

**ROLE OF INTERNAL AUDITORS AND SUSTAINABILITY REPORTING:
MEDIATING EFFECTS OF AUDIT COMMITTEE PERFORMANCE**  *Md Gulam Sharoar Hossain Khan* ^{(a)1}^(a) Assistant Professor, Department of Business Administration, Stamford University Bangladesh, Dhaka, Bangladesh; E-mail: sharoar_08@yahoo.com

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ABSTRACT

This study examines the relationship between the role of internal auditors and practices of sustainability reporting in the organization. Moreover, this study also examined the mediating relationship between the audit committee's performance in relation to the role of internal auditors and practices of sustainability reporting. To fulfill this objective, data collection (325 responses) has been done from financial institutions of Bangladesh, which covers 85% of the total population. Standards of International Professional Practice Framework suggest two important roles of internal auditors, assurance and consulting, which are considered exogenous constructs in this study. The direct and indirect effects of exogenous and endogenous constructs are determined by using SmartPLS-4. The Results revealed that internal auditors' assurance and consulting roles have a positive and statistically significant relationship with the practice of sustainability reporting. Moreover, the results also reported that audit committee performance has also mediating relationship in both two roles of internal auditors and sustainability reporting. The result of this study support to influence the understanding level of policy maker, regulators, and different stakeholders about the role of internal auditors and audit committee in relation to the practice of sustainability reporting of a financial institution in the perspective of developing countries.

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INTRODUCTION

The issue of sustainability has gained a lot of importance due to the awareness of people, which is more relevant to accounting practices, management decisions, reporting practices and society (Dienes et al., 2016). Both corporation and private sector entities are gradually efforts to expand their sustainability tracks and to reveal business information regarding sustainable performance (Kiron et al., 2017). Demand for this reporting is also expanding due to changing expectations of various stakeholders. Recently, investors and moneylenders have increased the demand for this reporting in particular business sustainability exertions that are highly related to sustainable financial performance (Jørgensen et al., 2018). It also plays an important role in achieving the sustainable development goals (SDGs). Sustainability reporting (SR) offers a stand of evidence that provides information regarding economic, social, and environmental issues that is unlike the way of traditional financial reporting which gives only financial information. Organizations meet these demands and regulatory requirements by adopting different strategies under social norms that create a reputational image (Pérez-López et al., 2015).

In recent years, many policy makers have started to adopt sustainability reporting guidelines. However, these guidelines have been considered by condemnations related to corporate governance instruments and the practice of SR. However, studies showed the connection between corporate governance (CG) and SR (Amidjaya & Widagdo, 2020; Amran et al., 2014; Correa-Garcia et al., 2020; Islam & Chowdhury, 2016; Karaman et al., 2020; Mohamed et al., 2014; Tumwebaze et al., 2022). In Indonesia, Amran et al. (2014) examined the influential factors of SR and found that CG and ownership structure significantly impacts on preparation of SR. In addition, Amran et al. (2014) also stated that CG factors like the board members and corporate social responsibility (CSR) strategy are influenced the quality of SR. Similarly, Tumwebaze et al. (2022) originate a positive significant relation between CG instruments and the practice of SR. However, Amran et al. (2014) and Tumwebaze et al. (2022) suggested there is a need to show the relationship between other CG instruments like internal audit function (IAF) that affects the practice of SR. In Bangladesh, Islam and Chowdhury (2016) studied on banking and financial institution sector and found that there is a limited area (only 17%) of banking and financial institution prepared

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SR the following the requirement of Bangladesh Bank (the central bank). Haque and Khanam (2022) examined the SR performance in non-financial institutions in Bangladesh and found that the sustainability reporting performance score is only 20% and suggested further studies on why are organizations reluctant to prepare sustainability reporting.

