appears to be an important factor. Such a policy is indispensable in relation to reporting quality, emphasizing that financial statements are reliable, transparent and are not manipulated (Thijeel et al., 2018). As part of their oversight responsibilities, the audit committees are examining conservative accounting practices to support financial integrity, thereby contributing to wider economic and financial stability (Abu Alia et al., 2020).

The researcher in this study investigates how audit committee characteristics affect accounting conservatism. The researcher also considers the role played by risk management. The researcher aims to evaluate how effective risk management is as a moderator variable and how it impacts accounting conservatism by understanding its role in the relationship between audit committees and accounting conservatism. It is worth noting that the researcher examines the banking sector in the Arab World from 2016 to 2021.

In this study, the researcher aims to understand the relationships between audit committee features and risk management practices. The researcher also aims to explore their effect on accounting conservation in the special environment of banks in the Arab world. The results of this study explain how they interact and affect the region's financial reporting practices during this time.

## **1.2 Problem Statement**

The recent growing attention to accounting conservatism stems from major corporate and banking failures like Enron, WorldCom, and Lehman Brothers. This interest connects to worldwide financial downturns including the Asian financial crisis (1997), the 2008 financial crisis, and the COVID-19 pandemic (2020). These events show that conservative accounting practices are for maintaining financial stability and transparency (Alia & AbuSarees, 2023). Researchers have studied accounting conservation in

enhancing financial resilience in economic uncertainty (Alia & Barham, 2020). Accounting reservation is very in connection with the agency theory, since any separation of property from management may lead to conflicts of interest. This imbalance allows managers to exploit information inconsistency through discretionary accounting options, including conservative reporting, which focuses on reduced recognition of assets and income with higher liabilities and expenses (Hamdan, 2020).

Financial crises have strengthened the focus on corporate governance mechanisms, especially after the Sarbanes-Oxley Act, which remarked the important role of auditing committees in assuring the quality of financial reports and reducing viability practices such as earning management (Wahhab & Al-Shammari, 2021) Besides, after the global financial crisis, the importance of effective risk management has become increasingly recognized as a framework for dealing with uncertainties. Studies indicate that accounting conservation is a risk management mechanism by reducing bankruptcy risk by recognizing economic losses in a timely manner, this allows companies to take corrective action earlier (Biddle et al., 2022).

This study examines if effective audit committee and risk management as a moderator variable promote the adoption of accounting conservatism in the banks operate in Arab countries. Consequently, the research problem seeks to address the following two major questions:

1. Is there an impact of the audit committee's characteristics (independence, size, frequency of meeting, financial experience, audit committee ownership) on the accounting conservatism in the banking industry?
2. Does risk management affect the relationship between the audit committee's characteristics and accounting conservatism in the banking industry?
3. What is the degree of accounting conservatism in the arab banking industry?

### **1.3 Research Significance**

The current study is significant since it attempts to assess the level of accounting conservation in the financial reports of banks that are listed in the Arab world, thereby enhancing confidence of investors in relation to the reliability and transparency of these reports. The study outlines the central role of the audit committees in strengthening

conservative accounting policies, thus contributing to reducing financial risks and promoting financial stability.

Concerning investors, the study's findings will offer a base and background to assess the financial prudence of the bank and its alignment with goals made for a long-term, leading to more important investment decisions. In the case of regulators and policymakers, the study demonstrates the need for empowering the audit committee effectiveness to enhance financial reporting credibility.

Furthermore, the present study will offer a great contribution to the existing literature through giving empirical evidence taken from the Arab world, which is considered a region that is not studied a lot before. Although the Arab countries have cultural similarities, they show crucial economic differences which shape the financial reporting practices. Understanding these dynamics can help investors and stakeholders navigate the region's banking sector more effectively.

#### **1.4 Research Purpose and Objectives**

The main objectives of this study are as follows:

1. To Examine the effect that audit committee characteristics, (including committee's size, independence, number of annual meetings, financial expertise, and the percentage of common stock owned by committee members) have on accounting conservatism in banks listed on Arab stock exchanges.
2. To Investigate risk management moderating impact on the relationship found between
3. audit committees' characteristics and accounting conservatism.
4. To Asseasing the level of accounting conservatism in the arab banking industry.

These objectives aim to provide a total understanding of how audit committees affect accounting conservatism for banks listed on Arab world exchanges, while examining the impact of risk management on this relationship.

## **1.5 Research Hypothesis**

Based on the literature review, discussed later, and study questions presented above, the following hypotheses were developed:

H1: Audit committee independence (ACI) positively affects accounting conservatism of banks listed on Arab stock exchanges.

H2: Audit committee size (ACS) positively affects accounting conservatism of banks listed on Arab stock exchanges.

H3: The audit committee's frequency of meetings (ACM) positively affects accounting conservatism of banks listed on Arab stock exchanges.

H4: Audit committee financial expertise (ACFE) positively affects accounting conservatism of banks listed on Arab stock exchanges.

H5: Audit committee ownership (ACOW) negatively affects accounting conservatism of banks listed on Arab stock exchanges.

H6: Risk management (RM) affects the relationship between the audit committee characteristics (independence, size, frequency of meetings, financial expertise, and ownership) and accounting conservatism.

## **Chapter Two**

### **Theoretical Background, Literature Review, and Hypotheses Development**

#### **2.1 Theoretical Background**

##### **2.1.1 Introduction**

This chapter aims to offer the reader an overview of accounting conservatism in this chapter. The chapter covers its definitions, types, importance, and criticisms of this accounting theory. It also explains the audit's meaning and significance. Additionally, the chapter elaborates on risk management's definition, types, strategies, role in companies, and role in banks.

##### **2.1.2 Overview of Accounting Conservatism**

###### **2.1.2.1 Accounting Conservatism Definition**

Accounting conservatism is an important policy in financial reporting that encourages companies to take cautious decisions on the timing of revenue and expense recognition, as well as the valuation of assets and liabilities. This provides prudence and transparency in financial reporting by being more aggressive in obtaining losses and expenses than gains and revenues (Zhong & Li, 2017).

Accounting conservatism, as specified by Watts (2003), aligns with the principle of recognizing no gains until they are certain but anticipating all potential losses. Thus, companies should not record revenue until material legal claims are verified, and the likelihood of such verification is high. This reflects a conservative approach, meaning a more cautious stance in financial reporting. According to Basu (1997), accounting conservatism contributes to higher-quality information in financial reports. It serves as a means of protecting stakeholders by ensuring reliable and high-quality financial data, aligning with the objective of financial reporting to enhance transparency (Alia & Awwad, 2020). Beaver and Ryan (2005) explained that accounting conservatism includes a component of asymmetric timing. This asymmetry suggests that bad news is reflected in financial reports more quickly than good news. This approach helps prevent the overstatement of financial performance, ensuring that the company's economic reality is cautiously represented. Accounting conservatism is a fundamental concept governing

how corporations record and report economic events. This leaves an impression of conservatism and being dependable, along with transparency in financial reporting, since it is necessary to give insight into a company to provide stakeholder insights and information.

### **2.1.2.2 Explanation for Conservatism**

Many academic studies have provided explanations for accounting conservatism, with numerous scholars discussing its concept. Watts (2003), Basu (1997), and Beaver & Ryan (2005) have made significant contributions in identifying Three key interpretations related to the sources of the conservatism principle.

One interpretation is the contractual explanation propagated by Beaver & Ryan (2005). This standpoint highlights the significance of accounting conservatism in preventing management opportunism and augmenting contract efficiency. According to Watts (2003), accounting conservatism helps address moral hazard issues that stem from asymmetric information, payoffs, limited horizons, and company liability. This conservatism is a useful contracting tool by limiting managers' opportunities to do cash payments in self-serving ways. This limitation serves the interests of all individuals having contractual obligations, which ultimately increases the total company value, and this value addition is hence distributed (Abu Alia et al., 2020). The second explanation is litigation explanation, accounting conservatism can be a proactive strategy to proactively reduce litigation risk, particularly when litigation costs are extremely high within certain jurisdictions. Thus, conservative accounting reduces the likelihood of litigation that leads towards a more stable reporting environment of financial statements (Liu & Elayan, 2015).

Tax conservatism is the third explanation, which is an accounting approach in which companies employ income accounting methods that recognize revenues at a slower rate and expenses faster uncertainty (Alia & Barham, 2020). Tax conservatism, as it relates to the timing of income and expense recognition, is designed to defer tax payments to future periods (Watts, 2003). When accounting conservatism is unconditional, firms could increase with the LIFO method for inventory costing. Such an option enables firms to deduct more expenses, including, for example, their cost of goods sold, thereby decreasing taxable income and therefore delaying tax payments (Qiang, 2007). Tax

conservatism can help companies meet their tax liabilities. Combining accounting practices with tax planning not only optimizes financial performance, it would also allow the companies to minimize their immediate tax burdens while accounting for their future tax obligations in a more strategic way (Abu Alia et al., 2020). This is in accordance with the general quality of accounting conservatism behind financial statement quality, contracting, and risk (Watts, 2003).

Finally, the regulatory explanation of accounting conservatism emphasizes the influence of standard setters and regulators in promoting conservative accounting practices. According to Watts (2003), standard setters and regulators frequently react to stakeholders' interests and pressures by promoting conservatism in accounting standards.

### **2.1.2.3 Types of Accounting Conservatism**

#### **2.1.2.3.1 Unconditional accounting conservatism**

Unconditional accounting conservatism manifests when the book value of assets or liabilities is deliberately understated compared to their market value. This deliberate understatement aims to create hidden reserves within a company's financial statements (Beaver & Ryan, 2005). Unconditional conservative practices can be seen when companies immediately expense internally created goodwill and set amortisation rates for fixed assets higher than their expected economic rate of decline. (Ryan, 2006). Penman & Zhang (2002) argue that the application of unconditional accounting conservatism reduces net assets, resulting in the creation of hidden reserves. These hidden reserves, stemming from conservative practices, serve as a buffer that can be utilized in future periods. However, critics such as Ball & Shivakumar (2005) have raised concerns about the negative impact of unconditional accounting conservatism on the efficiency of contracts. They contend that this form of conservatism may introduce bias into decisions based on financial information, potentially distorting the accuracy of financial reporting.

#### **2.1.2.3.2 Conditional Accounting Conservatism**

Conditional accounting conservatism refers to the faster recognition of negative economic news than positive economic news in accounting earnings. This form of conservatism involves companies showing an imbalance in how they recognize bad news versus good news (Ruch & Taylor, 2015a). Also, we can see conditional conservatism in practice

through inventory accounting at the lower cost or market value and the uneven treatment of gain and loss contingencies.

Conditional conservatism is often viewed positively as an early warning mechanism for bad news. Firms employing conditional conservatism provide timely signals of unfavorable economic developments, enabling governing bodies to conduct early investigations into the root causes of such adverse events. This proactive approach enhances contracting efficiency, allowing for a timelier response to potential challenges or issues within a company (Ball & Shivakumar, 2005).

#### **2.1.2.4 The Importance of Accounting Conservatism**

The adoption and commitment to accounting conservatism approach have significantly increased in recent years, particularly among boards of directors. This trend has been further reinforced by the unpredictable economic events and challenges that businesses frequently encounter (Huang et al., 2024). Several key factors drive firms to adopt conservative accounting practices and policies, particularly their role in limiting managerial discretion over earnings management (Abu Alia et al., 2020).

Accounting conservatism gives boards of directors and audit committees effective tools to reduce opportunistic behaviour by executive managers. Also, companies that are considering conservative accounting may have external financing at lower costs and interest rates. According to Ibrahim et al (2019) Companies that apply a high degree of accounting conservatism policies enjoy a low cost of debt.

Moreover, accounting conservatism improves the efficiency of investment and contracting activities within companies. Its role in risk management and its positive impact on corporate governance practices further show its importance (Zhong & Li, 2017). Research also indicated that accounting conservatism can improve the quality of financial information. It also enhances the company's ability to predict future cash flows (Alia & Awwad, 2020).

