

INTERNAL AUDITOR CHARACTERISTICS AND FINANCIAL REPORTING QUALITY: EVIDENCE FROM BANGLADESH  Md Gulam Sharoar Hossain Khan ^(a)^(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 aims to examine the relationship between internal auditor characteristics and financial reporting quality in the context of the banking sector in Bangladesh. To achieve this objective, this study used a quantitative research methodology by using a questionnaire survey. Data were collected (495 respondents from 45 banks) from the internal auditors of banking companies in Bangladesh which cover 78% of the population. This study uses five important characteristics of internal auditors as exogenous variables such as auditors' independence, auditor proficiency, professional qualification, auditors' experiences, and the leadership style of the chief audit executive. SmartPLS-4 is used as statistical software to determine the relationship between exogenous and endogenous constructs. Findings indicate that professional qualification has the highest positive significant impact on financial reporting quality. Results also revealed that other characteristics like auditors' independence, auditor proficiency, and auditors' experiences has also positive significant effects on financial reporting quality. However, the leadership style of the chief audit executive has no positive significant impact on financial reporting quality. The findings of this study encourage the level of understanding of the internal auditors, regulators, top management, policy maker of the organization, investors, and other stakeholders regarding the quality of financial reporting of banking sectors in the perspective of an emerging economy.

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INTRODUCTION

The revised conceptual framework of 2018 (effective from 1st January 2020) issued by 'The International Accounting Standard Board' (IASB) has clearly explained the purpose of financial reporting which is to provide relevant information to the users to make appropriate strategic decisions. According to IASB, investors rely on accounting information to make appropriate decisions, for which that information must be a relevant, comparable, verifiable, timely, understandable, and faithful representation. Financial reporting quality (FRQ) helps to make appropriate strategic and investing decisions, especially related to resource allocation in any type of organization (IASB, 2013). It has been suggested that managing external sources of funds and ensuring the proper use of those funds by ensuring accountability depends solely on financial reporting quality (Lin et al., 2016). Users of accounting information typically make investment-related decisions based on the organization's cash flow (both inflow and outflow) and resource management capabilities (IFRS, 2020). And that's why FRQ is so important to the stakeholders like lenders, suppliers, regulators, and shareholders.

Frauds are becoming a permanent nature in business (Awolowo et al., 2018). In 2018, the global total cost of corporate fraud are valued at \$4 trillion (ACFE, 2018) based on 125 countries all over the world. The value of corporate fraud increased to \$4.5 trillion and \$4.7 trillion in 2020 and 2022 respectively (ACFE, 2020, 2022). Asset misappropriation, corruption, and financial statement fraud have been identified as the most common categories of scandals. For example, GE (US) was founded in 1892. At the beginning of 2018, it was publicized that "aggressive accounting" performed by SEC, a review that in October 2018 its \$22 billion non-cash charges connected to purchase and GE's market value cut down by more than \$200 billion during two years (Age, 2019). Wells Fargo is another renowned

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largest financial institution in the USA. In 2016, this institution involved more than millions of fraudulent accounts that had been created against clients (EUROPEANCEO, 2018). Bismillah Group, one of the top garments in Bangladesh also performed fraudulence activities by taking a loan from the bank and taking BDT 1174.46 crore from the bank on behalf of his name and also its fake sister concern (CPD, 2018). Now financial scandals and frauds are considered one of the most challenging issues to ensure the shareholder's interest (Connect, 2016). None of the above scandals are shown in financial reporting. Thus, the question always raises of which mechanism to follow will improve financial reporting quality.

