

“The Impact of Board of Directors's Characteristics on Enhancing External Audit Quality”

(An Applied Study on Banks Listed on Palestine Stock Exchange)

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Abstract:

The study aims to investigate the impact of board of directors' characteristics on enhancing the quality of external audits for banks listed on Palestine Stock Exchange. The study population consists of all banks listed on Palestine Stock Exchange that had their shares traded during the period from 2014 to 2021, totaling six banks. The study was conducted during the same period, utilizing multiple linear regression analysis to test the hypotheses. The study found statistically significant impact for the independence and duality of the board of directors on enhancing the quality of external audits for the banks listed on Palestine Stock Exchange.

Keywords: Board of Director's Characteristics, External Audit Quality, Palestine Stock Exchange.

Introduction:

In recent times, the auditing profession has faced increasing pressures and continuous criticisms due to cases of significant fraud and manipulation in financial statements. This has led to a rise in legal actions against auditors, particularly after the failures experienced by major American companies. The companies "Enron" and "WorldCom" are notable examples of this phenomenon, as the spotlight was directed towards what happened in the American market. These two companies were under review by the "Arthur Andersen" office. However, despite their financial statements undergoing audits by the largest auditing firms, to overcome these pressures, there must be a significant emphasis on ensuring the quality of audit processes, which is an essential necessity for all parties involved in the auditing process (Jibrán, 2019).

Indeed, it is clear that preventing financial scandals has proven difficult, and financial crises have unfolded one after another. Investors have become less secure, even when prominent global companies undergo audits. This has amplified calls for a focus on external audit quality and the establishment of corporate structures based on equality, accountability, responsibility, and transparency. The concept of governance has gained prominence, signifying the creation of a system that effectively manages and controls a company's activities. The spread of financial and administrative corruption due to shortcomings in applying accounting, financial, and administrative standards and systems highlights the importance of enhancing the governance concept. This prevalence underscores the need to improve control, transparency, and accountability in companies and institutions. The quality of financial reports has become a necessary requirement for all parties involved in the auditing process. These reports reflect the auditors' conclusions and evaluations after analyzing financial statements, financial data, and accompanying disclosures to determine whether the financial statements accurately represent the company's financial position during the relevant period, and the extent to which the company complies to Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS) (Ramadani et al., 2017).

Indeed, recent studies have adopted corporate governance mechanisms as a crucial determinant of the concept of external audit quality. These studies examine various variables related to the activation of audit committees' roles and responsibilities. These committees supervise external audits and control their quality. If audits are conducted with high quality and objectivity, they can bring numerous benefits to various stakeholders. Hence, the activation and enhancement of corporate governance mechanisms play a significant role in influencing and potentially increasing the responsibilities of external audits, alongside internal auditing and audit committees. This trend was further solidified by the enactment of the Sarbanes-Oxley Act of 2002 following the financial violations that led to the bankruptcy of major companies. This law, through its various sections, aimed to develop auditing standards and quality control, establish new standards to preserve auditor independence, prevent conflicts of interest, and enforce enhanced criminal penalties for financial fraud. Indeed, this law significantly changed the relationship between companies and auditors, ensuring the reliability of financial reports (Sanad and Ali, 2021).

Research Problem:

The foundation upon which effective corporate governance rests is the presence of a competent board of directors with visionary thinking. Without this, companies can suffer from managerial and financial deficiencies. A well-functioning board of directors ensures investors' rights by overseeing the company's assets and funds, which are managed by its executives, within the framework of investor agreement. This leads to maximizing value for investors. Additionally, implementing corporate governance principles plays a crucial role in improving company performance and creating a healthy work environment that enhances management effectiveness. This, in turn, results in better company performance and increased economic value. Indeed, robust governance enhances a company's impact on financial markets and its ability to secure low-cost financing. This financial advantage allows companies to expand and invest more effectively, instilling high levels of confidence in their shareholders. By implementing corporate governance principles, trust in the board of directors and executive management is enhanced in dealing with company-related risks, enabling efficient risk management. This fosters fairness, transparency, and competition among all stakeholders. Adequate corporate governance provides a structure and framework that helps identify the company's goals and the most effective means of achieving them by establishing a well-regulated relationship system between the board of directors, executive management, and other stakeholders. This involves setting specific measures to ensure risk control and implementing all necessary internal procedures to overcome these risks. It protects investments from losses due to the separation of executive management from ownership. It ensures the achievement of shareholders' interests while minimizing conflicts of interest. Indeed, sound governance promotes positive

and constructive relationships among all parties with varying interests within the company, including shareholders, the board of directors, executive management, and other stakeholders. By achieving fairness, competitiveness, and transparency, it fosters a healthy business environment and plays a pivotal role in instilling confidence and transparency in financial information. As both companies and banks always strive to enhance the quality of their financial reports, this research sheds light on the impact of board of directors' characteristics on improving external audit quality through an applied study on banks listed on Palestine Stock Exchange.