Various incentives drive the application of accounting conservatism. This includes reducing taxable income resulting from the non-recognition of expected profits and acknowledging anticipated future losses (Watts, 2003). Furthermore, it contributes to financial analysts' increased awareness and analytical capabilities by minimizing the gap

between their expectations and actual published income figures (Helbok & Walker, 2004).

### **2.1.2.5 Accounting Conservatism Criticisms**

Accounting conservatism influences financial statements by refraining from recognizing profits in uncertain and unforeseen circumstances while acknowledging expected losses. However, for management seeking bonuses and compensation and relying on published financial statements, the application of conservatism may be avoided due to its impact on reported profits (Hellman, 2008).

The concept of accounting conservatism introduces distortions into the information and data presented in financial reports. This is manifested in the reluctance to recognize revenues unless realized, while losses are acknowledged in the presence of potential indicators. This practice enables the company's management to create reserves that can be utilized to boost future profits (Alia et al., 2024). However, matching current revenues with future expenses can yield unrealistic results that are not beneficial to financial report users in the decision-making process. Consequently, such practices can negatively impact profit and the book-to-market value of shares. Analysts may then make inaccurate predictions about the company's financial standing. In 2006, the Financial Accounting Standards Board (FASB) highlighted that applying the accounting conservatism principle introduces bias and deviates from impartiality in preparing financial statements. This, in turn, results in lower-quality published accounting information. Nevertheless, accounting conservatism retains significance in curbing earnings management practices and bolstering the reliability and credibility of financial statements, thereby aiding in the accurate prediction of shareholders' equity (Chi & Wang, 2010).

### **2.1.3 Audit Committee**

#### **2.1.3.1 Definition of the audit committee**

The audit committee plays a crucial role in enhancing corporate governance, ensuring financial reporting and compliance, as well as working with its external auditors. Comprising independent directors with financial expertise, it serves to bridge the board and auditors, thereby increasing transparency and accountability (Choi et al., 2013). The Committee's cooperation with auditors is crucial in guaranteeing audit quality and thereby the reliability of financial statements. In addition to this, it is deeply involved in

addressing ethical matters, which naturally influences the overall integrity of financial reporting (Dwekat et al., 2022).

### **2.1.3.2 Characteristics of the Audit Committee**

**Independence:** As defined. by Abbott & Parker (2000) within the audit committee's context, independence includes excluding both company-affiliated personnel and those receiving compensation by virtue of their firm connections, i.e., directors' fees. The success of audit committees in monitoring financial reporting is critically dependent upon the independence of their members (Kusnadi et al., 2016). A separate audit committee reduces the agency problems that exist between shareholders and management, increasing transparency and accountability within the infinite structure of corporate governance (Klein, 2002). Such independence helps to ensure a more robust and objective assessment of financial practices, which in turn makes investors as well as society at large more confident about one's overall corporate governance proceedings.

**Audit committee size:** The size of the audit committee is another factor influencing its efficiency and effectiveness (Lin et al., 2008). Various researchers have advocated that the optimal number of audit committee members fall within the range of 3-6, as supported by studies such as (Abbott et al., 2004; Chen & Zhou, 2007) posit that more prominent audit committees are likely to enhance the quality of internal controls more effectively than smaller committees. This is attributed to the increased resources and improved conditions that contribute to more prominent audit committees' greater efficiency and effectiveness in fulfilling their oversight responsibilities. Additionally, a larger audit committee can play a crucial role in strengthening internal controls within an organization. The expanded resources and improved working conditions associated with more prominent committees contribute to their enhanced efficiency and effectiveness in overseeing and ensuring the quality of internal controls (Chen & Zhou, 2007). This suggests that the size of the audit committee is a significant factor influencing its ability to fulfill its oversight functions and uphold the integrity of internal control mechanisms within the company (Abu Alia et al., 2024).

**Audit committee meeting frequency:** The frequency of audit committee meetings has emerged as an important governance issue over the last several years, for it has an impact on how well financial matters are checked and corporate standards regulated (Alia &

Awwad, 2020). Firms that convene audit committee meetings more frequently display a better ability to understand and resolve financial reporting problems, ultimately increasing the value of earned profits. More frequently they hold these meetings indicates how effective the committees are, and it says in what way they do their oversight duty (Braswell et al., 2012).

In addition, the frequency of auditing conferences is an important measure of transparency and accountability. It was tempered by a growing number of meetings such as those of the audit committee (Carcello, 2005). Through the frequency of audit committee meetings, an enterprise reflects its attitude towards good governance and achievement of objectives.

**Audit committee financial expertise:** A well-functioning and efficient audit committee plays a central role in safeguarding the integrity of an enterprise's financial reporting process. According to Dhaliwal et al. (2010) a key determinant of audit committee members' ability to monitor and oversee financial reporting activities is the level of knowledge possessed by each individual member. In this sense, the knowledge and skills of audit committee members are crucial. Financial reporting process expertise is important for members of the audit committee. This ability requires an in-depth understanding of the intricacies in drawing up financial reports, which includes knowledge about application-specific accounting principles and normative accounting standards and involves critical appraisal of information on the finances. As highlighted by Krishnan & Visvanathan (2007), this expertise allows audit committee members to perform their tasks with markedly greater efficiency and effectiveness. Functional independence was also significant for the success of an independent audit function (Dwekat et al., 2022).

An audit committee with good knowledge can handle complicated financial reporting issues. They can ensure the reports are accurate, open, and follow the rules. This helps improve the organisation's governance and responsibility, building trust with stakeholders and protecting the interests of shareholders and the broader financial community (Abu Alia et al., 2020).

**Audit committee ownership:** The percentage of ordinary shares held by committee members is that share of committee member holds a characteristic of stock ownership as

described by (Jensen & Meckling, 2019). This feature is significant due to the potential correlation between a heightened level of stock ownership and the alignment of interests between management, represented by audit committee members, and the company's stockholders. The rationale behind examining this characteristic is rooted in the belief that a more significant ownership stake encourages a closer link between the audit committee members' financial interests and the company's success. In essence, increased stock ownership is a factor that may foster a shared commitment to effective governance, leading to decisions that benefit both the company and its shareholders (Liao & Hsu, 2013).

### **2.1.3.3 Importance of Audit Committees**

The main functions of an audit committee within a company include oversight of the financial reporting process, the audit process, compliance with laws and regulations, and also the internal systems of the company (Abu Alia et al., 2020).

Audit committees are instrumental in monitoring the quality of financial reports and the accounting decisions made by corporate management, thereby reducing agency problems and enhancing the reliability of financial reports for stakeholders. Moreover, audit committees have the responsibility of supervising and monitoring the company's internal control system, which affects the quality of transparency in financial reporting (Khlif & Samaha, 2016). They help monitor and oversee risk management as well by having discussions with management and by promoting the effective management of financial risks (Alzharani & Aljaaidi, 2015). In addition, the audit committee can play a role in actively mediating disputes between managers and external auditors (Klein, 2002).

### **2.1.4 Risk Management**

#### **2.1.4.1 Definition of risk management**

Risk management involves identifying, evaluating, as well as controlling risks of loss to capital or reduced inflows and profits. Risks come from various sources, including financial uncertainties, legal obligations, strategy management errors, or unexpected natural or unnatural disasters. For companies to grow, anticipatory analyses of potential dangers retained and courageously confronted are extremely effective risk management (Zhao, 2024).

#### **2.1.4.2 Purpose of risk management**

Corporate risk management aims to set up a systematic framework within the company for navigating new environments and financially uneasy business domains of various kinds. Risks have insinuated themselves into almost every facet of corporate operation. Identifying, appraising, and managing risks is an integral part of the strategic evolution of a company and requires meticulous design and planning at the highest levels within any given organization. This framework is essential for solidifying and dovetailing companies' ability to adapt to changing unpredictable business environments (McShane, 2018).

#### **2.1.4.3 Risk management in banks**

The success of banks and the stability of their financial systems depend heavily on the way they manage risk. Managing and measuring risks well helps add shareholder value for a bank. There is no one-size-fits-all approach or formula for managing and measuring risks in a bank. When a bank engages actively in risk-taking to maximize profits for its shareholders, accurate risk management requirements accompany that broader attitude. Other prerequisites include robust governance, an organizational culture that is conducive to managing risk, and myriad incentives for senior executives. Given the environment for successful risk management, we estimate an environment to go hand in hand with sound development (Leo et al., 2019).

#### **2.1.4.4 Definition of Risk management in banks**

Risk management in banks consists of identifying and assessing the risks that banks are likely to face that could affect the financial stability of the bank or any other financial institution and its core business operations. The goal of risk management in banks is to minimize the impact of these risks and maintain financial sustainability, ensuring that banks are able to deal with unforeseen events and circumstances. Effective risk management can help to strike an economic balance so that banks can mix expected profits with the risks involved in their operations (İslatince, 2024).

## **2.1.4.5 Types of Risks**

### **2.1.4.5.1 Credit Risk**

Credit risk can come about if borrowers fail to meet their responsibility to repay the loans, resulting in financial loss for the bank. The successful management of credit risk involves providing against future losses, as well as strategies that best prevent loan default. This risk is particularly significant for banks as it affects their direct business performance and financial state (Jasman & Murwaningsari, 2022).

### **2.1.4.5.2 Liquidity Risk**

Liquidity risk occurs when banks are unable to fulfill their short-term liabilities due to a lack of liquid assets. The management of liquidity risk aims to achieve an appropriate balance between liquid assets and liabilities so that the bank can satisfy its needs for money at any given time without putting itself in crisis. This is especially crucial for banks so as not to sink during a financial crisis (Ozili, 2019).

### **2.1.4.5.3 Market Risk**

Market risk is a general term for potential losses caused by changes in market prices, such as interest rates, exchange rates, or commodity prices. Managing market risks means employing strategies to hedge these large fluctuations, leaving bankers no big loss from a lurch in the markets (Zheng et al., 2019).

### **2.1.4.6 Risk management strategies**

There are some strategies to be taken into consideration for the banks to diminish the potential risks which confront them. First, Diversification Policy: Banks diversify their investments among many assets and markets in this manner, which is viewed as one of the most familiar methods to prevent risk (Saunders et al., 2021). Secondly, Advanced Data Analytics and Modeling, Banks use increasingly sophisticated data analysis tools and models of this sort for instance, dynamic econometric approaches to predict and appraise future risk. These models help the bank to make wise decisions on avoiding risk and ensure that they are prepared for any possible nasty surprises (Zheng et al., 2019). Third, Building Financial Reserves: Maintaining adequate financial reserves. One pivotal strategy for managing risks is to set up good reserves of funds. When you have put enough aside to counterbalance possible losses, banks can maintain their financial stability and

stay resilient even in tough times. Strong reserves enable them to absorb unexpected losses smoothly and maintain a smooth operational appearance, this aligns with Al-Romaihi & Kumar (2025) Maintaining financial reserves is important to mitigate potential risks such as credit risks, especially during recessionary periods.

#### **2.1.4.7 How to Measure Risk Management**

The risk management variable was measured in this study by loan loss provision (LLP) by citing and referring to existing studies such as (Ike R & Anuolam, 2023; Jasman & Murwaningsari, 2022; Selma Mokni et al., 2016; & Zheng et al., 2019; Jasman & Murwaningsari, 2022) mention that the loan loss provision is an expense shown in the income statement to allow for uncollected loans and loan payments, which are embodied under the concept of non-performing loans. Therefore, banks must pay close attention to the possibility of default on loans and expenses to ensure that they provide an accurate assessment of their financial health. One of the important points mentioned in the study of Jasman & Murwaningsari (2022) is that the risks of banks associated with the loan loss provision are represented in credit risks, liquidity risks, and operational risks. So, when banks take the necessary steps to control these provisions and control defaults on the value of loans and their expenses, they are moving towards applying the concept of risk management. For this reason, the loan loss provision is considered a strong indicator for measuring credit risk in banks. Zheng et al. (2019) noticed that many previous studies have proven that loan loss provisions positively and significantly impact risk behavior in banks. Therefore, this work explored the effect of using loan loss provisions in Pakistani commercial banks to measure banking risks. The researcher also points out that the implications and reasons for using this measure are: first, credit risk management allows banks to assess the risks of credit issuing to companies more broadly. Second, banks can collect valuable information to make appropriate lending decisions. Third, it studies the regulation of commercial bank credit, which is the biggest challenge facing bank managers.