The best practice of corporate governance (CG) influences the FRQ (Nalukenge et al., 2018). There are four important instruments of corporate governance such as internal audit, external audit, audit committee, management, and among these internal audits are considered the cornerstone of the CG mechanism (Abbott et al., 2016). Past studies propose that organizations should use internal audit as effective instruments for controlling and monitoring organizational operations (Cohen et al., 2010; Nalukenge et al., 2018; Prawitt et al., 2009). Internal auditors can help improve financial reporting quality in several ways. Internal auditors may assist external auditors with financial statement audits, helps in the financial audit of subsidiary companies, and also significant in compliance audit and special audits so that the actual condition of the organization can be excluded (Abbott et al., 2016). Independent internal auditors follow specific procedures in assisting the organization's financial statements audit and its subsidiary. These comprise assessing the process of year-end transactions, closing entries, adjustment, specific accruals, valuation of closing accounts receivable and payable, valuation of inventory, contingent transactions, and fixed assets valuation (IIA, 2004). Compliances audit of internal auditors may test all events and transactions and posting of each transaction for compliance in accordance with financial reporting standards and companies reporting policy. In addition, in preparing financial reporting, competent internal auditors can give consulting services in specific cases like warranty reserves, write-off accounts receivable, impairment test of assets, and collectivity reserves (PricewaterhouseCoopers, 2009). Moreover, the Institute of Internal Auditors (IIA) recommended that skilled and competent internal auditors should review the process of financial reporting with ensuring full disclosure, review a risk management process, identify the complex and problematic transactions, assess the off-balance sheet items, and key transactions that are related to subsidiaries and joint ventures (IIA, 2014). This study claims that auditors' characteristics are required for ensuring the quality of financial reporting and this is supported by "International Standards for Professional Practice of Internal Auditing" (ISPPIA), which implements as attributes of individual auditors.

However, the characteristics of internal auditors in the process of FRQ are not yet fully explained (Abbott et al., 2016; Kaawaase et al., 2021). Moreover, internal audits and FRQ are rare in the emerging economy and most of the research has been done in developed economies (Kaawaase et al., 2021; Shireenjit, 2013). Therefore, the objective of this study is to explore the relationship between internal auditors' characteristics and financial reporting quality in the context of banking sector in Bangladesh. Quantitative research method was conducted by using the survey questionnaire to explain this relationship. Data were evaluated using SmartPls-4 and Statistical Package for Social Sciences (SPSS). The Result specifies that internal auditors' characteristics such as auditor's independence, proficiency, auditors' experiences, and professional qualifications have significant positive impacts on FRQ. The result also suggested that the leadership style of chief audit executive have not significant positive effects on FRQ.

The rest of the work is organized as follows. The next section presented the literature review and identified the research gap based on previous literature. This section also includes the development of hypotheses based on previous studies. Then discuss the research methodology. The Methodology section covers the population, sample sizing, research tools, and operationalization of independent and dependent variables. Then the results afterwards the results are discussed. Finally, the last section contains a conclusion that includes significance, limitations and required further studies.

LITERATURE REVIEW

Financial Reporting Quality (FRQ)

Stakeholder theory suggests that managers of an organization should make a variety of decisions based on internal information of the organization and should consider the interests of not only the management but also the interest of other parties like customers, investors, lenders, regulators, communities, society, and government as well (Freeman, 1984). From the perspective of stakeholder theory, the organization has to achieve many different goals, not only to see only the interest of the shareholders. Freeman (1984) believes that when taking any strategic decision in the organization, the interests of all the parties involved in the organization should be considered. In this theory it is treated as accountability which means "as the responsibility of one party to another in a relationship where one party entrusts another with the performance of certain duties and hence it can be argued that financial reporting quality could reduce information asymmetry between the organization and its stakeholders in a timelier manner and as a consequence improve the relationships between them" (Kaawaase et al., 2021). Quality financial reporting provides to various stakeholders how the organization is performing on governance-related issues. Based on stakeholder theory, organization firms with internal audit teams have some characteristics that can complete their functions are accomplished of meeting the different requirements of different stakeholders.