Drawing from the foregoing, the research problem can be presented in the following main question: To what extent can the characteristics of the board of directors influence the enhancement of external audit quality?

Significance of the Study:

This study contributes to highlighting the importance of complying with the characteristics of the board of directors in the banks listed on Palestine Stock Exchange and their impact on enhancing external audit quality. It stands as one of the few studies that delve into the subject of enhancing external audit quality and also focuses on the role of official supervisory bodies in monitoring the extent to which listed banks in Palestine Stock Exchange comply with the characteristics of the board of directors as a governance aspect to mitigate fraudulent practices and manipulation of financial statements, while achieving transparency and elevating investor confidence in this domain.

Objectives of the study:

The objectives of this study are to spotlight the characteristics of the board of directors—namely, board size, board independence, CEO duality, and board meeting frequency—and their impact on the quality of external audit in the banks listed on Palestine Stock Exchange.

Study Hypotheses:

There is no statistically significant effect at the level of significance $\alpha \leq 0.05$ between the characteristics of the board of directors and the enhancement of external audit quality for the banks listed on Palestine Stock Exchange.

Sub-Hypotheses:

- H011: There is no statistically significant effect at the level $\alpha \leq 0.05$ between the independence of the board of directors and its role in enhancing the quality of external audit for the banks listed on Palestine Stock Exchange.
- H012: There is no statistically significant effect at the level $\alpha \leq 0.05$ between CEO duality and its role in enhancing the quality of external audit for the banks listed on Palestine Stock Exchange.
- H013: There is no statistically significant effect at the level $\alpha \leq 0.05$ between the frequency of board meetings and its role in enhancing the quality of external audit for the banks listed on Palestine Stock Exchange.
- H014: There is no statistically significant effect at the level $\alpha \leq 0.05$ between the size of the board of directors and its role in enhancing the quality of external audit for the banks listed on Palestine Stock Exchange.

Study Variables:

Independent Variable:

The independent variable in this study is represented through the following indicators:

- **Independence of the Board of Directors:** Measured by determining the number of independent members out of the total board members. This is done by referring to the organizational structure of the bank listed on Palestine Stock Exchange, based on data published on official websites (Capital Market Authority and Palestine Stock Exchange) (Ibrahim, 2019; Al-Bahrawi, 2021).
- **CEO Duality:** Measured by verifying that the chairman of the board of directors does not hold any executive position within the company. This is verified through data published on official websites (Capital Market Authority and Palestine Stock Exchange) (Ibrahim, 2019; Al-Bahrawi, 2021).
- **Board Meetings Frequency:** Measured by checking the number of board meetings held during the year. This is done by referring to data published on official websites (Capital Market Authority and Palestine Stock Exchange) (Ibrahim, 2019; Al-Bahrawi, 2021).
- **Board Size:** Measured by the number of board of directors members (Ibrahim, 2019; Al-Bahrawi, 2021).

Dependent Variable:

External Audit Quality: Measured by assessing the quality of accounting earnings (Discretionary Accruals) using Jones Modified Model (Tawil & Humaid, 2023) as follows:

Step one: calculating total accruals

$$\frac{TACC_{i,t}}{TA_{i,t-1}} = a \frac{1}{TA_{i,t-1}} + b \frac{\Delta Rev_{i,t} - \Delta Rec_{i,t}}{TA_{i,t-1}} + c \frac{PPE_{i,t}}{TA_{i,t-1}} + \varepsilon_{i,t}$$

TACC_{i,t} (Total Accruals)	Total accruals of i's Company at the end of the current period t, representing the company's net operating profit for company i at the end of the current period t, deducting the net cash flows from operating activities for company i at the end of the current period t.
TA_{i,t-1} (Total Assets)	Total assets of company i at the end of the previous period t-1.
a+b+c	The constant term in the regression equation.
ΔRev_{i,t}	The change in revenues for company i in the current period t.
ΔRec_{i,t}	Receivables.
PPE_{i,t} (Property, Plant & Equipment)	Total machinery, equipment, and properties for the company.
ε_{i,t}	Risk of random estimation (residuals value) per fiscal period t