The study of Ozili (2019), stated that investing in intangible assets may pose some risks to banks and that banks will apply techniques and mechanisms to reduce the risks resulting from investing in intangible assets. Among these techniques is using estimated accounting figures to reduce these risks. Strangely, there is little knowledge in the previous literature about the techniques banks use to reduce these risks; this is worth

investigating, given the important role of financial reporting for banks' risk management and firm stability objectives. This study was the first attempt to link loan loss provisions to intangible assets while controlling institutional differences (investor protection) across countries; the most important thing that the researcher pointed out in this study is that the loan loss provision is an important indicator for controlling the risks facing banks and logically managing them. Previous work (Bushman & Williams, 2012) aimed to investigate the relationship between the use of loan loss provisions and examine its impact on risk management in banks. The results also found that loan loss provisions have a direct impact on risk assessment and investment decision-making in the banking sector. This study pointed to the role of regulatory oversight in reducing the manipulation of loan loss provisions. Also, previous work (Beatty & Liao, 2011) concluded that delays in recognizing loan loss provisions increase banks' risks.

## **2.2 Related Theories**

### **2.2.1 Agency theory**

As emphasized by (Watts, 2003; Basu, 1997; & Ruch & Taylor, 2015) accounting conservatism has been broadly acknowledged as a significant mechanism for tackling agency problems in the dynamic between corporate management and stakeholders, Eisenhardt (1989) stated that agency theory offers a framework to comprehend this usage, concentrating on the assignment of responsibilities from principals (shareholders) to agents (managers) and the disputes that arise from different interests. Panda & Leepsa (2017) identified two viewpoints within agency theory. These are the positive agency perspectives, which analyze conflicts among shareholders, debt holders, and managers, and the principal-agent perspective, which concentrates on the interactions between them.

Accounting conservatism, which necessitates acknowledging possible losses more swiftly than gains, serves as a crucial governance tool that minimizes opportunistic actions by managers and guarantees trustworthy financial reporting, particularly in industries like banking where transparency and credibility are essential (Ngo & Le, 2021). Risk management is equally important in tackling agency problems, particularly within the banking industry, which encounters major risks like credit, market, and operational uncertainties. Efficient risk frameworks and independent committees assist in curtailing excessive risk-taking by managers, aligning their choices with shareholders' interests, and

lessening information asymmetry (Ashraf et al., 2024) Risk management and accounting conservatism foster sound governance principles, reduce ethical risks, and guarantee reliable financial reporting, particularly in high-risk fields like banking ( Hamdan, 2020).

### **2.2.2 Positive Accounting Theory**

To examine the connection between the performance of audit committees and the accounting conservatism, scholars like (Ardiansyah, 2022; & Sultana, 2015) emphasized that the performance of audit committees relates to an interconnected factor that influences accounting decisions. Conversely, accounting conservatism pertains to the particular accounting choice under review. Kejriwal (2022) noticed three hypotheses within the context of the theory of positive accounting. The first is the bonus plan hypothesis, which indicates that management selects accounting methods to enhance its own bonuses. The second is the debt covenant hypothesis, wherein management makes accounting decisions to avoid the company violating debt covenants by shifting future earnings to the present period. The third is the political cost hypothesis, where management seeks to lessen political costs, such as taxes, by adjusting accounting choices. Based on the theory of positive accounting (PAT), managers commonly inflate earnings to conceal weak performance (Nahandi et al., 2012).

Therefore, accounting conservatism is deemed essential in curtailing opportunistic accounting decisions made by management to enhance its interests. By limiting these choices, accounting conservatism lessens agency expenses (Olyhoek, 2017). Furthermore, in the banking industry, where governance and risk management are vital for stability, accounting conservatism aligns with the principle of the debt covenant by safeguarding creditors through the timely acknowledgment of losses, reducing the likelihood of False Profits, and fostering prudent decision-making. Audit committees, particularly those noted for their independence and financial knowledge, are critical in implementing conservative accounting practices, while risk management serves as a mediator to maintain financial discipline and integrity. The interplay between the audit, accounting portfolio, and risk management committees fortifies governance structures and ensures compliance with the principles of transparency and dependability, which are essential principles in the banking sector (Hamdan, 2020).

### **2.2.3 Signaling Theory**

The concept was first introduced by Callen et al (2016). It presents a novel perspective on the economic demand for accounting reservations. This concept focuses on the signaling function of accounting conservatism within the debt market. The assumption is that firms intentionally use accounting reservations as a signal to convey information to the debt market.

Taghavia et al. (2014) add to this dialogue by introducing the risk signals theory. Per this theory, firms make optimal decisions about the extent of accounting conservatism to signal their operational risks to the capital market. Fundamentally, the signal theory elucidates why managers employ signals to alleviate information asymmetry (Alia & Awwad, 2020). This strategy enables users of financial statements to view profits and assets with greater precision and clarity, thereby mitigating the effects of information asymmetry (Al-Batayneh, 2021). Signals via accounting conservatism emerge as a strategic instrument for companies seeking to enhance transparency and foster trust with stakeholders in the capital market. Within the banking sector, the autonomy of audit committees and their financial acumen act as strong signals of effective corporate governance. The independent audit committee reassures investors and regulators about the bank's dedication to conservative financial reporting, while financial expertise guarantees the rigorous application of accounting principles (Hamdan, 2020).

Furthermore, risk management reinforces the connection between the audit committees and the accounting conservatism, demonstrating the organization's capability to confront future challenges and adhere to regulatory requirements. Banks that implement robust governance frameworks, encompassing audit committees and efficient risk management, produce cautious and trustworthy financial reports, which boosts market confidence and regulatory adherence (Nasr & Ntim, 2018)

## **2.3 Literature Review and Hypotheses Development**

### **2.3.1 Introduction**

Accounting conservatism is a policy used by companies for the presentation of reliable as well as fairly represented financial information, especially in environments characterised by uncertainty and asymmetric information flow (Huang et al., 2024). As a key component of corporate governance, the audit committee is instrumental in

overseeing management, monitoring internal control systems, and ensuring the accuracy of financial statements (Ammer & Ahmad-Zaluki, 2017). Because of the increasing demands placed on the board of directors, recent governance reforms have expanded the responsibilities of audit committees. The role and effectiveness of audit committees vary depending on their structure, functions, and responsibilities (Fernández-Méndez & Pathan, 2023).

Similarly to Dang et al., (2023) found a positive connection between board independence, board size, and audit organisation with the quality of financial reporting information through accounting conservatism.

Numerous studies have explored the connection between corporate governance and accounting conservatism, especially concerning the banking industry. Leventis et al (2013), determined that banks which possess robust corporate governance frameworks and effective audit committee demonstrate higher levels of accounting conservatism. In the same vein, Lim (2011) reported a positive relationship between board independence and accounting conservatism. Nevertheless, experimental findings concerning this relationship are still inconsistent. Ardiansyah (2022) examined how the traits of Audit Committees affect accounting conservatism in Islamic banks in Indonesia. The researcher found that there is no significant effect, and this opposes the results of Leventis et al (2013). In the same context, Al-Tahan & Nakhal (2020) revealed no significant correlation between the characteristics of the Audit Committee and the accounting portfolio in Egyptian companies. On the other hand, Sharma & Kaur (2021) documented a strong influence of the characteristics of the board of directors and the Audit Committee on the accounting conservatism policies of Indian companies. Additionally, Olyhoek (2017) focused on the relationship between conditional accounting conservatism and the effectiveness of the audit committee of American companies listed in the S & P 500 index. The researcher revealed that financial experience and the duration of the audit committee's membership were significantly correlated with conditional conservatism. considering the factors affecting accounting conservatism in banks, El-Bannany (2017) study on the factors affecting accounting conservatism in UAE banks identified intellectual capital performance, market structure, level of risk protection, Bank size and bank profitability as important influencing factors. His discrepancy in the results draws

attention to the need for further research on the role of audit committees in strengthening accounting conservatism, especially in the banking sector.

### **2.3.2 Audit Committee Independence**

Fundamental characteristic of an effective audit committee is its independence from management. Audit committees with a high degree of autonomy offer significant benefits to the company and its stakeholders (Hassan et al., 2017). The concept of audit committee independence conforms with agency theory, which suggests that independent members are better resourced to supervise managerial actions and make decisions that serve the company's best interests (Khalid & Sarea, 2021). Independence within the audit committee is vital in mitigating financial report manipulation.

Different studies have shown that having a higher level of independence in an audit committee is associated with reduced managerial authority regarding financial reports, lower tendencies to delay the disclosure of unfavorable news, and enforced accounting conservatism (Sun et al., 2014). For example, Hamdan (2020) investigated four key audit committee characteristics, such as independence, diligence, size and financial expertise. The study found that having more extensive and independent audit committees.

Similarly, Abd El (2016) examined the governance role of audit committees and found a positive relationship between audit committee independence and accounting conservatism. Abdel Halim (2018) investigated the impact of ownership structure and audit committee characteristics on accounting conservatism in companies listed on the Saudi Stock Exchange. Their study concluded that audit committee independence had no significant effect on accounting conservatism.

The following hypothesis is formulated based on the insights from these previous studies and discussions:

**H1: Audit committee independence (ACI) positively affects accounting conservatism of banks listed on Arab stock exchanges.**

### **2.3.3 Audit Committee Size**

Several studies have shown that appropriately sized audit committees are better equipped to oversee corporate activities and address financial reporting issues effectively (Raweh et al., 2019).

International corporate governance rules require audit committees to have at least three people. For example, in the USA, the Blue-Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees suggested that audit committees should have no fewer than three members (Zraiq & Fadzil, 2018). From a theoretical perspective, resource dependency theory suggests that larger audit committees have access to greater resources and expertisen (Mardessi, 2022).

However, empirical studies on the relationship between audit committee size and accounting conservatism have produced mixed results.