Previous studies have discussed various factors of FRQ and mentioned a special factors like listing requirements, nature of the industry, nature of capital, company size, debt ratio, profitability, technology, internet, and ownership pattern (Desoky, 2015; Hindi & Rich, 2010; Kelton & Yang, 2008; Mitra & Bhuiyan, 2019). According to IASB, the basic principles of FRQ is qualitative characteristics like faithful representation, relevance, understandability, and timeliness that influence

the FRQ. Gajevszky (2015) conducted a study and stated that economic factor, political system, governance, international forces, and accounting standards influence the FRQ. Moreover, Gajevszky (2015) also demonstrated that earnings management, internal control, information technology, good corporate governance, process of internal reporting, accounting conservatism, culture, age of the CEO, company reputation, and board size influence FRQ. Internal auditors assess whether all these factors are being ensured within the organization. That is why financial reporting quality also depends on internal audit quality. Passed studies argue that internal audit quality depends on the characteristics of the internal auditors.

Bangladesh has a record of improvement in terms of growth and development even though global risk and uncertainty have increased (WorldBank, 2023). Bangladesh hopes to rise to the country of upper middle income by 2031. Bangladesh has a notable story in poverty reduction. When Bangladesh became independent in 1971, this country was one of the poorest countries. From there, in 2015, Bangladesh reached to country of lower middle income. In 1991 the poverty rate was 41% whereas in 2023 the poverty rate has come down to 18.7% (Kalerkontho, 2023). Moreover, the industrial sector has made a huge contribution to the economic development of Bangladesh (Dailysun, 2019). The banking industry is playing an important role in poverty alleviation and industrialization in Bangladesh (Dailystar, 2023). Bank provides investable funds for industrialization to the both private and public organization and helps international business with prompt payment which generates employment opportunities and hence strengthens the economy. Among other sectors, banking is the most regulated sector and that is why this sector is able to contribute to the economy which in turn encouraged me to examine the relationship between internal auditors' characteristics and FRQ in the banking sector of Bangladesh. The findings of this study will what qualities should internal auditors possess and how can internal auditors use their attributes to help in preparing quality financial reporting.

In addition, to the best of the author's knowledge, Bangladesh is a developing country with a very limited number of research on internal audit and FRQ. Masud (2022) examined the different drivers of FRQ in the listed companies in Bangladesh and found that firm size, firm age, ownership structure, sources of finance, liquidity, profitability, board size, board independence, board diligence, independence level of the audit committee, and quality of auditing has a significant impact of FRQ. Rashid (2020) investigate the relationship between the professional qualification of senior management and FRQ and stated that professional certification has a positive impact on FRQ. Karim et al. (2006) found a positive significant association between regulation and timeliness of financial reporting. Rouf et al. (2014) demonstrated that the independence of independent directors, audit committee independence, and board size influence the FRQ. Very recently, Khan (2023) reported that both assurance and consulting role of internal auditors influence the practice of sustainability reporting. Moreover, past studies have ignored quantitative research by using a survey questionnaire that gives more motivation to influence the practices of FRQ. To fill this gap, this study explored the relationship between internal auditors' characteristics and FRQ using the evidence from Bangladesh's banking sector.

Internal Auditor Characteristics

The International Standards of Professional Practice of Internal Audit (ISPPA) has implemented internal auditors' characteristics that must be implemented by individuals (IIA, 2012b). According to these standards, internal auditors should be completely independent in providing their services. "Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board " (IIA, 2012a). Roussy (2016) conducted a study about when external auditors consider internal audit reports and found that external auditors reduce their assignment when internal auditors are independent, this proves that when internal auditors are independent, the organization's financial reporting is prepared appropriately. Similarly, Shireenjit (2013) stated that when internal auditors are organizationally independent, the income of the organization will increase and this is the symbol of FRQ. Alzeban and Gwilliam (2014) reported that auditor's independence leads a review of the accuracy and reliability of financial reporting. However, Alzeban and Gwilliam (2014) also reported that the lack of auditor's independence is a barrier to internal audit performance.