Step Two: Calculating Non-Discretionary Accruals (These are the accruals that arise as a result of the company management's normal use of the accrual basis for compliance with principles, rules, and professional standards).

$$NDACC_{i,t} = \left(a \frac{1}{TA_{i,t-1}} + b \frac{\Delta Rev_{i,t} - \Delta Rec_{i,t}}{TA_{i,t-1}} + c \frac{PPE_{i,t}}{TA_{i,t-1}} \right)$$

NDACC_{i,t}	Non-Discretionary Accruals
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Step Three: Calculating Discretionary Accruals (These are the accruals that arise as a result of the company management's use of the accrual basis based on its personal estimates in preparing certain accounting estimates, for the purpose of inflating or deflating profits inaccurately. Positive values of these accruals indicate a deliberate management impact towards inflating profits, while negative values indicate a deliberate management impact towards deflating profits.)

$$DACC = \left(\frac{TACC_{i,t}}{TA_{i,t-1}} \right) - NDACC$$

DACC	Discretionary Accruals
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Study Population:

The study population comprises all the banks listed on Palestine Stock Exchange whose shares were traded during the time period of 2014-2021. The total number of these banks is 6 (Palestine, Al-Watani, Palestinian Islamic, Arab Islamic, Al-Quds, Palestinian Investment). The study excluded Bank of Safa due to its listing in 2022. The study was conducted within the timeframe of 2014-2021, considering the following conditions for banks:

- Availability of audited financial data published throughout the study period.
- Being listed for trading on the Palestinian financial market during the study period.

Review of Literature:

In view of the study's significance, the following studies are relevant to the topic of this study and will be listed in a chronological order as follows:

Hashad Study (2023) aimed to determine the effect of board characteristics on sustainability performance disclosure and its impact on firm value. The study conducted an empirical analysis on a sample of 48 non-financial companies listed on the Egyptian Stock Exchange, specifically those included in the S&P/EGX ESG Sustainability Index from 2015 to 2021 With a total of (336) views to test the three hypotheses of the research. The results indicated a relationship between certain board characteristics and sustainability performance disclosure and firm value. Gender diversity and board independence played a significant role in enhancing sustainability performance disclosure. Additionally, sustainability performance disclosure positively influenced firm value, and board independence had a positive impact on firm value when sustainability performance disclosure was considered as a mediator.

Ahmed's study (2023) aimed to analyze the impact of board characteristics on stock return volatility and its effect on firm continuity during the Russian-Ukrainian crisis. The sample consisted of non-financial publicly-traded companies listed in the Egyptian Stock Exchange's (EGX100) index during the financial years 2018, 2019, 2020, and 2021. SPSS V.25 was used

for analysis. The results showed a significant negative relationship between board characteristics (independence, financial expertise, female representation, CEO tenure) and stock return volatility. Furthermore, a significant inverse relationship between stock return volatility and firm continuity was observed, indicating that companies experiencing lower stock price volatility tend to be more sustainable.

Mohammed, Ahmed, Ahmed (2023) examined the relationship between board expertise and independence and the level of risk disclosure in companies. Content analysis was applied to annual reports of 71 companies listed on the Egyptian Stock Exchange from 2018 to 2020. The findings indicated a general and specific decline in risk disclosure levels, particularly non-financial risks. Significant variations in risk disclosure levels were observed between different sectors and sometimes within the same sector. The relationship between risk disclosure level and board independence was stronger in medium-sized companies. Companies engaging with larger auditing firms tended to disclose risks more when board members had higher expertise levels. Additionally, companies with average ownership concentration showed an increase in risk disclosure with the experience of board members compared to other companies.

Seddik's study (2022), elucidated the impact of the characteristics of the board of directors and ownership structure on the level of financial leverage for Egyptian listed joint-stock companies, whose shares are traded on the Egyptian Stock Exchange, was investigated. An initial sample of 111 companies from this sector was selected, and an analytical study was conducted encompassing all these companies using the multiple linear regression method to examine the relationships between variables. The most significant findings were that both size and independence of the board negatively affect financial leverage, while variables like duality, CEO status, and managerial ownership showed no significant impact. On the other hand, institutional ownership had a positive effect on financial leverage.

Mohammadi and Ben Othman's study (2022) discussed the quality of external auditing from the perspective of external auditors in the Warqla region. Data was collected through a questionnaire distributed to a sample consisting of auditors and accounting experts in the region. The results indicated a weak positive effect suggesting neutrality concerning audit fees and their impact on audit quality. The study also revealed that the academic qualification and practical experience of auditors have a positive and significant impact on audit quality. Independence and objectivity of auditors were found to play a critical role in improving external audit quality.