Corporate governance has a positive relationship with SR (Ong et al., 2022). Internal audit (IA) is an important instrument of corporate governance (CG) mechanism. Internal auditors play an important role to ensure appropriate risk management (consulting role) and level of regulatory compliance in the business (assurance role). In performing their role in compliance with regulatory requirements, the internal auditors are likely to confirm by giving both assurance and consulting services that the business conforms to the applicable laws. In Bangladesh, the Bangladesh Environment Conservation Act, 1995 is applicable which gives various disclosure such as restrictions regarding vehicles emitting smoke injurious to the environment and restrictions on the manufacture, sale, etc. of articles injurious to the environment, and disclosure on the usage of dangerous materials and waste management. Bangladesh is a country with high population growth and relaxed policies on environmental issues in many areas. It indicates that internal auditors can ensure various environmental and economic issues that help the organization to achieve sustainable performance and make sustainable reporting. Soh Dominic (2015) supported that internal auditors are more likely to help in preparing SR by giving both assurance and consulting services on environmental social and governance (ESG). As the internal auditors functionally report to the audit committee (AC) and the AC submits the report to the management so that the importance of the IA report is increased. The management then implements all the recommendations made by the internal auditors. And this is why the effective role of AC is important to ensure in preparing SR. Khoiriyah et al. (2022) documented that the size of the AC, level of independence, and frequent meeting leads to influence the practice of SR. In Bangladesh, AC is likely to engage in the process of risk management and if finds any gaps in the preparation of the sustainability report then it informs the entire board. According to the code of CG issued by the Bangladesh Securities and Exchange Commission (BSEC) in 2016, AC is also an important part of the board and hence it is argued that AC is decide on the adoption or enhancement of the practice of SR.

Bangladesh is a very populous country and the government is giving more concentration on how to achieve sustainable development goals. According to the MOF (2021), Bangladesh is progressively keeping economic growth except for the fiscal year 2020-2021 and reached 5.47% of GDP which is the lowest growth rate since 2008 due to the outbreak of COVID-19. According to 'the Bangladesh Bureau of Statistics (BBS)' the GDP growth is 7.28 percent in FY2018-19. The contribution by the financial sector to real GDP is 24.99% in the FY 2021-22 which was 23.79% in the previous year. Thus, the financial institution is playing a vital role in the economic development of Bangladesh. They provide sufficient funds (US\$143,663 million for fiscal year 2021-2022) to both the private and public sectors to do business properly. Therefore, financial institutions also play a significant role in the configuration of any industrial sector in the economy of Bangladesh. Consequently, it inspires me to examine the role of two important CG instruments like internal auditors and the AC, and the practices of SR in the financial institution of Bangladesh. This study will assist to comprehend the use of IA and the AC that will give direction to the responsible financial manager in preparing the SR of the financial sector in Bangladesh.

The remaining part of this paper is designed as follows. The next section provides the literature review and flowed by research hypothesis and research methodology and then discuss about the results and findings and finally concluding remarks.

LITERATURE REVIEW

Sustainability Reporting

Sustainability reporting (SR) states the required disclosure of financial and non-financial performance-related evidence to the external users of the organization (Erkens et al., 2015). More especially SR deals with evidence regarding environmental, social, economic, and governance issues (Whittingham et al., 2023). SR helps to build stakeholders' confidence and improvement of company's reputation through risk management and different social responsibility programs (Moravcikova et al., 2015). SR also gives investors wider access to information outside of financial reporting that also impacts organizational performance (Arvidsson, 2019). Similarly, Pizzi et al. (2023) also stated that the practice of SR influences the non-financial performance of the organization. This report has been made mandatory for some companies within the European Union that are controlled by the 'Non-Financial Reporting Directives' (NFRD) and finally revised and given a new name Corporate Sustainability Directive (CSRD).

Recently SR is used by different terminology in different countries to mean the same thought of SR like social reporting, extra financial reporting, CSR reporting, non-financial reporting, and socio-environmental reporting. The Global Reporting Initiative (GRI) is an organization that provides different standards for this reporting. They provide the GRI standard in 2016 which has been made effective since 2018 and it is very good news but it has some negative effects on the opposite side. Cho et al. (2015) showed that there is a gap between SR standards and what is being discussed in this report. It has now been transferred to the IFRS Foundation where the IFRS Foundation will generate various standards for SR. But unfortunately, it appears that the way IFRS Foundation works is by setting the standard by focusing on the investor while ignoring society. If any organization implements the current GRI standard within the organization, then these organizations will be required to provide sources of raw material, the market of the product, and shareholder's wealth and fully accounted for by the respective organization.