For example, Hamdan et al (2012) examined the impact of audit committee characteristics including independence, size, activity, financial expertise, and the percentage of common stock owned by audit committee members—on accounting conservatism. Their findings revealed that audit committee size was not significantly associated with accounting conservatism. Similarly, Al-Tahan & Nakhil (2020) found no significant impact of audit committee size on accounting conservatism in Egyptian public shareholding companies. On the contrary, Saudi (2016) reported a significant positive relationship between audit committee size and accounting conservatism. The following hypothesis was formulated based on these varying results from previous studies:

**H2: Audit committee size (ACS) positively affects accounting conservatism of banks listed on Arab stock exchanges.**

### **2.3.4 Audit Committee Frequency of Meeting**

Based on agency theory, there is a crucial role played by audit committees to oversee the activities of top management and emphasize the effectiveness of internal control systems, that play a role in the quality and reliability of financial reporting (Lien et al., 2023). According to Alhassan (2020) having frequent audit committee meetings tells of the commitment of the committee to achieve its responsibilities, where this reflects effectiveness in overseeing corporate governance. Nonetheless, simply repeating

meetings does not necessarily guarantee an improvement in financial conservatism. Ahmed & Duellman (2007) noted that the recurrence of the Audit Committee's meetings alone did not reinforce accounting conservatism. Sultana (2015) investigated the correlation between the main attributes of the Audit Committee, including independence, financial expertise of members, the Committee's expertise, annual meeting frequency, and accounting reservations in companies listed in Australia. This study consisted of 7668 observations that were made in a year. It revealed a positive correlation between audit committee meeting frequency and accounting conservatism. Drawing insights from these studies, the following hypothesis is formulated:

**H3: The audit committee's frequency of annual meetings (ACM) positively affects accounting conservatism of banks listed on Arab stock exchanges**

### **2.3.5 Audit Committee Financial Expertise**

Corporate governance standards emphasize the importance of having financial expertise among audit committee members, as financial reporting and auditing skills are essential for effective oversight. Agency theory states that financial expertise helps enhance the ability of the audit committee when carrying out strong audits and leads to strengthened internal control and risk management systems (Nasr & Ntim, 2018). Moreover, resource dependency theory postulates that members with sound knowledge enable the committee to exercise greater control over financial reporting processes, leading to improved accuracy and reliability of financial information (Komal et al., 2023). Studies have suggested some evidence to support the relationship between audit committee financial expertise and accounting conservatism. For instance, Dechsukhum et al. (2022) studied the effect of audit committee characteristics on accounting conservatism in companies listed in the Stock Exchange of Thailand. The researchers emphasized the importance of financial expertise in enhancing the quality of financial reporting. Almaleeh (2022) examined the relationship between audit committee characteristics (independence, size, financial expertise, and activity) and accounting conservatism in 11 Egyptian companies listed on the Egyptian Stock Exchange. The researchers found that there is a positive correlation between audit committee financial expertise and accounting conservatism. Based on these findings, the following hypothesis is formulated:

**H4: Audit committee financial expertise (ACFE) positively affects accounting conservatism of banks listed on Arab stock exchanges.**

### **2.3.6 Audit Committee Ownership**

The relationship between the percentage of shares owned by audit committee members and the degree of accounting conservatism is a critical aspect of corporate governance. According to agency theory, an inverse relationship is expected, as higher ownership stakes by audit committee members may align their interests with those of shareholders, particularly when they are long-term investors (Jensen & Meckling, 2019).

Corporate governance requires a relationship between the percentage of shares owned by members of the Audit Committee and the degree of accounting reservation. According to the agency's theory, audit committee members' greater ownership shares will align with the interests of shareholders, especially when they are long-term investors as is anticipated. (Jensen & Meckling, 2019). This goes may have the ability to decrease the need for conservative financial reporting, since members would prioritize strategies that will enhance sold value rather than considering cautions in financial disclosure. Some researchers have revealed some results concerning such relationships. Al-Batayneh, (2021) investigated the effect of audit committee characteristics, including independence, size, frequency of meetings, financial expertise, and ownership percentage as well as risk committee characteristics on accounting conservatism in Jordanian manufacturing companies from 2017 to 2020. The study's results pinpoint that the ownership percentage of both audit committee members showed no significant influence on accounting conservatism. On the other hand, Hamdan et al (2012) found a negative association between audit committee ownership percentage and accounting conservatism. They recommended that when having higher ownership by audit committee members a decrease in the committee's objectivity is found. This may also lead to less conservative financial reporting practices. Based on these results, see the following hypothesis:

**H5: Audit committee ownership (ACOW) negatively affects accounting conservatism of banks listed on Arab stock exchanges.**

### **2.3.7 Risk Management**

Risk management has a great role in corporate governance through its influence on financial reporting practices, including accounting reservations. Yatim (2009) investigated the relationship between the characteristics of the audit committee and the creation of a risk management committee in the companies listed in Malaysia. The study

revealed that companies which had an audit committee that was independent, experienced, and highly diligent, as well as more members, were more likely to establish a specialized risk management committee. There was a positive correlation between the risk management committee's composition and the audit committee's size, independence, and accuracy, as confirmed by the results.

Furthermore, the study pointed out the influence of risk management on company-specific factors, such as their size and the adoption of key accounting principles. The relationship between risk management and accounting conservatism has been explored by various studies. For instance, Illueca et al. (2014) studied how conditional accounting governance (CAC) affects banks' risk tolerance, especially following an external change in loan loss allocation rules in 2000. It was found that banks that had high conditional accounting governance before the regulatory change had increased risk tolerance upon adoption, leading to higher loan growth and greater acceptance of lower-quality borrowers. In the same context, through the use of a moderating variable. Sari et al. (2017) studied the relationship found between corporate risk-taking and accounting conservatism focusing on Indonesian listed firms. The results revealed that higher risk levels are in connection with lower accounting conservatism, with managerial compensation added to this effect.

Biddle et al. (2012) explored the topic from a different angle, examining whether accounting conservatism was a risk management tool for reducing the negative risk associated with operating cash flows. Researchers found out that reducing operational risks, especially those related to supply chain uncertainty, was supported by conservative financial reports. Anuforo et al. (2024) investigated how the Risk Management Committee affects corporate governance mechanisms. They concentrated on Audit Committee's financial expertise, autonomy, gender diversity, as well as the quality of financial reporting in non-financial companies in Nigeria. The study results demonstrate that risk management serves in enhancing the credibility and transparency of financial reports, decreasing the risk of financial disclosure, and contributing to more conservative financial reporting, which provides valuable signals to investors. Taking these findings into consideration, the following hypothesis is formulated:

**H6: Risk management (RM) affects the relationship between the audit committee characteristics (independence, size, frequency of meetings, financial expertise, and ownership) and accounting conservatism.**

In the context of talking about the control variables El-Bannany (2017) highlighted in this study that intellectual capital performance, market structure, level of risk protection, Bank size and bank profitability are key factors influencing accounting conservatism in the UAE banks.

## **Chapter Three**

### **Research Methodology**

#### **3.1 Introduction**

The methodology used in this work is a descriptive approach, seeking to comprehend the influence of audit committee characteristics on accounting conservatism with risk management intervention within the banking sector in Arab countries spanning the years 2016-2021. The research objective is to scrutinize the phenomenon, emphasizing the documentation and description of relationships and effects between variables. By analyzing financial statements from the banking sector in Arab countries during the specified period, the research endeavors to unravel the impact of audit committee characteristics on accounting conservatism, considering risk management intervention as a moderating variable, thereby contributing to advancing knowledge in this field, to achieve this goal, a quantitative methodology was adopted that relies on analyzing the financial data of listed banks, using econometric models appropriate for cross-sectional time series data (Panel Data).

The hypotheses formulated in the preceding chapter serve as the foundation for this examination. This chapter elucidates the methodology for testing these hypotheses and the procedures for variable measurement, achieving the study's overarching goal. The content of this chapter spans the research population and sample selection, study period, data collection methods, and the design and measurement of variables.

In this study, we use panel data analysis to examine the impact of audit committee and risk management characteristics as a moderating variable on accounting conservatism in listed banks in several Arab countries during the period 2016-2021. To achieve this, the multiple linear regression method was applied through various estimation models such as pooled ordinary least squares, fixed effects model and random effects model. The research seeks to uncover the relationships between independent and dependent variables, control variables, and the moderating variable by employing pooled OLS analysis. This analysis seeks to reveal the factors that most influence accounting conservatism and thus provide empirical and realistic guidance that supports banks in making appropriate decisions.

### **3.2 Research Population and Sample Selection**

The study population for this research encompasses banks publicly listed on stock exchanges in Arab countries. The study sample, meticulously curated to meet specific criteria, comprises 99 banks. Data were collected for 71 banks, with 24 excluded from the analysis due to non-disclosure. The included banks are listed on the stock exchanges of Palestine, Amman, Egypt, Saudi Arabia, United Arab Emirates (Dubai financial market+ Abu Dhabi securities exchange), Qatar, Oman, Bahrain, and Kuwait. The sample includes various types of listed banks, comprising commercial, investment, and Islamic banks, with the study period spanning from 2016 to 2021. The selection of these exchanges as a single sample is due to several logical justifications, the economic and organizational convergence between these countries, and the countries that have been selected are subject to regulatory and supervisory bodies that ensure that these countries comply with international accounting standards. Also, the ease of access to the data of banks listed on the stock exchanges of these countries in addition to the presence of an active banking sector in these countries. It is worth noting that some Arab countries were excluded from the sample due to the lack of sufficient financial data and this hinders the possibility of including them in the research, also due to the different regulatory frameworks and laws followed by these countries, for example Iraq follows local standards, also some Arab countries lack the activity of the banking sector where the number of banks is small, making it difficult to include them in the sample.

Inclusion criteria:

1. Listing on Specific Stock Exchanges: Banks must be listed on the stock exchanges throughout the study period (2016-2021).
2. Availability of Information: Selected banks must have readily available information. The research considered the following information: access to yearly reports and the necessary data to measure the research variables during the specified study period. The availability of data ensures the reliability and accuracy. This selection aims to ensure that the study sample is representative of banks across stock exchanges in the Arab world and covers a diverse range of banking types.

**Table (1)***List of studied banks*

<b>Exchange</b>	<b>Total number of banks listed</b>	<b>No bank from which data were collected</b>
Palestine Stock Exchange	7	6
Amman Stock Exchange	14	14
Saudi exchange	11	10
Dubai financial market, Abu Dhabi securities exchange	19	10
Muscat stock exchange	8	6
Bahrain Bourse	7	6
Boursa Kuwait	10	7
Qatar stock exchange	8	7
Egyptian Exchange	11	5
Total banks	95	71

### **3.3 Data Collection**

This study collected data from various sources to build the research foundation. The researcher used financial and non-financial information collected from bank annual reports and disclosures published on multiple stock exchange websites (Palestine Stock Exchange (PSE), Amman Stock Exchange (ASE), Egypt Stock Exchange (ESE), Qatar Stock Exchange, Dubai Financial Market, Abu Dhabi Securities Exchange, Saudi Arabia Stock Exchange, Muscat Stock Exchange, Bahrain Stock Exchange, and Kuwait Stock Exchange). The data covers the years 2016 to 2021 to collect up-to-date information. This wide-ranging data collection method strengthens the study's empirical base and offers deeper insights into how audit committee characteristics affect accounting conservatism in the context being studied.

### **3.4 Variables Measurement**

#### **3.4.1 Dependent Variable (Accounting Conservatism)**

The market-to-book value ratio is widely used as a measure of accounting conservatism because it captures the cumulative effects of conservative financial reporting practices. Below are the accounting justifications for using this measure, supported by previous studies:

Timing of Recognition of Gains and Losses: Accounting conservatism requires recognizing expected losses more quickly than gains, leading to lower book values of

economic assets. This reduction creates a gap between market value and book value, making the market-to-book ratio a reliable indicator of conservatism (Penman & Zhang, 2002).

Reducing Information Asymmetry in Financial Institutions: One key issue in financial institutions is the delayed recognition of profits. Accounting conservatism enhances the reliability of financial information and reduces information asymmetry in financial reports (McNichols et al., 2014). The market-to-book ratio serves as an effective tool for predicting future investments and assessing a company's fair value, particularly in highly regulated sectors like banking.

Impact of intangible assets and regulatory requirements: in the banking sector, a significant portion of assets consists of intangible assets or investments, which are typically reported conservatively (Ahmed & Duellman, 2007). This measure captures cumulative conservatism bias, especially in heavily regulated environments.

$ACC.CON = \text{Market value} / \text{Book value}$

Market value = closing price at the end of the year

Book value = (total shareholder equity – preferred stock) / weighted average number of shares outstanding.

According to Basu (1997) Accounting conservatism measures indicate that if the value is greater than 1, this indicates high levels of accounting conservatism, and if the value is less than 1, this indicates a low level of accounting conservatism.

### **3.4.2 Independent Variables (Audit Committee Characteristics)**

Audit committee characteristics play a significant role in ensuring effective corporate governance and influencing the quality of financial reporting. This study considers several key characteristics of audit committees that are expected to affect accounting conservatism in financial reporting.

**Audit committee independence:** The independence of the audit committee is defined as the proportion of independent members of the committee who do not have a direct relationship with the company. This ensures objectivity in financial control. The presence

of such members on the committee enhances its ability to effectively monitor management and apply conservative accounting practices (Abd El, 2016).