Uchenna et al. (2021) examined the relationship between audit independence and its quality in a sample of 12 commercial banks listed on the Nigerian Stock Exchange between 2009 and 2010. Two measures of audit independence, joint audit, and audit fees, were used as independent variables, while audit office size, return on assets, and audit quality agent were used as intermediary variables. The results indicated that joint auditing among commercial banks significantly reduces the quality of audit for deposit money banks listed on the Nigerian Stock Exchange, whereas increased audit fees enhance the likelihood of obtaining better quality financial data. The study recommended making informed administrative decisions regarding increasing audit fees due to their potential economic impact on company profits.

Suryandari and Mulyadi's study (2021) aimed to determine the impact of audit duration, rotation, fees, and client company size on the quality of external auditing in the Indonesian business environment. The study used a sample of financial companies listed on the Indonesian Stock Exchange, covering the period between 2015 and 2019. The results revealed no significant impact of audit duration and auditor rotation, with the client company's size showing a negative influence. However, audit fees were positively associated with improving audit quality. Interactions between audit fees, duration, and rotation did not affect audit quality, but these interactions were able to weaken the effect of client company size on quality.

Based on the study conducted by Al-Trawneh (2019), significant results were reached concerning the impact of the characteristics of the board of directors and internal ownership on the audit quality of industrial companies listed in the Oman financial market. Data related to the study's variables were collected from multiple sources, including the Securities Commission and the Muscat Stock Exchange, in addition to reports from the Association of Certified Accountants. A set of (65) industrial companies listed during the period from 2012 to 2017 were studied. The study yielded important findings, revealing a substantial impact of board of directors' characteristics, encompassing board size, members' financial expertise, and the number of meetings. However, no discernible impact was found from the independence of board members or internal ownership on audit quality.

AlQadasi and Abidin's study (2018), examined the relationship between internal governance mechanisms on audit quality in Malaysian companies listed on the Malaysian Stock Market between 2009 and 2012. Companies with higher ownership concentration were found to be less likely to demand intensive auditing. Additionally, a complementary relationship between company governance and audit fees was observed, although ownership concentration played a secondary role in the positive connection between study variables.

Commenting on previous studies, this study provided distinctiveness through its unique approach. It applied the research to banks listed on Palestine Stock Exchange, investigating characteristics of the board of directors that were not collectively addressed in one study. These characteristics are crucial indicators for measuring the qualities of the board, and their impact on the quality of external audit operations was studied using various indicators, differing from prior research.

The Theoretical Framework

Concept of the Board of Directors:

The board of directors is considered one of the most important internal corporate governance mechanisms. It ensures the supervisory and control role granted to it by the shareholders. The primary role of the board can be seen as reducing the costs associated with separating ownership from management by organizing and managing operations effectively. Through its crucial role, the board of directors ensures that management actions serve the shareholders while also safeguarding the interests of all relevant stakeholders. The board is responsible for managing the company under delegation from the general assembly and is the ultimate authority over all aspects of the company (Al-Bahrawi, 2021).

Definition of the Board of Directors:

According to Zeghoud (2019), the board of directors is a group of members authorized by the shareholders through the general assembly to manage the organization. They owe their loyalty to the institution and are accountable to the shareholders. The researcher views the board of directors as a body composed of members who collectively supervise the activities of a specific organization, company, or institution. They serve as a communication bridge between the company's owners or shareholders and the executive management team and managers. This is to ensure the correct direction of policies and strategic decision-making according to the organization's goals.

Characteristics of the Board of Directors:

1. Size of the board of directors

The size of the board of directors is an influential characteristic affecting its effectiveness and its control capability over executive management. Experts and academics in the field of accounting have varied opinions on determining the optimal size of the board. The main reason for the variation lies in factors such as the company's size, nature of its activities, and complexity of its operations. Some studies suggest that larger board sizes enhance efficiency and effectiveness as they encompass a wide range of expertise. However, other studies indicate that larger boards might be less efficient in managing and overseeing the company due to communication and coordination challenges among members.

A study by Yermack (1996) suggests an inverse relationship between board size and company performance, indicating that larger boards are less efficient in managing the company due to lack of cohesiveness. Another study by Hoque et al. (2013) proposes an appropriate board size between 10 to 8 members, positively correlated with company performance. Additionally, another study by Sirine Chekili (2012) suggests a positive curvilinear relationship between board size and discretionary expenses, implying that smaller boards help reduce profit manipulation opportunities, while larger boards are less effective in overseeing the company, increasing the likelihood of profit manipulation by managers (Al-Bahrawi, 2021).