IIA (2012) suggested that "internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities". Roussy (2016) also found that external auditors are more rely on internal audit work when they are more competent. It's also suggested that when internal auditors are more competent, problems in financial reporting can be easily identified and rectified, thereby improving reporting quality. Bananuka (2018) identify the function of internal auditors which includes assessing internal control, engaging in the risk management processes, and ensuring the applicable rules and regulations. It means that when the internal auditor assesses the level of internal control, justifies whether the risk management is in place, and whether the organization has complied with all the laws and regulations on the organization then the FRQ will automatically increase. Arena and Azzone (2009) reported that auditor's competencies and proficiencies influence to implementation and communication of reports to the assigned authority so that they can make proper action if there is any mistake that also leads to the preparation of financial reporting. Soh Dominic (2011) stated that sufficient knowledge regarding information technology, financial feasibility, and business risk influences internal audit works. Alzeban and Gwilliam (2014) report that the competencies of internal auditors influence the reliability of financial reporting and improve the process of risk management.

According to IIA (2012) "Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations". Internal auditors

may face a lot of difficulties if they do not have professional qualifications. The professional qualification declares internal auditor owns sufficient theoretical, technical, and practical knowledge and to maintain this qualification, continuous professional training is required. IIA. (2012) also suggested that “Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development”. Being incapable to find the vital issues and risks that will affect their performance. Al-Matari et al. (2014) recommended that auditors’ qualification such as CIA, CGAP, CCSA, CRMA, and CFSA helps to give feedback on any mistakes and can make quick decisions in very less time. Moreover, highly qualified internet auditors help management to take strategic decisions regarding risk management that effect organizational performance, earnings management and improve audit quality, all are leads to the FRQ. Similarly, Hutchinson and Zain (2009) also found that the professional qualification of internal auditors influences organizational performance.

Leadership style is affected to the performances of internal auditors (Nusran, 2021). According to Majid et al. (2016), the leadership style is an approach by which a leader influences his employees in a way that makes them willing to do what their leader suggests to achieve the organizational goals regardless of their preferences”. Lok and Crawford (2004) found that leadership style has significant positive impact on commitment and reasonable functions. Hughes et al. (2015) argue that transformational leadership is a managerial skill that allows strong emotions with their subordinates and believed to be more fruitful in leading the changes due to the willingness of subordinates to works that leads to overcoming leaders’ objectives. Pratiwi et al. (2020) conducted a study about the leadership style and capability level of internal auditors and found that transformational leadership style has a positive impact on the internal auditor’s work like prevention and detection of fraud which consequently influence the FRQ. Similarly, Dal Mas and Barac (2018) also examined a study about the leadership style of the head of internal audit and their function’s effectiveness and found that the transformational leadership nature of the head of an internal audit influences to achieve the organizational objectives.

Moreover, experienced internal auditors may enjoy more encouragement than senior management in making strategic decisions (Van Peursem, 2004). They may have different views because of their experience. Chung and Monroe (2000) defined experience related to audit as “the auditor’s unique knowledge, competencies and capabilities that exist from job practices in the auditing profession which lead to the enhancement of auditor’s abilities to process relevant information, make a mental comparisons of the alternative way out, initiate subsequent actions and also provide decision making efficiency and effectiveness through a good memory of information necessary and an accurate judgment of audit works.” Zain et al. (2006, p. 2) stated that “experience in accounting and auditing, and interactions with the internal audit function (such as frequency of meetings and review of internal audit reports) are associated with internal audits propensity to contribute towards the external audit predict that the level of audit experience among internal audit staff will impact on the extent to which the internal audit function is able to contribute to financial statement audits” and that reflects the FRQ. Especially experiences in auditing and accounting help to influence the earnings quality (Gaballa & Ning, 2011). These studies also suggested that more experienced auditors gain more knowledge about clients’ activities and errors which could be helped in preparing good financial reporting. Past studies also specified that auditors’ experiences can expand auditor’s ability to judgment (Agoglia et al., 2007; Chung & Monroe, 2000; O’Donnell, 2002). Therefore, it can be hypothesized that

H₁: Auditor’s experiences are positively associated with FRQ.

H₂: Auditor’s independence is positively associated with FRQ.

H₃: Auditor’s proficiency is positively associated with FRQ.

H₄: The leadership style of the chief audit executive is positively associated with FRQ.