**Audit committee size:** The size of the audit committee is a key structural feature that represents the total number of members working on the committee, so that a large committee provides multiple experiences and perspectives, which enhances the oversight role, however, large committees face challenges in the efficiency of decision-making (Gerayli et al., 2021).

**Audit committee frequency of meetings** are the ones that represent the annual meetings held by the committee. The frequency of audit committee meetings throughout the year reflects the committee's level of engagement in financial oversight. More frequent meetings suggest a proactive approach to monitoring financial reporting and internal controls (Sultana, 2015).

**Audit committee financial expertise:** This characteristic is determined by the presence of members with accounting and auditing backgrounds. A higher proportion of financially literate members strengthens the committee's ability to detect earnings management and enforce conservative reporting practices (Dechsukhum et al., 2022).

**Audit committee Ownership:** Ownership of audit committee members refers to the extent to which they hold shares in the company. While ownership may align the interests of members with shareholders, it can also raise concerns about potential conflicts of interest (Al-Batayneh, 2021).

### **3.4.3 The Moderating Variable (Risk Management)**

Loan loss provisions (LLPs) are an essential risk management tool in banks, representing the funds set aside to cover potential loan defaults. The ratio of loan loss provisions to total loans (LLP/TL) is widely used as a proxy for risk management effectiveness in the banking sector (Jasman & Murwaningsari, 2022).

The increase in this provision indicates that the bank follows more conservative accounting policies in risk management in the sense that the bank expects higher credit risks, perhaps due to the deteriorating economic conditions, and the increase in this ratio also affects profitability because the increase in provisions affects net income (Zheng et

al., 2019). A lower provision indicates less conservative accounting policies in risk management and may also indicate confidence in the quality of the bank's portfolio. Regulatory authorities often monitor a lower provision to ensure that banks are prepared for potential credit losses (Ozili, 2019).

The loan loss provision is a very important tool and a strong indicator that banks use to manage and measure credit risk. It represents the value banks expect to lose due to borrowers' failure to meet loan payments; in other words, it represents amounts set aside to cover expected losses from non-performing loans. In addition, these provisions ensure that banks can bear potential losses (Jasman & Murwaningsari, 2022). The most important main points and justifications about the loan loss provision as an indicator to measure risk management, first: Credit risk management indicator. The loan loss provision is a forward-looking and targeted tool for the ability to face expected credit risks. A high level of loan loss provision during an economic recovery indicates that banks are implementing strong risk management strategies and practices. In this case, banks anticipate possible recessions. Conversely, low-level loan loss provisions indicate banks' limitations in practicing risk management protocols and lack of insight into bank risk management (Bikker & Metzmakers, 2005). Second: Cyclical and counter-cyclical behavior. Many previous studies have been conducted (Laeven & Majnoni, 2003) Moreover, the study (Packer & Zhu, 2012) shows conflicting results regarding whether loan loss provisions are cyclical (meaning that these provisions increase during economic recessions) or counter-cyclical (meaning that these provisions increase during economic growth and prosperity. For example, banks in OECD countries have shown counter-cyclical behavior by using higher loan loss provisions during economic booms to reduce future risks, while other banks have shown cyclical behavior of provisions, which has led to increased financial instability during recessions. Third: Regulatory compliance (compatibility with regulatory frameworks) Regarding international standards, loan loss provisions are in line with International Financial Reporting Standard No. 9 (Expected Credit Losses) and US Accounting Standards (Current Expected Credit Losses). These frameworks ensure that loan loss provisions reflect a rational and realistic assessment of risks, enhancing Transparency, credibility, and accountability.

In addition, other regulatory frameworks, such as Basel II and Basel III, emphasize the need to commit to providing future provisions in line with credit risks and capital

adequacy, enhancing banks' financial flexibility. Fourth: financial stability. These provisions act as a barrier to credit risks, and this is considered a matter of utmost importance for maintaining the financial stability of banks by making provisions through which banks can reduce the impact of losses without affecting their capital base. Thus, banks can ensure their effectiveness in lending operations even in periods of recession and support the broader financial system (Zilberman & Tayler, 2014). Fifth: Credibility, Transparency, and trustworthiness of stakeholders. These provisions are an important indicator of the Transparency and credibility of financial reports. The presence of sufficient provisions in the published financial reports of banks enhances the reassurance factor among owners, including investors and regulatory bodies, regarding the banks' ability to manage credit risks. Of course, on the contrary, the lack of these provisions or the settlement of income through manipulation of these provisions can lead to the disappearance of this confidence (Soleymani et al., 2023).

#### **3.4.4 Control Variables**

In the study, control variables have been identified to account for potential influences on the relationship between audit committee characteristics, ownership of the audit committee, and accounting conservatism. The control variables and their respective measurements are defined as follows:

1. **Bank Size:**

- Definition: The natural logarithm of the total assets of the bank.
- Measurement Source: ( Hamdan, 2020).

2. **Bank Profitability:**

- Definition: The ratio of profit before tax to total equity for the bank.
- Measurement Source: (El-Bannany, 2017).

These control variables, bank size, and bank profitability, have been selected to mitigate potential confounding factors and enhance the accuracy of the analysis. The specific measurements provided ensure consistency and align with established methodologies in the relevant literature.

### **3.4.5 Macroeconomic variable**

Economic variables play an important role in shaping the business environment, reflecting the general economic situation and influencing financial and banking decisions. The rule of law reflects the extent to which the legal and regulatory framework is applied in the country. The more stable the rule of law is, the more confident investors and lenders will be, and this promotes good governance practices. The GDP reflects the level of economic activity of the country, as it affects the demand for banking services, credit risks and accounting decisions. The economic growth of the country encourages banks to adopt more open credit policies, while economic stagnation pushes banks to take more conservative policies in financial reporting (Kaufmann et al., 2011).

**Gross domestic product:** GDP is defined as the market value of all final goods and services produced within a given country's borders during a specified period and is usually measured annually or quarterly (Kaufmann et al., 2011).

**Role of law:** The concept of the rule of law refers to the principle that all individuals and institutions, including the government, are subject to the law, which is applied fairly and without discrimination, ensuring justice, stability, and Transparency in the legal system of the state (Kaufmann et al., 2011).

**Table (2)***Measurement of study variables*

<b>Variables</b>	<b>Label</b>	<b>Operation Definition</b>
<b>Dependent Variable</b>		
Accounting conservatism	ACC.CON	Dividing market value by book value; the The market value is the closing price at the end of the year. The book value is calculated by dividing (total shareholders' equity minus preferred stocks) on the weighted-average number of shares outstanding (Hamdan, 2020)
<b>Independent Variables</b>		
Audit Committee Independence	ACI	Dividing the number of independent members by the total number of members of the Audit Committee (Kusnadi et al., 2016)
Audit committee size	ACS	The number of committee members elected by the Board of Directors ( Gerayli et al., 2021)
Audit committee financial expertise	ACE	The number of members who have experience in the field of accounting and auditing on the total number of audit committee members (Komal et al., 2023).
Audit committee frequently annual meetings	ACM	The number of annual meetings held by the audit committee (Sultana, 2015)
Audit committee ownership	ACORN	The number of shares owned by members of the Audit Committee over the total number of shares (Al-Batayneh, 2021) (Hamdan et al., 2012)
<b>Control Variables</b>		
Bank size	Size	The logarithm of total deposits for the bank (Schildbach et al., 2017)
Bank profitability	Bank PROF	The ratio of profit before tax to total equity for the bank (Hamdan, 2020)
<b>Moderator Variables</b>		
Risk management	RM	loan loss provision / total loans (Ike R & Anuolam, 2023; Jasman & Murwaningsari, 2022)
<b>Macroeconomic variable</b>		
Gross domestic product	GDP	GDP is commonly measured in either real terms (adjusted for inflation) or nominal terms (without inflation adjustment). It is expressed in local currency units for domestic analysis or converted to US dollars for international comparisons. GDP can be reported as an absolute figure or as a percentage change to indicate annual economic growth (Kaufmann et al., 2011).
Rule of law	ROL	The rule of law is measured on a scale typically ranging from -2.5 to 2.5, with higher values indicating a stronger application of the rule of law and lower values indicating a weaker rule of law. (Kaufmann et al., 2011).

### **3.5 Data Analysis and Procedures**

The methodology outlined in this study involves employing panel data regression techniques to investigate the impact of audit committee characteristics on accounting conservatism. The analysis was conducted using the STATA software version. The primary statistical methods utilized in this study include descriptive analysis, correlation matrix, and regression analysis.

#### **1. Descriptive Analysis:**

- Purpose: Descriptive analysis will be employed to provide a comprehensive summary of the main characteristics of the study variables. This includes measures of central tendency, dispersion, and other relevant statistics.
- Output: Descriptive statistics such as means, standard deviations, and ranges will be presented to offer insights into the data's distribution

#### **2. Correlation Matrix:**

- Purpose: A correlation matrix will illustrate the correlation coefficients between the variables under consideration. This analysis helps identify potential relationships and dependencies between variables.
- Output: The correlation matrix will visually represent the strength and direction of relationships among the study variables.

#### **3. Regression Analysis:**

Regression analysis examines the direction and strength of the relationship between the independent variables (audit committee characteristics) and the dependent variable (accounting conservatism). Panel regression analysis will account for the data's cross-sectional and time-series variations. Regression coefficients, standard errors, p-values, and other relevant statistics will be reported to measure the relationships and assess if they're statistically significant. The study's regression analysis process was thorough and careful, addressing statistical considerations. The presence of heteroskedasticity, which can affect reliable regression results, was assessed. When heteroskedasticity was found, a robust test was done to ensure the results were solid.

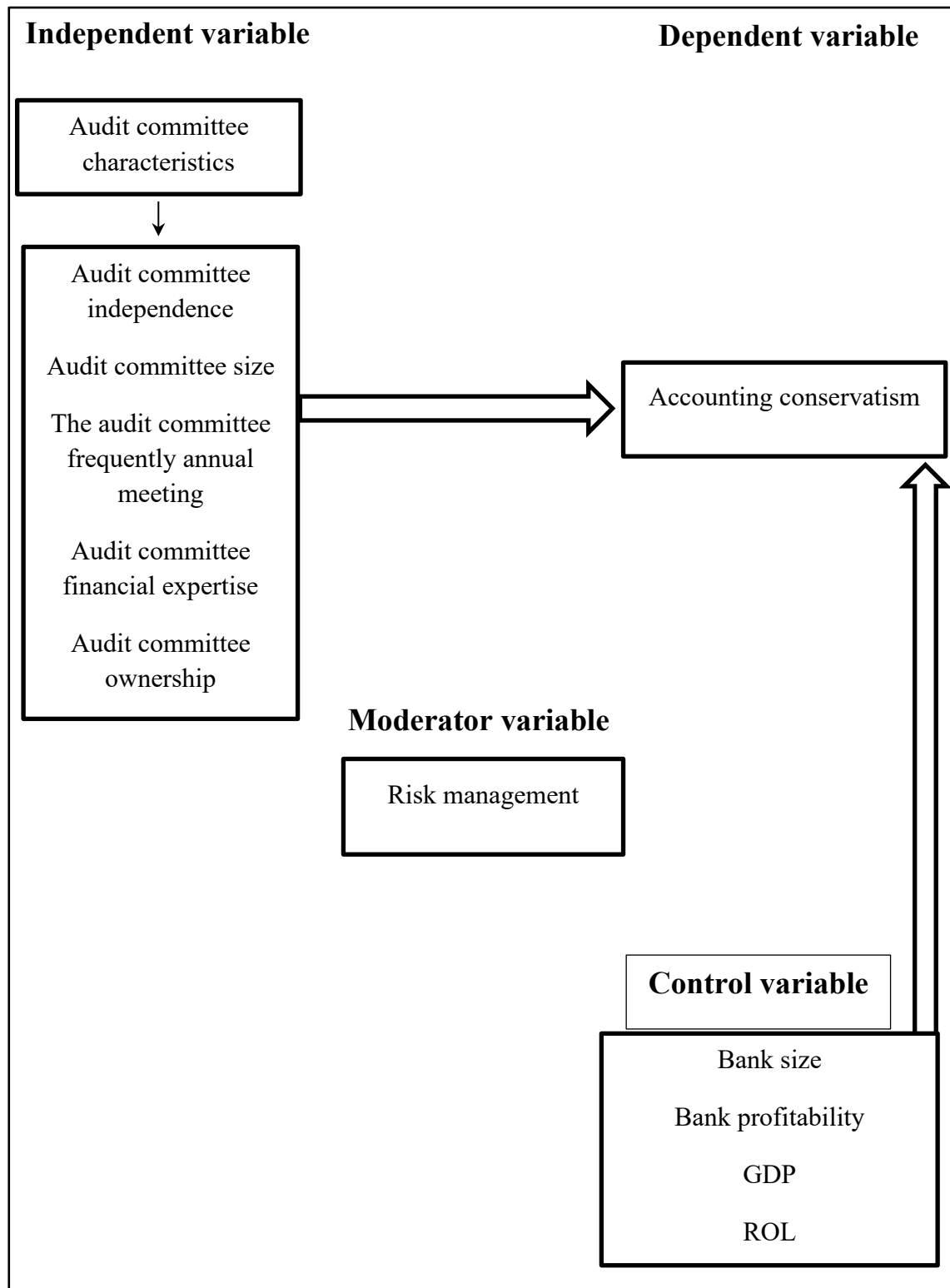
Also, the study used the Pooled Ordinary Least Squares (OLS) technique to find the right regression method. The researcher considered fixed and random effects models. The choice between these models was made using the Hausman test. If the test showed statistical significance below 5%, then it means that there are differences in effects among individuals, and fixed effects models were chosen. If the test statistics exceeded 5%, random effects models were selected instead.