According to the Financial Express dated June 29th, 2022, in Bangladesh 13 companies together with seven listed companies have disclosed SR based on the guidelines of the Global Reporting Initiative (GRI). In 2018 (May), Dhaka Stock Exchange (DSE) signed with GRI to deliver training to different investors so that the standards can be properly maintained. GRI is the most generally recognized method for making SR and this standard will be effective from early January of 2023 for all types of business. In the past, there has been a very limited number of academic research on this sustainability

reporting in Bangladesh. Akhter and Dey (2017) conducted a study about the SR in listed companies of Bangladesh and found that only 16% of companies have prepared SR by disclosing only 4% requirements of GRI standards. Mahmud et al., (2017) examined the level of GRI guidelines followed by the banking sector in Bangladesh and found that only 10% of disclosure related to GRI standards were disclosed in their financial statement. Similarly, Ahmed et al. (2017) reported that 28.75% of non-banking financial institutions have disclosed partial disclosure by following the GRI standards. Bae et al. (2018) examined the factors of SR and that there is a positive significant relationship between board size, foreign shareholders, board independence, institutional shareholders, and the practice of SR. Hassan et al. (2020) conducted a study about the demand and supply side of SR and found that sustainable information influences amalgamate sustainability and assurance sustainability. From the above studies, it can be seen that research has been conducted in Bangladesh in the past only on whether the GRI standard is followed and whether it is disclosed in the SR report. So far, no study has examined the relationship between the role of IA and the AC and the practice of SR. To fill this gap, this study explored the role of internal auditors and the AC in relation to the practice of SR.

Role of Internal Auditors and Sustainability Reporting

IAF is an important instrument of CG. The functions of internal auditors vary from time to time depending on their expectations of customers of IAF. Internal auditors cover many areas such as assurance of internal control and risk management and consulting services involving the process of risk management (Mohamed et al., 2012). Effective internal audit services (both assurance and consulting) influence the top management in strategic decision-making by identifying and reporting the different systems of risk management and also identifying the problematic areas that could be improved in the organizations (Coetzee & Lubbe, 2014). It is also recognized that internal auditor's assurance services can influence to make SR, this is because it helps improvement and transformation of a business. This is also documented that top management and members of the AC request internal auditors to assist in the preparation of SR by providing assurance and consulting services (Soh Dominic, 2015). It means that internal auditors can help management by providing a variety of recommendations and advice when preparing SR. However, there are few studies indicating a positive relation between SR and managers accountability (Bananuka, 2018; Engelbrecht et al., 2018). It indicates that internal auditors can assess the probable risk and also assess the reliability and validity of the organizational reports produced by the following accounting systems and provide suggestions regarding the information that could be included in the SR. If there is management support, internal auditors can also work on fraud minimization which could help in making sustainability reporting (Alazzabi et al., 2023). As internal auditors are employees of the organization they have sufficient knowledge regarding the business operation and hence they can provide various types of advice while preparing the SR and which can ensure the sustainable performance of the organization. Therefore, it is hypothesized that

H₁: There is a positive relationship between the assurance role of internal auditors and the practice of SR.

H₂: There is a positive relationship between the consulting role of internal auditors and the practice of SR.