H₅: Professional qualification of internal auditors is positively associated with FRQ

MATERIALS AND METHODS

Research Method

Quantitative research by using a survey questionnaire is conducted in this study to examine the relationship between exogenous and endogenous constructs. Creswell and Creswell (2017) defined quantitative research as “a type of research that is explaining phenomena by collecting numerical data that are analyzed using mathematically based methods (in particular statistics)”. Quantitative research is highly acceptable to users for six important characteristics such as using the number to measure data, using quantitative data, purpose to be objective, using statistical analysis, denoting composite problems through constructs, and generalizable and comparable findings (Goertzen, 2017). Moreover, quantitative research findings are based on a large number of data that represent a population. Random sampling technique is applied to collect data for this study which is required especially for quantitative research where each respondent has an equal probability of responding.

Population, Sample, and Research Tool

According to Sukamolson (2007) a total number of samples should be covered 57 percent of the population (+-3%). This study is used in the banking sector of Bangladesh. A total number of banks is 61 and all the banks work under Bangladesh Bank. It has sent 545 questions to the internal auditors in different branches of 45 banks (74% of the population). Out of these 425 survey questionnaires were received (response rate 78%) and 30 survey questionnaires were incomplete and were excluded from the research. Total usable data stood at 395. Out of the total response, 78% are male and the remaining 22% are female. Seven-point Likert scale is used to prepare a survey questionnaire with close-ended questions. Data collection was done from the beginning of January 2023 to the end of March 2023. SmartPLS-4 is used as statistical software to

determine the research model. SmartPLS-4 is variance-based software where there is no need for the data to be normally distributed (Ringle et al., 2015).

Constructs Measurements

By following the past studies, all measurement scale (dependent and independent variables) was developed (see table-1). Financial reporting quality (dependent variable) is measured based on the qualitative characteristics of accounting information such as relevance, reliability, understandability, comparability, and timelessness by following the study of Shireenjit (2013). Auditors independence was measured following by Alzeban and Gwilliam (2014) to measure about the free from conflict of interest, management interference, unrestricted access, not performing consulting services, and appointment and removal by the audit committee. Auditor's proficiency is measured by the following of Kabuye (2017) to assess the sufficient knowledge about ISPPIA, documents-based work, sufficient training, and having interpersonal interaction. The leadership style of CAE is measured by the following of Dal Mas and Barac (2018) to measure the complete faith in his subordinate, looking at puzzle things of subordinates, implementing rethinking ideas, personal attention, and continuously developing their subordinates. Auditor's professional qualification is measured by the following of Al-Matari et al. (2014) to assess internal auditors with professional Certificate, certified internal auditors give quick feedback for any kind of errors and mistakes, and professional certified auditors are able to make instant appropriate strategic decisions and no need to consult with others. Auditor's experiences is measured by following Gaballa and Ning (2011) and Intakhan and Ussahawanitchakit (2010) indicate the experiences mean auditors have more knowledge about fraud and errors, more an idea about occasional errors, idea about the reasons for errors and how to mitigate such errors.

Table 1. Constructs Measurement

Constructs	Sources
Auditors Independent	Alzeban and Gwilliam (2014)
Auditors Proficiency	Kabuye (2017)
Professional Qualification	Al-Matari et al. (2014)
Leadership Style of CAE	Dal Mas and Barac (2018)
Auditors Experiences	Gaballa and Ning (2011) & Intakhan and Ussahawanitchakit (2010)
Financial Reporting Quality	Shireenjit (2013)

RESULTS

The partial least square-structural equation model (PLS-SEM) contains two steps method. First, the measurement model "involves the evaluation of construct measures' reliability and validity. This assessment draws on different measures, depending on whether a construct is measured reflectively or formatively" (Ali et al., 2018, p. 520). This study considered all the items are reflective in nature. Second the evaluation of the structural model. Table 2 indicated that data is normally distributed. For using the SEM-PLS, data does not need to be normally distributed, but this study indicated that all the values of skewness are within the range of (+/- 2).