Furthermore, the study used the Breusch and Pagan LM test for random effects to compare this model with the Pooled OLS. If the test's statistical significance was above 5%, showing differences in effectiveness, the Pooled OLS was used, and vice versa. This statistical testing was applied to all regression models (the entire sample and within individual countries).

### 3.6 Study Model

**Figure (1)**

*Study Model*



### 3.7 Study Design and Empirical Model

The regression model presented in this study is as follows

$$\text{ACC.CON}_{itg} = B_0 + B_1\text{ACS}_{it} + B_2\text{ACI}_{it} + B_3\text{ACM}_{it} + B_4\text{ACE}_{it} + B_5\text{ACORN}_{it} + B_6(\text{RM})_{it} + B_7\text{Bank Size}_{it} + B_8\text{PROF}_{it} + B_9\text{GDP}_{it} + B_{10}\text{ROL}_{it} + \varepsilon_{it} \dots\dots\dots (1)$$

Where:

- (ACC.CON) the dependent variable,
- (ACS<sub>it</sub>, ACI<sub>it</sub>, ACM<sub>it</sub>, ACE<sub>it</sub>, ACORN<sub>it</sub>) are independent variables,
- (Bank size, Bank PROF, GDP, ROL) are control variables.
- (RM) are moderator variables representing risk management (Loans loss provisions to/total loans).
- (ε<sub>it</sub>) the error term, and
- B<sub>k</sub> are coefficients of regression.
- *The regression model's coefficients are B<sub>0</sub>, B<sub>1</sub>, B<sub>2</sub>, B<sub>3</sub>, B<sub>4</sub>, B<sub>5</sub>, B<sub>6</sub>, B<sub>7</sub>, B<sub>8</sub>, B<sub>9</sub> and B<sub>10</sub>*
- The regression model

(1) aims to assess the impact of various independent variables, including audit committee characteristics, bank size, Profitability, and the moderator variable (risk management), on the dependent variable (accounting conservatism). The coefficients (B<sub>k</sub>) represent the estimated effects of each independent variable on the dependent variable, accounting for the other variables in the model. The error term (ε<sub>it</sub>) captures unobservable factors affecting the dependent variable.

This model provides a framework for analyzing the relationships between the specified variables and assessing their statistical significance in the context of this study, as mentioned in the works of (Al-Batayneh, 2021, Dechsukhum, et al 2022, Hamdan, 2020).

In addition, the interactive effect of risk management on the relationship between audit committee characteristics and accounting conservatism was tested using the following formula:

$$ACC\_CONS = \beta_0 + \sum \beta_i(AC\_CHAR\_i \times Risk\ Management) + \sum \gamma_j Control\ Variables + \varepsilon_{it} \dots\dots\dots (2)$$

Where:

AC-CHAR: refers to each characteristic of the audit committee.

AC\_CHAR\_i × Risk Management: the interaction between audit committee characteristics and risk management to examine how risk management moderates the effect of these characteristics on accounting conservatism.

## **Chapter Four**

### **Results and Discussions**

#### **4.1 Introduction**

This researcher presents the results of the empirical analysis in this chapter. The study explored how audit committee characteristics influence accounting conservatism, with risk management as a moderator variable, in the Arab World's banking sector from 2016 to 2021. This research analyzes the links between the variables and findings about the complexities of financial governance in the regional banking industry.

The empirical analysis explores the relationships between audit committee characteristics, accounting conservatism, and how risk management affects these relationships during the specified time. The study aims to understand how audit committee practices affect accounting conservatism when using risk management strategies.

The researcher presents the findings of the study in the other sections. It is divided into the observed relationships' statistical significance, magnitude, and effects. Also, the results of this study will be compared with previous work. This examination of the empirical results seeks to increase the academic scientific field on financial governance, risk management, and accounting conservatism for banks in the Arab world during the specified period.

#### **4.2 Descriptive Statistics Results**

This analysis helps in understanding the behavior of relevant variables such as the audit committee characteristics, risk management, and the level of accounting conservatism in banks, in addition to the size and Profitability of banks and macroeconomic variables represented by the gross domestic product and the role of the law. Descriptive statistics (mean, standard deviation, maximum and minimum values) for these variables will be reviewed to provide a clear picture of the studied sample and the variation between institutions (banks). This helps us in reaching the possible relationships between the variables.

**Table (3)***Descriptive Statistics*

<b>Variable</b>	<b>Obs</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>Min</b>	<b>Max</b>
ACC CONS	426	1.559	2.122	0.15	9.582
ACI	426	0.889	0.176	0.33	1
ACS	426	3.763	0.964	3	7
ACM	426	6.066	2.176	4	12
ACE	426	0.493	0.181	0.2	1
ACORN	426	0.034	0.103	0	0.574
BankSize	426	7.84	1.175	5.666	10.787
BankPROF	426	0.152	0.107	-0.012	.506
RM	426	0.031	0.031	0	0.184
GDP	426	1.367	3.252	-11.3	8.9
ROL	426	0.289	0.397	-0.511	0.978

Accounting Conservatism shows the mean is 1.559, meaning that banks tend to be conservative in preparing their financial reports. However, there is a large variation between banks (standard deviation 2.122), with values ranging between 0.15 and 9.582. Also, the mean of accounting conservatism is positive, which reflects a high level of accounting conservatism in the financial reports of some banks. This descriptive result is consistent with the (Hamdan, 2020). Audit Committee Independence displayed an average value of 0.889, which indicates that most audit committee members are independent. The values range between 0.33 and 1, meaning some banks have less independence. The Audit Committee Size has a mean of 3.763 members, with a standard deviation of 0.964. This means that most banks have audit committees of 3 to 4 members, but some have more prominent committees (up to 7). Audit Committee Frequency has an average of 6,066 meetings per year, with a variation between 4 and 12 meetings. This suggests that some banks hold more meetings than others; financial Experience showed an average value of 0.493, which means that about half of audit committee members have strong financial experience, and the values range between 0.2 and 1, Stock Ownership Percentage has a low average (0.034), indicating that audit committee members own a small percentage of bank shares. Values range between 0 and 0.574, and bank size has a mean value of 7.84, with large variation across banks (standard deviation 1.175), ranging between 5.666 and 10.787. The Bank Profitability received an average value of 0.152, indicating that banks are generally p, profitable. However, there is a significant variance (standard deviation 0.107), with values ranging between -0.012 and 0.506. Risk

Management has an average value of 0.031, with a large variance (standard deviation: 0.031). Also, the values range between 0 and 0.184, indicating that some banks have better risk management than others. GDP (gross domestic product) showed a mean value of 1.367, with a significant variance (standard deviation 3.252). The values range between -11.3 and 8.9, reflecting significant differences in economic performance between countries. ROL (Rule of Law) showed a mean value of 0.289, with a significant variance (standard deviation of 0.397). The values range between -0.511 and 0.978, indicating differences in the level of rule of law between countries.

### 4.3 Correlation Matrix Test Results

The correlation matrix test is used to detect the multicollinearity between all variables. The results for variables from Columns 2 to 11 indicate no high correlation between variables, indicating no multicollinearity problem in the model. We note from the table below that there is a positive correlation between independence (0.216), financial experience of members(0.069), and accounting conservatism. The correlation matrix also shows that there is a negative correlation between committee size(-0.024), committee ownership(-0.118), and accounting conservatism. The relationship between the number of meetings and conservatism is weak and practically ineffective. there is a negative correlation between risk management (-0.193)and accounting conservatism.also bank profitability shows a positive correlation (0.077) with conservatism. There is no correlation between bank size,GDP,ROL and conservatism.

**Table (4)**

*Matrix of correlations*

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) ACC_CONS01	1.000										
(2) ASI01	0.216	1.000									
(3) ACS01	-0.024	-0.143	1.000								
(4) ACM01	0.020	-0.183	0.023	1.000							
(5) ACE01	0.069	-0.033	0.049	-0.028	1.000						
(6) ACORN01	-0.118	-0.060	-0.083	-0.088	-0.126	1.000					
(7) BankSize01	-0.032	-0.068	0.052	0.024	0.128	-0.199	1.000				
(8) BankPROF~01	0.077	0.218	-0.008	-0.058	-0.009	-0.075	0.020	1.000			
(9) RM01	-0.193	-0.247	0.119	0.021	-0.002	-0.010	0.004	-0.126	1.000		
(10) GDP	0.000	-0.057	-0.004	-0.026	0.014	0.011	0.077	0.204	-0.050	1.000	
(11) ROL	-0.064	-0.062	0.045	-0.107	-0.144	0.167	-0.413	-0.085	0.158	-0.186	1.000

#### 4.4 Multiple Linear Regression Test Results

This section analyzes the results of statistical regression to examine the relationship between audit committee characteristics and accounting conservatism in banks, taking into account the moderating effect of risk management. The Pooled OLS method was used to conduct the analysis, allowing the general effects of these variables to be estimated across the sample studied.

**Table (5)**

*Regression Result*

VARIABLES	(1)	(2)	(3)
ACI01	2.617*** (0.642)	2.263*** (0.628)	0.178** (0.914)
ACS01	-0.0119* (0.107)	-0.0327* (0.106)	-0.393*** (0.104)
ACM01	0.0681 (0.0464)	0.0648 (0.0460)	-0.0510 (0.0393)
ACE01	0.824* (0.490)	0.818* (0.488)	0.728** (0.404)
ACORN01	-2.108*** (0.434)	-2.221*** (0.460)	-1.151*** (0.368)
BankSize01	-0.0952 (0.0592)	-0.0864 (0.0596)	-0.00975 (0.0814)
BankPROF01	0.291 (1.268)	0.130 (1.253)	-1.599 (1.208)
RiskManagement01		-9.034*** (2.168)	0.632 (1.448)
GDP	-0.0463 (0.0355)	-0.0428 (0.0350)	
ROL	-0.209 (0.182)	-0.0976 (0.179)	
Year	Yes	Yes	Yes
Country	No	No	Yes
Constant	-0.228 (1.040)	0.170 (1.063)	3.326*** (1.008)
Observations	426	426	426
R-squared	0.093	0.109	0.479

Robust standard errors in parentheses.

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1.