The researcher argues that a smaller board size enhances its effectiveness in curbing manipulation, increasing productivity, facilitating member coordination, allowing sufficient time for positive expression of opinions, and efficient monitoring.

2. Independence of the Board of Directors:

Independence is considered a key characteristic of the board of directors. It enables the board to make independent decisions that protect the company from external influences and ensure diverse opinions to support its success. The majority of board members are not part of the executive team, strengthening the board's ability to guide policies and define the roles of independent members in managing performance. Independent members strive to promote shareholder interests and enhance their value by imposing limits on behaviors beneficial to management. Independent board members provide higher levels of control on executive performance, control executive actions, bring expertise to the company, offer unique insights, and act as significant advisors in strategic decision-making (Adams & Ferreira, 2007). Companies with independent members from other firms on their boards tend to outperform operationally compared to companies without such members (Balsmeier et al., 2014).

3. Board Meetings:

According to the Jordan Securities Depository Center's website (2019), regarding board meetings:

- Meetings are organized based on written invitations from the board chairman or upon a written request submitted to the board chairman by at least a quarter of the members. The absolute majority of members must be present.
- Voting on decisions is individual, and delegation is not allowed. Indirect means like correspondence are not permitted for voting.
- Decisions are issued with the absolute majority of present members.
- Meetings are held at least once every two months, and the number of meetings in the fiscal year should not be fewer than 6.
- The board appoints a secretary to document meeting minutes and decisions in a dedicated numbered record, including the attending members and any reservations expressed.

4. Dual Role of Board Chairman and CEO:

Dual role occurs when one person holds both the positions of board chairman and CEO within the same company. Accounting studies have indicated that having the same individual in both positions is a strong indicator of institutional governance. This

arrangement contributes to improving the effectiveness of the board in closely monitoring executive operations, motivating managers to enhance their performance, reduce agency costs, maximize company value, bolster its competitive position, ensure its continuity, and maintain its activity (Al-Najjar, Basyuni, 2022).

The researcher argues that combining these roles increases concentration of power and reduces balance. Separating them ensures equilibrium and transparency. This enables the board to monitor decisions, prevent power accumulation, enhances diversity of opinions, and promotes stability in the company.

External Audit:

According to the American Institute of Certified Public Accountants (AICPA), "audit is an organized process to obtain objective evidence and information about specific economic events, verifying their accuracy and conformity with established standards, and providing reports summarizing the results and recommendations" (Al-Jumhudi, 2019). It is also defined as a "systematic critical examination of the internal control systems, data, documents, accounts, and financial records within an entity, aimed at improvement and compliance. The objective is to provide an unbiased expert opinion on the accuracy and reliability of financial statements in representing the financial position of the entity at the end of a specific period, as well as their accuracy in depicting business results" (Abdullah, 2012).

The audit process encompasses the following:

- Examination: Refers to verifying the accuracy of recorded, analyzed, and classified operations.
- Verification: Means the ability to assess whether the financial statements are an accurate representation of business results during a specific period.
- Reporting: Involves compiling the examination and review results into a written report presented to users of financial statements.

As defined by Latifi (2010), it is a systematic methodology involving the objective collection and evaluation of evidence related to economic information, with the aim of verifying its conformity with specified standards and conveying the findings to stakeholders.

The researcher considers it to be an organized process carried out by an independent and neutral auditor, with the goal of examining and reviewing systems, data, and documents. This process aims to provide an impartial technical opinion on the integrity and fairness of financial statements. Audit is conducted to serve the community and interested parties.

Quality of External Audit:

Despite the importance of quality in audit processes, its concept remains unclear and ambiguous, whether in academic studies or in standards issued by professional bodies. This challenge is attributed to our inability to provide a tangible depiction of audit performance quality and ascertain its financial value. On the other hand, service provision and performance vary noticeably from time to time, and researchers have differed in defining audit quality. Some have linked it to the auditor's ability to detect errors and manipulation in financial data, while others have focused on the correlation between audit quality and adherence to professional standards. Another group has linked audit quality to achieving the objectives of all parties involved in the audit process (Marakhofi & Saadani, 2021). It was previously defined by Salehi (2010) as an evaluation through auditors' ability to identify and disclose deviations in the client's financial system.