Audit Committee Performance and Sustainability Reporting

The AC is usually constituted from the board of directors whose main responsibility is to recommend to the company's discloser whether it is sufficient and reliable (Beasley et al., 2009). The AC thoroughly reviews all reports of the organization that will be disclosed externally whereas SR is one of them. The AC analyze the financial and non-financial information and see if it is included in the sustainable reporting and if there are any inadequacies it will discuss with the management how to bring them into this report. AC performance includes that AC members analyze internal audit function reports and review information in financial reports and communicate with external auditors (Bananuka, 2018; Lin et al., 2008). Khoiriyah et al. (2022) stated that the independence of AC members and frequently meeting are positively significant relationships with SR in the banking sectors of countries of the 'Gulf Cooperation Council'. Samaha et al. (2015) found that the AC functions and characteristics have positive impacts on voluntary disclosures of ESG related issues. Ahmed Haji and Anifowose (2016) reports that the AC function influence to make integrated reporting. However, the working relationship (both formal and informal) between the internal auditor and AC is also important for their performance. The effective relation is not only for the company but also for the society. Good financial reporting should be the result of internal auditors being assured that the AC is informed of the accounting policies and estimation decisions implemented by the management. In better compliance with the company's code of conduct, the internal auditor will keep the AC informed about any field of immunity. Any irrationality with the Code of Conduct should be brought to the attention of the AC as it violates the company's Code of Conduct (Rezaee et al., 2003). As a result, AC is increasingly dependent on the IAF to ensure organizational supervision and high-quality reporting. This increasing interaction between the AC and the IAF reduces information disparity (Sarens et al., 2009). If the tenure of the AC is longer then the members of the AC can contribute to the environmental performance of the organization which influences the strong SR (Paolone et al., 2023). Similarly, stated that Therefore, it is hypothesized that

H₃: AC performance plays a mediating role in the relationship between the assurance role of internal auditors and the practices of SR

H₄: AC performance plays a mediating role in the relationship between the consulting role of internal auditors and the practices of SR

MATERIALS AND METHODS

Data and Constructs Measurement

The population set for the study is all financial institutions of Bangladesh where 61 scheduled banks, 5 non-scheduled banks, and 35 Non-Banking Financial Institutions (NBFI). Of these, 86 institutions have been sent questionnaires to the member of the AC, internal auditors' managers, chief audit executive, and chief financial officer. A total of 550 questionnaires have been distributed and out of these 395 questionnaires (72%) have been received. A simple random sampling technique was used. This data collection started in July 2022 and ended in February 2023. 45 questionnaires were eliminated due to incomplete and then the total usable questionnaires stood at 350. Questionnaires were sent to the chief financial officer this is because they prepare the SR so they know if there are any inconsistencies or inaccuracies in the preparation of the SR. This study used a seven-point Likert scale to prepare a questionnaire with close-ended questions. The measurement scale was used based on earlier research after reviewing the literature on internal audit functions, AC performance, and SR (see table 1).

Table 1. Operationalization of Variables

| Variables | Measure | Source |
|--------------------------------------|--|---------------------------------|
| SR | ESG disclosure | Buallay (2020) |
| | Environmental disclosure | |
| | Corporate social responsibility disclosure | |
| | CG disclosure | |
| Assurance role of internal auditors | An assurance on a material misstatement of a financial statement | Bangladesh CG Guidelines (2018) |
| | Assurance on fraud | |
| | Assurance of appropriate risk management | |
| | Assurance of internal control | |
| Consulting role of internal auditors | Involvement in the risk management process | Melville (2003) |
| | Strategy development | |
| | Involvement in the internal control procedure | |
| | Goal development | |
| AC performance | Review the adequacy of the internal audit department. | Bangladesh CG Guidelines (2018) |
| | Monitor the resources allocated to the IA department. | |
| | Review the internal audit and compliance report. | |
| | Coordination between internal and external auditors. | |
| | Conduct a performance review of CAE | |

Method

The quantitative study was conducted by using the survey questionnaire for this study. Objectivity is the major benefit of quantitative research and it depends on the specific number of variables that help to reduce the biases and make the result nearly too accurate (Bryman, 2017). Content validity was measured with five academics and five industry experts and the questionnaire is revised based on their comments and then the revised questionnaire was sent to the respondents. Detailed demographic information is listed in table 2. SmartPLS 4 was used to assess the measurement model (reliability and validity) of the model and also to assess the structural model (path coefficient) as well.