This table contains three statistical analysis models. The aim was first to consider important variables such as macroeconomic variables (GDP and the role of law) in addition to the Country and year, and second, to reach the model that shows a high coefficient of determination (R squared).

In model 1, we made controls for a year, and we entered macroeconomic variables (GDP, ROL), meaning they account for differences over time and economic and legal factors across countries, without taking into account the risk management variable. The results of the first model were that there is a strong positive effect of audit committee independence on accounting conservatism, there is a negative effect of audit committee size on accounting conservatism, there is a positive effect of audit committee financial expertise on accounting conservatism, there is no significant effect of audit committee meeting on accounting conservatism, there is a negative effect of audit committee ownership on accounting conservatism, there is no significant effect of GDP on accounting conservatism, there is no significant effect of ROL on accounting conservatism. In model 2, We obtained the same results except that we took into account the risk management variable, and it turned out that risk management has a negative effect on the level of accounting conservatism; we noticed in model 2 that the R squared improved from 0.09 to 0.10. The two models whose results we reviewed were preliminary statistical analyses, and this research will rely on the third model because it appears there is a high level of R-squared of 47.9%. We notice from the fifth table that the high level of R-squared of 47.9% means the current independent variables explain about 47.9% of the dependent variable accounting conservatism. Also, the model controls for year and Country( fixed effects), As dummy variables in statistical analysis. meaning it accounts for differences over time and across countries.

We will review the third model in a table containing the study variables and the Beta coefficient for each variable separately.

**Table (6)***Regression Result (model 3)*

Variables	Beta Coefficient
ACI	0.178**
ACS	-0.393***
ACM	-0.051
ACE	0.728**
ASORN	-1.151***
Bank Size	-0.00975
Bank PROF	-1.599
RM	0.632
Year	Yes
Country	Yes
Constant	3.326***
Observations	426
R-squared	0.479

For audit committee independence, the beta coefficient is 0.178, which means it is statistically significant at the 5% level. This suggests that more independent audit committees are associated with higher accounting conservatism in Arab banks; this finding aligns with agency theory, which posits that independent board and committee members enhance monitoring effectiveness, thereby mitigating managerial opportunism (Jensen & Meckling, 2019). In alignment with numerous prior studies on accounting conservatism, such as (Ansah et al., 2013; Lim, 2011; Abd El 2016), they found ACI's vivacious and significant impact on accounting conservatism. This reinforces the notion that independent audit committees are more likely to promote conservative accounting practices, but the study of Abdel Halim (2018) reported no significant effect. So, H1: Supported: because the results show a positive and statistically significant coefficient for audit committee independence on accounting conservatism.

In audit committee size, the beta coefficient is -0.393, meaning it is statistically significant at the 1% level, and this indicates that more prominent audit committees are associated with **lower** accounting conservatism. When the size of the audit committee is large, it may lead to a lack of coordination among the committee members, which may cause difficulty in making effective and rapid decisions, which reduces control over

management and reduces accounting conservatism in financial reports because when control is absent, managers have the opportunity to manipulate these reports (Xie et al., 2003). Some studies indicate that committees that include a large number of members lack efficiency due to increased administrative complexity and the occurrence of the phenomenon of social loafing of responsibility, which shows that the individual effort of members decreases due to dependence on others (Abbott et al., 2004). This result is consistent with resource dependence theory, which suggests that large audit committees lead to differences of opinion and diversity of interests, thus weakening decision-making authority. So H2: Not Supported because the result shows a negative impact of ACS on accounting conservatism. This result contradicted Saudi (2016) which indicated a positive impact of the size of the audit committee on accounting conservatism.

Audit Committee Frequency, the beta coefficient is -0.051, and it is not statistically significant, so this suggests that how often the audit committee meets don't really affect accounting conservatism and that an increase in the number of meetings does not necessarily reflect an improvement in the quality of financial reporting. Previous studies have shown mixed results such as Abbott et al (2004). pointed out that repeating meetings improves control and thus access to reliable financial reports, (Xie et al., 2003) they noticed that Repeating meetings alone is not enough unless Experience, competence and effective participation are complete, this result contradicted with (Sultana, 2015). So H3: Not Supported because the result shows no significant impact of ACF on the accounting conservatism.

Financial Experience, the beta coefficient is 0.728 and statistically significant at the 5% level. This shows that having more financially experienced members in the audit committee is linked to higher accounting conservatism; this result aligns with resource-independent theory, highlighting the importance of expert knowledge in ensuring high-quality governance practices. Firms with financially knowledgeable audit committee members may be better equipped to challenge management decisions and enforce conservative accounting policies. The findings partially support previous research (Olyhoek, 2017; Sultana, 2015; Almaleeh, 2022; Dechsukhum, 2022) suggesting a positive association between ACFE and conservatism, so H4 is supported because this result shows a positive impact of ACFE on accounting conservatism.

The beta coefficient of the audit committee ownership is -1.151, which is statistically significant at the 1% level; this indicates that higher stock ownership by committee members is associated with lower accounting conservatism. This result is consistent with the management entrenchment theory, which states that when audit committee members own shares in the company's stock, this may lead to potential affinity with management rather than acting as independent members Hamdan et al (2012) found the same result that members owning shares in the company leads to a conflict of interest, which leads to a reduction in conservatism and reliability in financial reports, so H5 supported that shows a negative and significant relationship between ACOW and conservatism.

Bank Size The beta coefficient is -0.00975, and it is not statistically significant. This means that the size of the bank does not affect accounting conservatism as a control variable, which contradicts (Hamdan, 2020).

Bank Profitability The beta coefficient is -1.599, and it is not statistically significant. This means that how profitable the bank does not clearly impact accounting conservatism as a control variable. Al-Batayneh (2021) found no significant influence of Profitability on accounting conservatism.

In risk management, the beta coefficient is 0.632 and is not statistically significant. This means risk management practices do not significantly affect accounting conservatism at this stage (before adding it as a moderator). This result matches with (Ball & Shivakumar, 2005). Those who pointed out that accounting conservatism practices are linked to the regulatory environment, legal rules, and market expectations, as companies rely on these policies to meet the expectations of stakeholders and not to be directly linked to risk management strategies.

**The moderating effect of Risk management on the Relationship between Audit committee characteristics and accounting conservatism.**

**Table (7)***Interacting with the moderator variable (Risk Management)*

<b>VARIABLES</b>	<b>(1)</b>	<b>(2)</b>
ACI	4.497*** (0.940)	0.123** (1.142)
ACS	-0.0324 (0.225)	-0.898*** (0.221)
ACM	0.161* (0.0825)	0.0557 (0.0664)
ACE	0.977 (0.814)	1.284* (0.683)
ACORN	-2.567*** (0.642)	-1.822*** (0.676)
ACI*Risk	63.32*** (13.80)	7.396** (10.57)
ACS*Risk	1.002 (3.507)	12.37*** (3.245)
ACM*Risk	-2.991** (1.362)	-0.0110 (1.051)
ACE*Risk	-4.441 (15.08)	18.68 (12.46)
ACORN*Risk	12.33 (11.94)	20.66 (14.58)
Bank Size	-0.112* (0.0647)	-0.0200 (0.0863)
Bank PROF	0.122 (1.267)	-1.168 (1.175)
RM	60.40*** (19.51)	-61.22*** (19.27)
GDP	-0.0452 (0.0358)	
ROL	-0.0636 (0.185)	
Year fe	Yes	Yes
Country fe	No	Yes
Constant	-1.962 (1.427)	5.842*** (1.511)
Observations	426	426
R-squared	0.137	0.506

Robust standard errors in parentheses.

\*\*\* p&lt;0.01, \*\* p&lt;0.05, \* p&lt;0.1.

This table contains two models of statistical analysis. In the first model, we took into account macroeconomic variables (GDP, ROL), and we made control for the year. We note from the table in the first model that risk management enhances the effect of the

independence and size of the audit committee on accounting conservatism, but risk management negatively affects the relationship between ACF and accounting conservatism. It also shows that risk management does not affect the relationship between financial Experience, ownership of the audit committee members of the company's shares, gross domestic product, the role of the law, bank size, and Profitability on accounting conservatism. It must be noted from the table in the first model that risk management positively impacts accounting conservatism.

In model 2, we enter the moderator variable (risk management), and because of Robust standard errors, we adopted the robust test to fix these errors. So, it appears from the above table that the R-squared = 50.6% increased after entering the moderator variable, which indicates that the model explains about 50.6% of the variation in accounting conservatism.

Also, in the analysis, the year and Country are used as Fixed Effects (fe). These are included to control differences across years and countries, which means the results account for time-specific and country-specific factors.

**Table (8)**

*Interaction Terms (Moderating Effects)- model 2*

<b>VARIABLES</b>	<b>Beta Coefficient</b>
ACI	0.123**
ACS	-0.898***
ACM	0.0557
ACE	1.284*
ACORN	-1.822***
ACI*Risk	7.396**
ACS*Risk	12.37***
ACM*Risk	-0.011
ACE*Risk	18.68
ACORN*Risk	20.66
BankSize	-0.02
BankPROF	-1.168
RM	-61.22***
Year fe	Yes
Country fe	Yes
Constant	5.842***
Observations	426
R-squared	0.506

Audit Committee Independence, On the other hand, when interacting with the moderator variable (Risk Management), the Audit CoInde beta coefficient reached 7.396 at a 5% level, so the positive effect of audit committee independence on accounting conservatism becomes stronger when considering Risk Management. These results align with Brown & Caylor (2006) who found that strong governance mechanisms reinforce each other, which in turn is reflected in the quality of financial reporting.

Audit Committee Size, in other words, when risk management is introduced as a moderating variable, the effect changes to be positive. The reason for this is that strong risk management improves the efficiency of the audit committee, as it provides better information, helps in coordination among committee members, and enhances their ability to make informed decisions. Thus, more prominent committees, which used to suffer from poor efficiency, benefit from a strong risk management system, which strengthens internal control and increases accounting conservatism. A study conducted by Beasley et al. (2005) indicates that when having a strong risk management framework enhances the effectiveness of the audit committee, leading to more conservative financial reporting decisions, also study (Krishnan & Visvanathan, 2007) supported the idea that the relationship between the audit committee and the quality of financial reporting is affected by risk management procedures, as these procedures can improve the control performance of the large audit committee. Salama (2018) added that increasing attention is paid to the quality of disclosure of general and financial risks in companies' annual financial reports. The study related this issue to the increased use of financial instruments, more international transactions, and changes in the economic environment. This has led to higher investor demand for accounting conservatism and risk information. This study also explored how the quality of the risk management committee affects accounting disclosure of financial risks. It showed that having an effective risk management committee positively links to better financial disclosure and risk control quality.

Audit Committee Meeting Frequency: The Beta coefficient is -0.011, and there is no significant effect, so the number of audit committee meetings does not interact significantly with risk management. This indicates there is no statistically significant relationship between Audit meeting frequency and accounting conservatism, so H3: Not Supported because the coefficient for audit committee meeting frequency (ACM) is small and not statistically significant.

Financial expertise: The beta coefficient is 18.68 but not statistically significant, so the effect of financial expertise does not interact significantly with risk management. This indicates there is no statistically significant relationship between committee financial experience and accounting conservatism.

Audit committee ownership: The beta coefficient is 20.66 but not significant, so the effect of audit committee ownership does not interact significantly with risk management; also, the coefficient before interacting with risk management was -1.822, statistically significant at the 1% level. The negative and statistically significant coefficient without moderator variable (risk management) suggests that higher stock ownership by audit committee members is associated with lower levels of accounting conservatism. This could be due to potential conflicts of interest between shareholder wealth maximization and conservative accounting practices.