DeAngelo was the first researcher to explore the relationship between audit quality and the auditor's likelihood of detecting errors in financial statements. He defined audit quality as an opportunity to detect any errors in the accounting system or manipulation in the client's financial statement reports. In case of finding any errors or distortions, the auditor must report them in their audit report (Angelo & Elizabeth, 1981).

Shalqami (2021) emphasized the auditor's ability to ensure the absence of distortions or material misstatements in financial data and to report such distortions if found. Auditor efficiency embodies the ability to minimize information asymmetry between project management and users of financial statements. Achieving audit quality entails verifying the accuracy and reliability of financial information in the financial statements and ensuring that it meets the needs of various users.

The researcher believes that the quality of audit operations is manifested in auditors' adherence to professional standards and agreed-upon audit procedures. Auditors must accurately identify errors in financial data and ensure that the needs of beneficiaries of this data are met with precision and clarity.

Factors Influencing External Audit Quality:

A study by Al-Malhoof (2020) elucidated the factors influencing external audit quality, including:

- Size of Audit Firm: Among the factors that significantly impact the quality of audit operations, firm size is measured according to several criteria, such as the number of partners, the number and size of clients, and the number of employees in the audit firm. Large audit firms excel in providing high-quality audit services compared to smaller firms.
- Competition among Audit Firms: In the accounting literature related to the audit field, competition among audit firms to attract or retain clients is often considered one of the most significant factors negatively affecting the independence of the entire external audit.

- Continuity of Audit Firm in Auditing the Same Clients: In the accounting literature related to the audit field, the continued contractual relationship between audit firms and their clients is believed to have a significant impact on audit quality.

Research Population and Sample:

Data Collection Methods:

For the purposes of this research, secondary sources were relied upon for data collection. The collected data consisted of the published annual reports of Palestinian banks listed in the sample, over the research period. The research period encompassed recent data available from the banks under study, covering the years 2013 to 2021. This range was selected due to its relevance, as the year 2013 serves as a base year for calculating variables related to the estimation of discretionary accruals in the Jones model. Consequently, the research variables were calculated for the period from 2014 to 2021.

Results of Statistical Analysis:

Table (1): Descriptive Statistics of Variables

Table (1) indicates that the standard deviations of the variables were relatively high compared to the arithmetic means. This

Variables	Mean	Std. Dev.	Maximum	Minimum
External Audit Quality as measured by the Jones Modified Model.	-0.00168	0.03235	0.081955	-0.07247
Board of Directors' Size.	8.5223	2.130	12	5
Frequency of Board of Directors Meetings.	6.83	1.22967	9	6
Duality of the Chairman of the Board.	0.916	0.33601	1	0
Independence of the Board of Directors (Number of Independent Members).	1.979	0.94825	5	0
Bank Size.	20.48	1.65	22.60	16.26
Bank Age.	26.33	14.679	62	7
Financial Leverage	0.77	0.29	0.93	0.00

is especially evident in the variable 'External Audit Quality,' as measured by the Jones Modified Model. The researcher attributes this observation to the inherent diversity within the studied sample of banks, encompassing both commercial and Islamic institutions. The variations in bank size, market share, adopted policies, and profit management strategies contribute to this notable variability.

Ensuring Data Validity for Statistical Analysis:

The validation of data for analysis necessitates the application of various tests, including assessments of normal distribution, homoscedasticity of error variance, verification of model residuals' equality to zero, and an evaluation of linear collinearity.

Normal Distribution Test:

To evaluate data normality, the Jarque-Bera test was conducted. Data is deemed to be normally distributed when the Jarque-Bera probability (J-B) value exceeds 5%. The results presented in Table (2) reveal that the J-B probabilities for the variables 'Duality of Chairman of the Board,' 'Independence of the Board of Directors,' and the control variables (Size, Age, and Financial Leverage) were all below 5%, suggesting a departure from normal distribution. To address this deviation, a natural logarithm (ln) transformation was applied to the non-normally distributed variables, including 'Duality of Chairman of the Board, Independence of the Board of Directors,' and the control variables (Size, Age, and Financial Leverage), in order to approximate a normal distribution.

Table (2): Distribution Normality Table".