Table 2. Demographic Information

| Background | | Frequency | Percentage |
|---------------|---------------------|-----------|------------|
| Designation | Internal auditors | 175 | 50% |
| | AC | 65 | 19% |
| | CFO | 110 | 31% |
| | Total | 350 | 100% |
| Gender | Male | 277 | 79% |
| | Female | 73 | 21% |
| | Total | 350 | 100% |
| Experiences | Below 5 years | 35 | 10% |
| | More than 5 years | 125 | 36% |
| | More than 10 years | 85 | 25% |
| | More than 15 years | 54 | 16% |
| | More than 20 years | 51 | 15% |
| | Total | 350 | 100% |
| Qualification | Graduation | 184 | 53% |
| | Post graduation's | 114 | 33% |
| | Professional Degree | 52 | 14% |
| | Total | 350 | 100% |
| Industry | Bank | 225 | 64% |
| | NBFI | 125 | 26% |
| | Total | 350 | 100% |

RESULTS

Measurement Model Analysis

These studies followed the same procedure as stated and set out the criteria by Hair Jr et al. (2020) for the measurement model analysis. Construct reliability was assessed first and then construct validity was assessed. Before doing this, the

normality of the data was checked, and where it was found that the data were normally distributed. Skewness and kurtosis are used to check the data normality and table 3 showed that all the values of skewness and kurtosis are within the range (between -2 to +2). However, the data don't need to be normally distributed when using PLS-SEM (Sarstedt et al., 2014). Outer loading and composite reliability are considered for contract reliability. According to Hair et al. (2011), outer loading and composite reliability (CR) should be more than 0.70. Table 4 and table 5 indicate that all items have loadings greater than 0.70 and CR also greater than 0.70 and thus ensure the construct reliability. AVE value must be greater than 0.50 for convergent validity (Hair et al., 2011) and these studies show that all contracts have AVE values greater than 0.50 (see table-4) and thus ensure the convergent validity. To measure the discriminant validity, Fornell-Larcker's criterion (Fornell & Larcker, 1981), crossed loading (Chin, 1998), and Heterotrait- Monotrait Ratio (HTMT) of correlation method has been used by following the Henseler et al. (2015). Table 6 showed that all square roots of AVE exceeded their corresponding column & row and table 7 also showed that the value of HTMT is close to 1 then considering a discriminant validity exists. Crossed loading (see table 8) shows that all items are loaded higher against their respective latent variable in relation to other constructs (Chin, 1998) and hence discriminant validity has been confirmed in this study.

Table 3. Mean, Median, SD, Skewness, and Kurtosis

| Items | Mean | Median | Standard deviation | Excess Kurtosis | Skewness |
|-------|-------|--------|--------------------|-----------------|----------|
| AR1 | 4.329 | 5.000 | 1.894 | -1.209 | -0.244 |
| AR2 | 4.560 | 5.000 | 1.691 | -1.189 | -0.084 |
| AR3 | 4.663 | 5.000 | 1.283 | -0.746 | 0.006 |
| AR4 | 4.591 | 5.000 | 1.329 | -0.633 | 0.062 |
| CR1 | 4.314 | 5.000 | 1.814 | -1.146 | -0.226 |
| CR2 | 4.214 | 4.000 | 1.603 | -1.036 | -0.077 |
| CR3 | 4.680 | 5.000 | 1.458 | -0.863 | 0.057 |
| CR4 | 4.554 | 4.000 | 1.421 | -0.855 | -0.020 |
| AC1 | 4.366 | 5.000 | 1.762 | -1.135 | -0.152 |
| AC2 | 4.329 | 5.000 | 1.664 | -1.135 | -0.135 |
| AC3 | 4.477 | 5.000 | 1.523 | -0.744 | -0.200 |
| AC4 | 4.403 | 4.000 | 1.582 | -0.702 | -0.269 |
| AC5 | 4.300 | 4.000 | 1.695 | -0.940 | -0.113 |
| SR1 | 4.926 | 5.000 | 1.131 | -0.251 | 0.361 |
| SR2 | 4.857 | 5.000 | 1.203 | -0.162 | 0.208 |
| SR3 | 4.874 | 5.000 | 1.134 | 0.018 | 0.072 |
| SR4 | 4.786 | 5.000 | 1.073 | 0.029 | 0.254 |