Table 2. Mean, Median, SD, Skewness, and Kurtosis

Name	Mean	Median	Standard deviation	Excess kurtosis	Skewness
AI1	4.329	5.000	1.894	-1.209	-0.244
AI2	4.560	5.000	1.691	-1.189	-0.084
AI3	4.663	5.000	1.283	-0.746	0.006
AI4	4.766	5.000	1.142	-0.085	0.122
AI5	4.591	5.000	1.329	-0.633	0.062
AP1	4.477	5.000	1.718	-1.083	-0.126
AP2	4.391	5.000	1.590	-0.966	-0.094
AP3	4.477	5.000	1.741	-1.228	-0.074
AP4	4.377	5.000	1.779	-1.147	-0.168
AP5	4.334	5.000	1.781	-1.243	-0.147
PQ1	4.314	5.000	1.814	-1.146	-0.226
PQ2	4.214	4.000	1.603	-1.036	-0.077
PQ3	4.680	5.000	1.458	-0.863	0.057
PQ4	4.554	4.000	1.421	-0.855	-0.020
LS1	4.417	5.000	1.642	-0.796	-0.135
LS2	4.494	5.000	1.494	-0.832	0.029
LS3	4.437	4.000	1.491	-0.800	-0.008
LS4	4.369	4.000	1.737	-0.997	-0.164
LS5	4.369	5.000	1.720	-0.922	-0.156
AE1	4.926	5.000	1.131	-0.251	0.361
AE2	4.857	5.000	1.203	-0.162	0.208
AE3	4.874	5.000	1.134	0.018	0.072
AE4	4.786	5.000	1.073	0.029	0.254
FRQ1	4.366	5.000	1.762	-1.135	-0.152
FRQ2	4.329	5.000	1.664	-1.135	-0.135
FRQ3	4.477	5.000	1.523	-0.744	-0.200

FRQ4	4.403	4.000	1.582	-0.702	-0.269
FRQ5	4.300	4.000	1.695	-0.940	-0.113

[Note: AI- Auditors Independence; AP- Auditors Proficiency; PQ- Professional Qualification; LS- Leadership Style; AE- Auditors Experience; FRQ- Financial Reporting Quality]

Result of Measurement Model

The measurement model (reflective in nature) involves the assessment of reliability and validity. Reliability includes items reliability and “internal consistency reliability”. To establish the item’s reliability, the loading of each item should be more than 0.70. to ensure the internal consistency reliability, the value of composite reliability and the value of Cronbach’s alpha should be more than 0.70 (Ali et al., 2018). To assess the convergent validity, the average variance extracted (AVE) value should be more than 0.50 (Hair Jr et al., 2013). Table 3 showed that all items loading exceeded the threshold limit (0.70) except AI4 (0.570). However, items should not be deleted if AVE is more than 0.50 (Hair et al., 2017). Table 3 showed that all AVE of each construct is more than 0.50 and hence item AI4 is retained. Moreover, the value of composite reliability and Cronbach’s alpha are more than the threshold limit, and hence reliability and convergent validity of each construct is established. For discriminant validity, crossed-loadings and the Fornell–Larcker criterion, and the heterotrait–monotrait (HTMT) criterion should be ensured. In the case of crosse loading, the respective items loading of each construct should be greater than other items. Table-4 indicated the crossed loading of each items and showed that each item of the particular construct are greater than others. Table-5 showed that all square roots of AVE exceeded their corresponding column & row and ensured the criterion of Fornell–Larcker and table-7 also showed that the value of HTMT is close to 1 then considering a discriminant validity exists.

Table 3. Items Loading, Cronbach's alpha, Composite reliability, and Average variance extracted

Construct	Items	Loading	Cronbach's alpha	Composite reliability (CR)	Average variance extracted (AVE)
Auditors Experiences	AE1	0.892	0.897	0.901	0.766
	AE2	0.904			
	AE3	0.882			
	AE4	0.818			
Auditors Independence	AI1	0.922	0.888	0.918	0.703
	AI2	0.919			
	AI3	0.884			
	AI4	0.570			
	AI5	0.846			
Auditors Proficiency	AP1	0.918	0.955	0.956	0.848
	AP2	0.910			
	AP3	0.915			
	AP4	0.935			
	AP5	0.926			
Financial Reporting Quality	FRQ1	0.933	0.952	0.953	0.84
	FRQ2	0.926			
	FRQ3	0.906			
	FRQ4	0.909			
	FRQ5	0.909			
Leadership Style of CAE	LS1	0.915	0.946	0.948	0.824
	LS2	0.887			
	LS3	0.890			
	LS4	0.925			
	LS5	0.920			
Professional Qualification	PQ1	0.921	0.926	0.928	0.819
	PQ2	0.922			
	PQ3	0.900			
	PQ4	0.874			