(Jarque-Bera) Test			
Variables	J-B	Sig	distribution
External Audit Quality as measured by the Jones Modified Model.	0.225	0.894	normal
Board of Directors' Size.	5.583	0.061	normal
Frequency of Board of Directors Meetings.	3.665	0.160	normal
Duality of the Chairman of the Board.	40.599	0.000	Non-normal

Test of	Statistic	Asymptotic Significance (2-sided)	Normality Test
Independence of the Board of Directors (Number of Independent Members).	9.539	0.008	Non-normal
Bank Size.	0.211	.000c	Non-normal
Bank Age.	0.300	.000c	Non-normal
Financial Leverage	0.360	.000c	Non-normal

Correlation	Board Size	Frequency of Board Meetings	Duality Chairman of the Board	Board Independence	Bank Size	Bank Age	Financial Leverage
Board Size	1						
Frequency of Board Meetings	-0.528	1					
Duality Chairman of the Board	0.582	-0.566	1				
Board Independence	0.272	-0.010	0.025	1			
Bank Size	.362	.290	.286	.404	1		
Bank Age	.618	.642	.526	0.259	.323	1	
Financial Leverage	0.001	-0.077	-0.040	0.117	.843	0.124	1

Equality of Mean Residuals to Zero:

This test examined the absence of residual issues in the research models. The regression tables for all research models indicate that the average residuals' values were different but close to zero.

Heteroskedasticity Test:

The Robust Standard Errors test was employed to address the issue of heteroskedasticity in the research models. The statistics for the (White) test were all less than 0.05 for all research models. Consequently, we reject the null hypothesis that the research models exhibit heteroskedasticity.

Table (3): Pearson Correlation of Independent Variables for the Model

Table (3) indicates a lack of strong correlations among certain independent variables in the model, with the highest correlation observed being 58.2%. This correlation was identified between the variables 'Board Size' and 'Chairman of the Board Duality.' This suggests the potential absence of linear collinearity issues. To confirm this, a Variance Inflation Factor (VIF) test was conducted.

Test for Linear Overlapping:

The Collinearity Statistics' tool was utilized to assess the presence of linear collinearity among the model's variables. This was accomplished by calculating the VIF for each independent variable. As presented in Table (4), all VIF values are below 10, indicating that the study's model is not susceptible to multicollinearity or linear overlapping.

Table No. (4) Linear overlapping of the independent variables

Variables	VIF
Board Size	1.785
Frequency of Board Meetings	1.585
Duality Chairman of the Board	1.557
Board Independence	1.816
Bank Size	7.677
Bank Age	1.908

Financial Leverage	6.357
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$$audt_qlty = \alpha + \beta_1 bordsize + \beta_2 meeting + \beta_3 doubl + \beta_4 indepn + \beta_5 size + \beta_6 age + \beta_7 lev + e \dots \dots (1)$$

Where

The quality of external auditing as measured by the modified Jones model	<i>audt_qlty</i>
Board size	<i>bordsize</i>
The frequency of board meetings	<i>meeting</i>
The Double position of Chairman of the Board of Directors	<i>doubl</i>
Board independence	<i>indepn</i>
the size	<i>size</i>
the age	<i>age</i>
The degree of financial leverage	<i>lev</i>
Model coefficients	$\beta_1 - \beta_7$
The constant in the form	α
random error	E

Hypothesis Testing and Results Discussion

For the purpose of testing the study's models, the study's model was designed to undergo a multiple linear regression analysis across the entire sample.

Main Hypothesis:

There is no statistically significant effect at the $0.05 \geq \alpha$ level between the characteristics of the board of directors and the enhancement of external audit quality for banks listed in Palestine Stock Exchange.

Sub-Hypotheses:

- H011: There is no statistically significant effect at the $0.05 \geq \alpha$ level between the independence of the board of directors and its role in improving the quality of external audit for banks listed in Palestine Stock Exchange.
- H012: There is no statistically significant effect at the $0.05 \geq \alpha$ level between the duality of the chairman's position and its role in enhancing the quality of external audit for banks listed in Palestine Stock Exchange.
- H013: There is no statistically significant effect at the $0.05 \geq \alpha$ level between the frequency of board meetings and its role in improving the quality of external audit for banks listed in Palestine Stock Exchange.
- H014: There is no statistically significant effect at the $0.05 \geq \alpha$ level between the size of the board of directors and its role in elevating the quality of external audit for banks listed in Palestine Stock Exchange.

To assess the practical and effective correlation impact of the independent variable and the dependent variable, the following decision rules are applied for a neutral judgment:

If $\text{Sig.R} > 5\%$, the hypothesis H0 is accepted (indicating no relationship).

If $\text{Sig.R} < 5\%$, the hypothesis H1 is accepted (indicating a relationship).

Table (5) presents the Regression Analysis for all companies sampled in the research, pertaining to the Model.