Table 4. Cronbach's alpha and CR

| | Cronbach's alpha | CR | Average variance extracted (AVE) |
|----|------------------|-------|----------------------------------|
| AC | 0.952 | 0.953 | 0.840 |
| AR | 0.923 | 0.924 | 0.813 |
| CR | 0.926 | 0.928 | 0.819 |
| SR | 0.897 | 0.900 | 0.766 |

Table 5. Outer Loading

| Items | AC | AR | CR | SR |
|-------|-------|-------|-------|-------|
| AC1 | 0.932 | | | |
| AC2 | 0.925 | | | |
| AC3 | 0.907 | | | |
| AC4 | 0.910 | | | |
| AC5 | 0.908 | | | |
| AR1 | | 0.921 | | |
| AR2 | | 0.924 | | |
| AR3 | | 0.898 | | |
| AR4 | | 0.862 | | |
| CR1 | | | 0.921 | |
| CR2 | | | 0.923 | |
| CR3 | | | 0.901 | |
| CR4 | | | 0.874 | |
| SR1 | | | | 0.891 |
| SR2 | | | | 0.904 |
| SR3 | | | | 0.884 |
| SR4 | | | | 0.818 |

Table 6. Fornell-Larcker's Criterion

| | AC | AR | CR | SR |
|----|-------|-------|-------|-------|
| AC | 0.916 | | | |
| AR | 0.784 | 0.902 | | |
| CR | 0.812 | 0.794 | 0.905 | |
| SR | 0.696 | 0.71 | 0.699 | 0.875 |

Table 7. Heterotrait- Monotrait Ratio (HTMT)

| | AC | AR | CR | SR |
|----|-------|-------|-------|----|
| AC | | | | |
| AR | 0.834 | | | |
| CR | 0.863 | 0.857 | | |
| SR | 0.752 | 0.781 | 0.765 | |

Table 8. Crossed Loading

| | AC | AR | CR | SR |
|-----|-------|-------|-------|-------|
| AC1 | 0.932 | 0.767 | 0.769 | 0.652 |
| AC2 | 0.925 | 0.732 | 0.753 | 0.611 |
| AC3 | 0.907 | 0.698 | 0.742 | 0.657 |
| AC4 | 0.910 | 0.695 | 0.724 | 0.632 |
| AC5 | 0.908 | 0.696 | 0.730 | 0.636 |
| AR1 | 0.767 | 0.921 | 0.752 | 0.627 |
| AR2 | 0.720 | 0.924 | 0.727 | 0.653 |
| AR3 | 0.691 | 0.898 | 0.702 | 0.630 |
| AR4 | 0.644 | 0.862 | 0.679 | 0.651 |
| CR1 | 0.772 | 0.765 | 0.921 | 0.644 |
| CR2 | 0.737 | 0.735 | 0.923 | 0.652 |
| CR3 | 0.736 | 0.696 | 0.901 | 0.651 |
| CR4 | 0.690 | 0.673 | 0.874 | 0.581 |
| SR1 | 0.646 | 0.637 | 0.655 | 0.891 |
| SR2 | 0.635 | 0.627 | 0.647 | 0.904 |
| SR3 | 0.568 | 0.616 | 0.576 | 0.884 |
| SR4 | 0.582 | 0.602 | 0.563 | 0.818 |

Structural Model Analysis

First, check the multicollinearity by using the variance inflation factor (VIF). If the VIF value is greater than five, the construct is assumed to have multicollinearity problems (Khan et al., 2019). The value of VIF was found less than 5 in this study (see table 9) and there is no multicollinearity in this study.