[Note: AI- Auditors Independence; AP- Auditors Proficiency; PQ- Professional Qualification; LS- Leadership Style; AE- Auditors Experience; FRQ- Financial Reporting Quality]

Table 4. Crossed Loading

	AE	AI	AP	FRQ	LS	PQ
AE1	0.892	0.639	0.479	0.646	0.406	0.655
AE2	0.904	0.631	0.465	0.635	0.420	0.647
AE3	0.882	0.618	0.416	0.568	0.358	0.576
AE4	0.818	0.604	0.433	0.582	0.349	0.562
AI1	0.627	0.922	0.712	0.767	0.613	0.752
AI2	0.653	0.919	0.670	0.720	0.546	0.727
AI3	0.630	0.884	0.606	0.691	0.540	0.703
AI4	0.388	0.570	0.621	0.418	0.579	0.417
AI5	0.651	0.846	0.538	0.644	0.473	0.679
AP1	0.479	0.685	0.918	0.619	0.731	0.608
AP2	0.448	0.647	0.910	0.607	0.735	0.587
AP3	0.467	0.698	0.915	0.620	0.747	0.624

AP4	0.471	0.690	0.935	0.617	0.746	0.616
AP5	0.498	0.701	0.926	0.651	0.744	0.648
FRQ1	0.652	0.771	0.672	0.933	0.560	0.770
FRQ2	0.612	0.732	0.640	0.926	0.574	0.753
FRQ3	0.657	0.701	0.575	0.906	0.528	0.742
FRQ4	0.633	0.698	0.582	0.909	0.524	0.725
FRQ5	0.637	0.701	0.628	0.909	0.548	0.730
LS1	0.380	0.577	0.745	0.513	0.915	0.511
LS2	0.387	0.575	0.728	0.555	0.887	0.539
LS3	0.388	0.542	0.698	0.518	0.890	0.529
LS4	0.433	0.626	0.729	0.568	0.925	0.588
LS5	0.404	0.606	0.748	0.551	0.920	0.548
PQ1	0.645	0.764	0.658	0.772	0.596	0.921
PQ2	0.652	0.739	0.639	0.737	0.567	0.922
PQ3	0.651	0.697	0.584	0.736	0.509	0.900
PQ4	0.581	0.676	0.539	0.690	0.492	0.874

[Note: AI- Auditors Independence; AP- Auditors Proficiency; PQ- Professional Qualification; LS- Leadership Style; AE- Auditors Experience; FRQ- Financial Reporting Quality]

Table 5. Fornell-Larcker’s criterion

	AE	AI	AP	FRQ	LS	PQ
AE	0.875					
AI	0.712	0.838				
AP	0.514	0.743	0.921			
FRQ	0.696	0.787	0.677	0.916		
LS	0.440	0.646	0.804	0.597	0.908	
PQ	0.699	0.796	0.670	0.812	0.599	0.905

[Note: AI- Auditors Independence; AP- Auditors Proficiency; PQ- Professional Qualification; LS- Leadership Style; AE- Auditors Experience; FRQ- Financial Reporting Quality]

Table 6. Heterotrait- Monotrait Ratio (HTMT)

	AE	AI	AP	FRQ	LS	PQ
AE						
AI	0.796					
AP	0.553	0.823				
FRQ	0.752	0.848	0.708			
LS	0.475	0.722	0.846	0.628		
PQ	0.765	0.870	0.711	0.863	0.638	

[Note: AI- Auditors Independence; AP- Auditors Proficiency; PQ- Professional Qualification; LS- Leadership Style; AE- Auditors Experience; FRQ- Financial Reporting Quality]