Independent variables		Dependent variable The quality of external auditing	
		Sig	Coefficient
Constant	A	0.6653	-0.03945
Board Size	<i>bords</i>	0.2366	-0.01139
Frequency of Board Meetings	<i>meeting</i>	0.7977	0.001755
Duality Chairman of the Board	<i>doubl</i>	0.0294	0.044136
Board Independence	<i>indepn</i>	0.0472	0.019565-
Bank Size	<i>size</i>	0.062	-13.747
Bank Age	<i>age</i>	0.000	1.982

of directors (combining the positions of chairman of the board of directors and CEO) and the activity of the board of directors did not have a significant effect.

- **H013: There is no statistically significant effect at the $0.05 \geq \alpha$ level between the frequency of board of directors meetings and their role in improving the quality of external audit for the banks listed on Palestine Stock Exchange.**

With a significant observation of the effect of (frequency of board of directors meetings) on improving the quality of external audit for the banks listed on Palestine Stock Exchange. At the sample level, as shown in Table (5), it is evident that there is no statistically significant effect of the frequency of board of directors meetings on improving the quality of external audit for the banks listed on Palestine Stock Exchange at the ($\alpha \leq 0.05$) level in the study sample in period t. The sig value of the study model was 0.7977, which is greater than 0.05. Based on this, the null hypothesis is accepted, which states that: There is no statistically significant effect of the frequency of board of directors meetings on improving the quality of external audit for the banks listed on Palestine Stock Exchange at the ($\alpha \leq 0.05$) level in the study sample in period t. According to the researcher's opinion, the number of board of directors meetings is measured by the achievement rate and not by the quantity or number of meetings. Thus, the results of the current study do not align with the results of the study (AlTrawneh, 2019) and the study (AlQadasi and Abidin, 2018) that found a positive effect between board of directors meetings and external audit quality.

- **H014: There is no statistically significant effect at the $0.05 \geq \alpha$ level between the size of the board of directors (risk committee, audit and audit committee, governance committee, rewards and incentives committee, and nomination committee), and their role in improving the quality of external audit for the banks listed on Palestine Stock Exchange.**

With a significant observation of the effect of (size of the board of directors) on improving the quality of external audit for the banks listed on Palestine Stock Exchange. At the sample level, as shown in Table (5), it is evident that there is no statistically significant effect of the size of the board of directors on improving the quality of external audit for the banks listed on Palestine Stock Exchange at the ($\alpha \leq 0.05$) level in the study sample in period t. The sig value of the study model was 0.2366, which is greater than 0.05. Based on this, the null hypothesis is accepted, which states that: There is no statistically significant effect of the size of the board of directors on improving the quality of external audit for the banks listed on Palestine Stock Exchange at the ($\alpha \leq 0.05$) level in the study sample in period t. According to the researcher's opinion, as the size of the board of directors increases, the views of board members differ, creating a clear hindrance to the board's role. This contradicts the results of the study (AlQadasi and Abidin, 2018) and the study (AlTrawneh, 2019) that found a positive effect between board size and external audit quality.

Recommendations

- Banks listed on Palestine Stock Exchange should prioritize the characteristics of their board of directors by implementing suitable policies and procedures.
- There is a necessity to strengthen regulatory control by the monetary authority to ensure banks' compliance with governance standards that ensure authentic independence for the committees established within the banks.

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"أثر خصائص مجلس الإدارة على تحسين جودة المراجعة الخارجية"

(دراسة تطبيقية على المصارف المدرجة في بورصة فلسطين)

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جامعة الأقصى – غزة

الملخص:

تهدف الدراسة إلى بيان أثر خصائص مجلس الإدارة على تحسين جودة المراجعة الخارجية على المصارف المدرجة في بورصة فلسطين، ويتكون مجتمع الدراسة من جميع المصارف المدرجة في سوق بورصة فلسطين والتي تم تداول أسهمها خلال الفترة الزمنية 2014-2021، والتي يبلغ عددها (6) مصارف. وأجريت الدراسة خلال الفترة 2014-2021، وتم استخدام اختبار الانحدار الخطي المتعدد لاختبار الفرضيات. كما توصلت الدراسة إلى وجود أثر ذو دلالة إحصائية لاستقلالية وازدواجية مجلس الإدارة على تحسين جودة المراجعة الخارجية للمصارف المدرجة في سوق بورصة فلسطين.

الكلمات المفتاحية: خصائص مجلس الإدارة، جودة المراجعة الخارجية، بورصة فلسطين.