Table 9. VIF

| Items | VIF | Items | VIF |
|-------|-------|-------|-------|
| AC1 | 5.334 | CR1 | 4.146 |
| AC2 | 4.968 | CR2 | 4.195 |
| AC3 | 3.836 | CR3 | 3.075 |
| AC4 | 3.978 | CR4 | 2.672 |
| AC5 | 3.835 | SR1 | 2.886 |
| AR1 | 4.490 | SR2 | 3.268 |
| AR2 | 4.698 | SR3 | 2.749 |
| AR3 | 3.064 | SR4 | 1.932 |
| AR4 | 2.466 | | |

Note: AC- Audit Committee; SR- Sustainability Reporting; AR- Assurance role of internal auditors; CR- Consulting roles of internal auditors.

Table 10 explained the result of the path relationship between assurance roles (AR) and consulting roles (CR) and sustainability reporting (SR). The result showed that AR is a positive statistically significant relationship with SR ($\beta = 0.513$, $t = 6.042$, $p = 0.000$). Similarly, CR is also a positive statistically significant relationship with SR ($\beta = 0.243$, $t = 2.959$, $p = 0.002$). Table 11 showed the graphical presentation of the structural model.

Table 10. Path Co-efficient

| Path | Original sample (O) | Sample mean (M) | Standard deviation (STDEV) | T statistics (O/STDEV) | P values |
|----------|---------------------|-----------------|----------------------------|--------------------------|----------|
| AC -> SR | 0.243 | 0.243 | 0.082 | 2.959 | 0.002 |
| AR -> AC | 0.377 | 0.378 | 0.056 | 6.710 | 0.000 |
| AR -> SR | 0.418 | 0.419 | 0.069 | 6.042 | 0.000 |
| CR -> AC | 0.513 | 0.511 | 0.056 | 9.207 | 0.000 |
| CR -> SR | 0.243 | 0.243 | 0.082 | 2.959 | 0.001 |

Note: AC- Audit Committee; SR- Sustainability Reporting; AR- Assurance role of internal auditors; CR- Consulting roles of internal auditors.

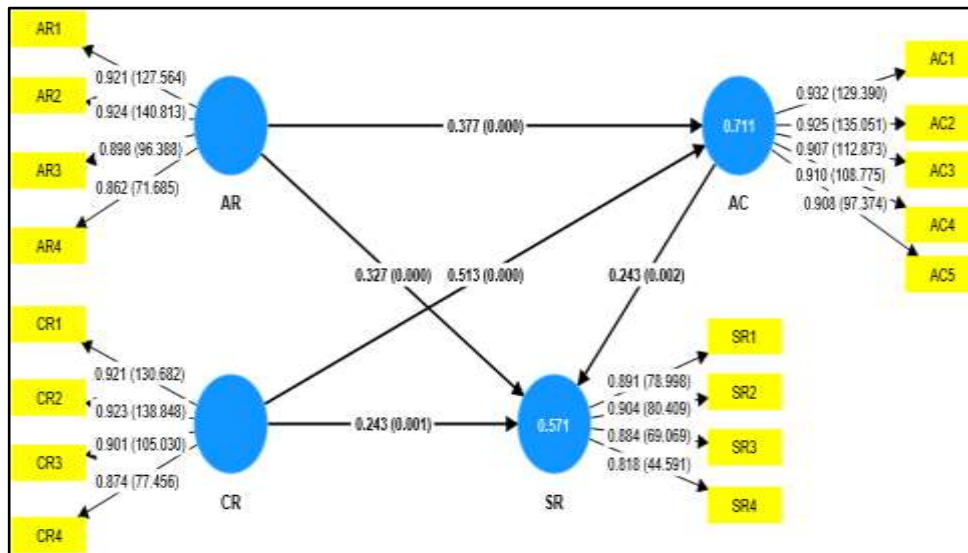


Figure 1. Graphical Presentation of the Structural Model

Table 11. Specific Indirect Effects

| | Original sample (O) | Sample mean (M) | Standard deviation (STDEV) | T statistics (O/STDEV) | P values |
|----------------|---------------------|-----------------|----------------------------|--------------------------|----------|
| AR -> AC -> SR | 0.092 | 0.092 | 0.034 | 2.682 | 0.004 |
| CR -> AC -> SR | 0.125 | 0.124 | 0.045 | 2.781 | 0.003 |

Figure 1 and Table 11 also showed the mediation relationship of AC performance in relationship with AR ->SR and CA->SR. Table 11 showed that the specific indirect effects of AR -> AC -> SR is 0.092 and this is statistically significant (t = 2.682; p = 0.004) and it indicated that there is a partial mediating effect of AC in between AR ->SR. Similarly, the specific indirect effects of CR -> AC -> SR is 0.125 and this is statistically significant (t = 2.781; p = 0.003). This is also indicated that there is a partial mediating effect of AC between CR ->SR.