Risk Management, the negative and statistically significant coefficient (-61.22, at the 1% level) indicates that banks with stronger risk management practices tend to exhibit lower levels of accounting conservatism; this suggests an important interaction effect, where the influence of some audit committee characteristics on accounting conservatism might be weaker in banks with more sophisticated risk management. This result aligns with the study of Sari et al. (2017) which concluded that risk management hurts accounting conservatism. Some researchers have indicated justifications for the negative impact of risk management on accounting conservatism such as a study of (Mikes & Kaplan, 2015). This study suggests that companies that overuse risk management systems may fall into the trap of a false sense of security theory, whereby greater focus on regulatory compliance becomes a substitute for accounting prudence, leading to lower levels of accounting conservatism. The study of Francis et al (2005) indicated that companies that follow advanced risk management systems may rely heavily on expected estimates and estimated values instead of relying on recorded historical data, which leads to reducing conservative policies in recording profits and losses. We must mention an important point when talking about risk management. In the first model, the impact of risk management was positive on accounting conservatism, but in the second model, its impact became negative, and the reason for that is when country-specific effects are included, the impact of risk management may change due to differences in the regulatory frameworks of each Country, which means that corporate governance and its impact on accounting

conservatism may vary depending on the institutional context, and this aligns with institutional theory.

The beta coefficients of Bank Size and Bank Profitability are (-0.02 and -1.168) respectively, but they are not statistically significant. This indicates a negative effect of these variables in the model but without statistically significant evidence.

**The study's findings align closely with the principles of agency theory, positive accounting theory, and signaling theory.**

Agency theory suggests that independent oversight groups, like audit committees, can reduce conflicts between managers and shareholders by aligning interests and ensuring accountability. The positive and statistically significant coefficient for audit committee independence supports this idea. It basically shows that banks with more independent audit committees tend to show higher levels of accounting conservatism. This finding fits with agency theory as it focuses on monitoring mechanisms in corporate governance to reduce agency costs (Hamdan, 2020).

Positive Accounting Theory (PAT) suggests that managers choose accounting policies strategically to affect contracting decisions. The study finds that higher stock ownership by audit committee members is linked to lower accounting conservatism, which matches PAT. Audit committee members who own a lot of company stock might prefer accounting practices that boost reported earnings and stock prices, even if this reduces conservatism (Ardiansyah, 2022).

This is to say that the Signaling Theory means that firms that use accounting choices aims to signal private information to stakeholders. From a signaling perspective, the finding that banks with stronger risk management practices tend to exhibit lower levels of accounting conservatism (with the risk management moderator) is interesting. Stronger risk management might signal stakeholders that the bank has a lower inherent risk profile, allowing them to adopt less conservative accounting practices without raising concerns about financial stability. This highlights the potential interplay between risk management and accounting conservatism in conveying information to external users (Chi & Wang, 2010).

**Table (9)***The degree of accounting conservatism in the Arab world country*

<b>Country</b>	<b>Mean ( degree of accounting conservatism)</b>
Palestine	1.16156
Amman	0.916926
Saudi Arabia	4.895313
Dubai + Abu Dabi	1.267994
Oman	0.572747328
Bahrain	0.502858135
Kuwait	1.536366263
Qatar	1.224524772
Egypt	0.668899842

#### **4.5 Implications**

The strong correlation between audit committee independence and accounting conservatism indicates that audit committees with a large number of independent members lead to more conservative accounting policies in banks' financial reports, this impact reflects the role of audit committees in minimizing conflicts of interest and improving the quality of financial reporting, This is consistent with agency theory, which emphasizes the importance of good governance in mitigating managerial biases in financial reporting, These findings have scientific and practical implications for banks and regulators, calling for the need to impose regulations that mandate a higher percentage of independent members on audit committees.

The negative relationship between audit committee size and accounting conservatism reflects and indicates that larger committees may be less efficient and effective in making prudent accounting decisions, perhaps due to poor coordination or weak internal governance. This result is in line with some previous studies that have reported that smaller audit committees are more efficient in auditing financial reports.

The strong negative relationship between audit committee ownership and accounting conservatism reflects the potential for conflicts of interest when audit committee members own shares in the bank. This leads them to take less conservative policies in financial reporting, perhaps due to maximizing short-term profits, this result emphasizes

that banks should set limits on member ownership or include more transparent and credible disclosures about this aspect.

The negative effect of risk management on accounting conservatism reflects that banks that follow strong risk management practices may be less conservative in their financial reports, perhaps because they feel more financially secure. This requires further research and study to understand whether this effect reflects an improvement in financial reporting or just an unjustified reduction in the levels of conservatism.

#### **4.6 Additional points**

Interaction between audit committee and risk management variables, the results show us that the interactive effects between some characteristics of the audit committee and risk management enhance accounting conservatism in banks such as independence and size, while other variables have no effect on accounting conservatism, which indicates the importance of studying these factors integratively instead of separating them.

Differences between countries, when introducing country effects, the model's interpretation of the variables increased, which indicates that organizational and institutional factors have an important role in determining the relationship between audit committees and accounting conservatism.

Implications for banking practices and policymakers These findings point to the need for stronger regulatory policies to strengthen the independence of audit committees and minimize the negative effects of member ownership. It may be beneficial for banks to consider improving risk management in banks without sacrificing accounting conservatism levels that ensure transparency and confidence among investors.

#### **4.7 Conclusion**

The present study attempted to investigate the effect of audit committee characteristics on accounting conservatism in the banking sector in the Arab world, taking risk management as a moderating variable. Through the analysis of 71 banks' data that are found in the Arab stock exchanges between 2016 and 2021, the study outlines findings related to the role played by governance mechanism when shaping and creating financial reporting practices.

- Thus, in relation to audit committee characteristics and accounting conservatism, the study revealed that some audit committee characteristics significantly affect accounting conservatism. In particular, audit committee's independence, size, frequency of meetings and financial expertise demonstrated a positive association with higher levels of accounting conservatism. The study showed that having independent members confirms objectivity and enhances oversights, where more conservative financial reporting practices are found. Furthermore, the study showed that having a larger audit committee leads to greater resources and different expertise, thereby strengthening governance mechanisms. As for frequent meetings, they, as seen in the analysis, allow committees to be more involved in observing financial reports and managerial decisions, hence, this reinforces conservative accounting practices. Moreover, audit committees that have financial expertise seem to be effective in imposing conservative reporting practices because members with accounting backgrounds may better evaluate and make informed financial decisions.
- The study revealed a negative impact of audit committee ownership on accounting conservatism. Thus, if audit committee members have a large percentage of a company's stock, they may have some intentions to prioritize short-term profitability over conservative financial reporting. In fact, this result we reached goes hand in hand with the agency theory that suggests that when there is greater ownership by managers, there is an opportunistic financial reporting.
- Moving on to talk about the role of risk management, we can say that it had a significant moderating role to play in the relationship between audit committee characteristics and accounting conservatism. Moreover, the study emphasized that having effective risk management works in strengthening the positive effect of audit committee characteristics on accounting conservatism. Besides, it has been revealed that banks that have strong risk management practices head to use or adopt conservative accounting policies.

Theoretically, the study has also come up with some important conclusions. Thus, it can be mentioned that the current study adds to corporate governance literature through providing empirical evidence as regards the role of committees in relation to accounting conservatism. Moreover, the study backs up agency theory as it demonstrates how independent audit committees enhance financial reporting quality. Besides, the study goes

hand in hand with signaling theory since banks that have strong governance structures employ conservative accounting to signally show financial stability and reliability to investors. Additionally, the study adds to positive accounting theory through demonstrating how managerial incentives affect financial reporting decisions.

#### **4.8 Recommendations**

The current study recommends that:

1. There should be more strict corporate governance regulations by policymakers to confirm that banks preserve independent audit committees.
2. Risk management frameworks should be adopted by the banks and these frameworks must align with international standards.
3. Regulators must create limitations on the percentage of shares owned by committee members to decrease conflicts of interest.
4. The banks have to make sure that their audit committees must be composed of independent, well-qualified members that have strong financial expertise.
5. Banks need to adopt accounting conservatism to be an essential policy to develop financial reporting reliability.
6. Teams of risk management must work hand in hand with audit committees to evaluate financial risks and apply conservative accounting procedures.
7. In this study, we recommend that companies adopt accounting conservatism in a logical and balanced manner. It is preferable that the use of this policy be studied and based on the nature of the risks and the circumstances surrounding the operating environment in order to reflect the true picture of financial performance.

#### **4.9 Future Research**

- Expand the size, scope, and geographic scope of the sample so that banks in Arab countries can be compared with banks in other regions, such as Europe, and examine whether the results are consistent across different environments.
- Corporate governance impact can be studied in general or focus on variables such as banks' compliance with Basel standards or the role of institutional shareholders in

explaining the relationship between audit committee characteristics and accounting conservatism.

- A comparison can be made between Islamic and conventional banks to study this effect.
- In this study and in previous studies, we noted the critical role of audit committees and risk management in achieving the quality of financial reporting. The impact of risk management policies and audit committees on the sustainability and profitability of banks in light of economic fluctuations can be studied.

#### **4.10 Limitations of the study**

- Availability of data: Some data on audit committee characteristics and risk management variables may not be systematically disclosed in banks' financial reports, possibly due to differences in the level of transparency between banks.
- Time period: This study examines data from 2016-2021, a longer timeframe could be examined for a more comprehensive understanding of this relationship.

## List of Abbreviations

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<b>Abbreviation</b>	<b>Definition</b>
ACC.CON	Accounting conservatism
ACI	Audit committee independence
ACS	Audit committee size
ACE	Audit committee financial expertise
ACM	Audit committee meeting
ACORN	Audit committee ownership
Size	Bank size
Bank PROF	Bank profitability
RM	Risk management
GDP	Gross domestic product
ROL	Role of law
LLP	Loan loss provision

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إعداد  
محمود بسام ماجد دراغمة

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

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الملخص

تستكشف هذه الدراسة تأثير خصائص لجان التدقيق على التحفظ المحاسبي في البنوك المدرجة في الدول العربية، ودور إدارة المخاطر كمتغير معدل في هذه العلاقة. يُعد التحفظ المحاسبي سياسة محاسبية مهمة تؤثر على جودة التقارير المالية من خلال الحد من تلاعب الإدارة بالمعلومات المالية. لذلك، درست الدراسة خصائص لجان التدقيق، بما في ذلك الاستقلالية والحجم والخبرة المالية وعدد الاجتماعات وملكية أعضاء لجنة التدقيق للأسهم، وتأثيرها على التحفظ المحاسبي، مقاسًا بنسبة القيمة السوقية إلى القيمة الدفترية. تم قياس إدارة المخاطر بنسبة مخصص خسائر القروض إلى إجمالي القروض.

تكونت عينة الدراسة من 71 بنكًا مدرجًا في 10 بورصات عربية خلال الفترة 2016-2021 باستخدام تحليل الانحدار المجمع. تم جمع البيانات من التقارير السنوية والإفصاحات الرسمية.

أظهرت نتائج الدراسة وجود تأثير إيجابي لكل من الاستقلال والخبرة المالية لأعضاء لجنة التدقيق على التحفظ المحاسبي، بينما كان للحجم والملكية تأثير سلبي على التحفظ المحاسبي. وأظهرت نتائج الدراسة أيضاً إدارة المخاطر كمتغير معدل لها تأثير إيجابي على العلاقة بين استقلال لجنة التدقيق وحجمها والتحفظ المحاسبي، إلا أنها لا تؤثر على العلاقة بين كل من الخبرة المالية، عدد الاجتماعات، ملكية اللجنة والتحفظ المحاسبي. واطهرت نتائج الدراسة ان بورصة السعودية ظهرت باعلى مستوى تحفظ بقيمة 4.90 تتبعها

الكويت 1.54 ثم الامارات العربية المتحدة 1.27 و بورصة قطر 1.22 وبورصة فلسطين 1.16 في المقابل  
ظهرت هذه الدول بمستويات منخفضة مثل البحرين 50% وعمان 57% ومصر 67% و الاردن 92%.

**كلمات مفتاحية:** القطاع المصرفي، التحفظ المحاسبي ، الحوكمة، إدارة المخاطر، لجنة التدقيق