DISCUSSIONS

The result specified that AR has a statistically positive significant effect on SR (see table 10 & Figure 1) and hypothesis H₁ is supported. This supported relationship indicated that if internal auditors can perform the assurance role effectively, it helps to make SR for the organization. From the assurance report of the internal auditors, the management gets various directions as to where the organization has problems and where improvements should be made and this assurance helps to give in the formulation of SR. Similarly, CR has a statistically positive significant effect on SR (see table 10 & Figure 1) and hypothesis H₂ is supported. The supported hypothesis H₂ explains that consulting services of internal auditors assists in the making of SR. It means that since internal auditors are internal employees of the organization, they have a lot of knowledge of the organization and in proportion when they provide any advice related to strategy or any related with risk management and the organization implements that affects the performance of the organization which leads to influence in making the SR. These findings are consistent with the previous study. For example, Coetzee (2016) stated that when internal auditors provide both insurance and consulting services, it becomes easier for management to identify organizational weaknesses and also help in making risk-related decisions. Similarly, Soh Dominic (2015) found that IAF helps in the preparation of ESG reports.

In addition, this study found that AC performance has a mediating relationship in both assurance and consulting roles and the SR. the Result also indicated that there is a statistical effect of a specific indirect relationship, and hence H₃ and H₄ are supported. This supported hypothesis indicated that whenever the AC fully performs all the assigned responsibilities, especially the functions related to an internal audit, it is helpful to prepare the SR of the responsible employees. When the AC is involved in the IAF, management receives more reliable information to make appropriate sustainability reports. Previous studies also support these findings. For example, Khoiriyah et al. (2022) found that by receiving reports from the internal auditors, the AC provides various directions for the organization that helps in compliance with the various rules and regulation of the organization which helps to improve the quality of SR.

CONCLUSIONS

This study is to examine the relationship between the role of internal auditors (both assurance and consulting) and sustainability reporting. This study also examines the mediating role of AC performances in relation to the role of internal auditors and sustainability reporting. The result showed that both the assurance and consulting roles of internal auditors have positive significant effects on sustainability reporting. The result also suggested that there is a partial mediating effect of the AC performance in relation to the role of internal auditors (both assurance and consulting) and sustainability reporting.

This study helps internal auditors by giving them direction on how to better deliver their assurance and consulting services. AC members can also know from this study how they can assist in the preparation of SR. Senior management can

learn how to improve the quality of SR with the help of internal auditors and AC members. This study will also help the regulator to assign the rules of the IAF and to assign responsibility to AC so that any organization can improve the quality of SR with the help of these two important instruments of CG.

This study also has some limitations. This study considers only financial institutions and ignores others industries. In the future, other listed and non-listed companies can be considered to know how the quality of SR can be improved with the help of internal auditors and AC. In addition, this finding is only applicable to developing countries like Bangladesh, future research can be done in developed countries to see how internal auditors and the audit committee can contribute to sustainability reporting. Moreover, this study also ignores the public sector and further study can be conducted in the public sector where government plays an important role in preparing SR.

In summary, considering the contribution of the financial sector to the Bangladesh economy, this study explores the positive significant relationship between the role of internal auditors and the practice of sustainability reporting. Moreover, this study also gives empirical evidence that the AC performance mediates the relationship between the internal auditor's role and sustainability reporting practice. However, more studies could be taken with big data covering all industrial sectors including public and private organizations to draw a picture of the practice of SR in relation to the role of internal auditors and the AC.

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