Result of Structural Model

According to Janadari et al. (2016) “the structural model and its latent variables represent the stable, theoretically and conceptually established contextual link between observed data on the input and output sides”. Hair et al. (2014) propose 5 steps to assess the structural model. This study uses the first three steps to assess the structural model. First to assess the multicollinearity of different items of each construct. This study used the variance inflation factor (VIF) to assess the multicollinearity. According to Khan et al. (2019), if the value of VIF is greater than 5, it is assumed that there is multicollinearity exists. In this study, the VIF value is less than 5 and there are no issues of multicollinearity (see table 7).

Table 7. VIF

Items	VIF	Items	VIF
AE1	2.886	FRQ1	3.334
AE2	3.268	FRQ2	4.968
AE3	2.749	FRQ3	3.836
AE4	1.932	FRQ4	3.978
AI1	4.633	FRQ5	3.835
AI2	4.706	LS1	4.481
AI3	3.064	LS2	3.274
AI4	1.280	LS3	3.381
AI5	2.475	LS4	4.987
AP1	4.380	LS5	4.388
AP2	3.952	PQ1	4.146
AP3	4.176	PQ2	4.195
AP4	4.321	PQ3	3.075
AP5	4.530	PQ4	2.672

[Note: AI- Auditors Independence; AP- Auditors Proficiency; PQ- Professional Qualification; LS- Leadership Style; AE- Auditors Experience; FRQ- Financial Reporting Quality; VIF- Variance Inflated Factor]

Second, evaluate the path coefficient. The bootstrapping technique is applied to test the significance of every path coefficient (Chin & Dibbern, 2010). “Bootstrapping is a non-parametric-sampling procedure that involves repeated random sampling with replacement from the original sample and it is a superior re-sampling method which attempts to approximate the sampling distribution of an estimator by resampling with replacement from the original sample” (Janadari et al., 2016, p. 191). This study used one tail test with 5000 subsamples at a 95% confidence level. The table-8 showed that AE is a positive statistically significant relationship with FRQ ($\beta = 0.169$, $t = 3.444$, $p = 0.000$). Similarly, AI, AP, and PQ are also a positive statistically significant relationship with FRQ respectively [$(\beta = 0.232$, $t = 3.475$, $p = 0.000$); $(\beta = 0.113$, $t = 2.150$, $p = 0.016$); $(\beta = 0.412$, $t = 7.437$, $p = 0.000$)]. However, LS is not having a positive statistically significant relationship with FRQ ($\beta = 0.035$, $t = 0.796$, $p = 0.213$). Figure 9 showed the graphical presentation of the structural model.

Table 8. Path Co-efficient

Hypothesis	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics ((O/STDEV))	P values	R-square
AE -> FRQ	0.169	0.170	0.049	3.444	0.000	0.732
AI -> FRQ	0.232	0.233	0.067	3.475	0.000	
AP -> FRQ	0.113	0.113	0.052	2.150	0.016	
LS -> FRQ	0.035	0.036	0.044	0.796	0.213	
PQ -> FRQ	0.412	0.410	0.055	7.437	0.000	

[Note: AI- Auditors Independence; AP- Auditors Proficiency; PQ- Professional Qualification; LS- Leadership Style; AE- Auditors Experience; FRQ- Financial Reporting Quality]

Third, to assess the predictive power and which is determined by the use of the R square. The value of R square means the amount of variance in the construct that is explained by the model R-square indicates the amount of variance explained by the exogenous variable in its endogenous counterpart” (Janadari et al., 2016, p. 191). Moreover, it shows the quality of every construct (Hair Jr et al., 2014). The value R square is from zero to 1 where zero indicates that there is no predictive relevance and 1 indicates the perfect prediction relevance. According to Hair et al. (2011), the value of R square is 0.25, 0.50, 0.75 means weak, moderate, and substantial levels of predictive accuracy respectively. The R square value in this study is 0.732 which indicates that there is a moderate level of accuracy exists (see table 8).

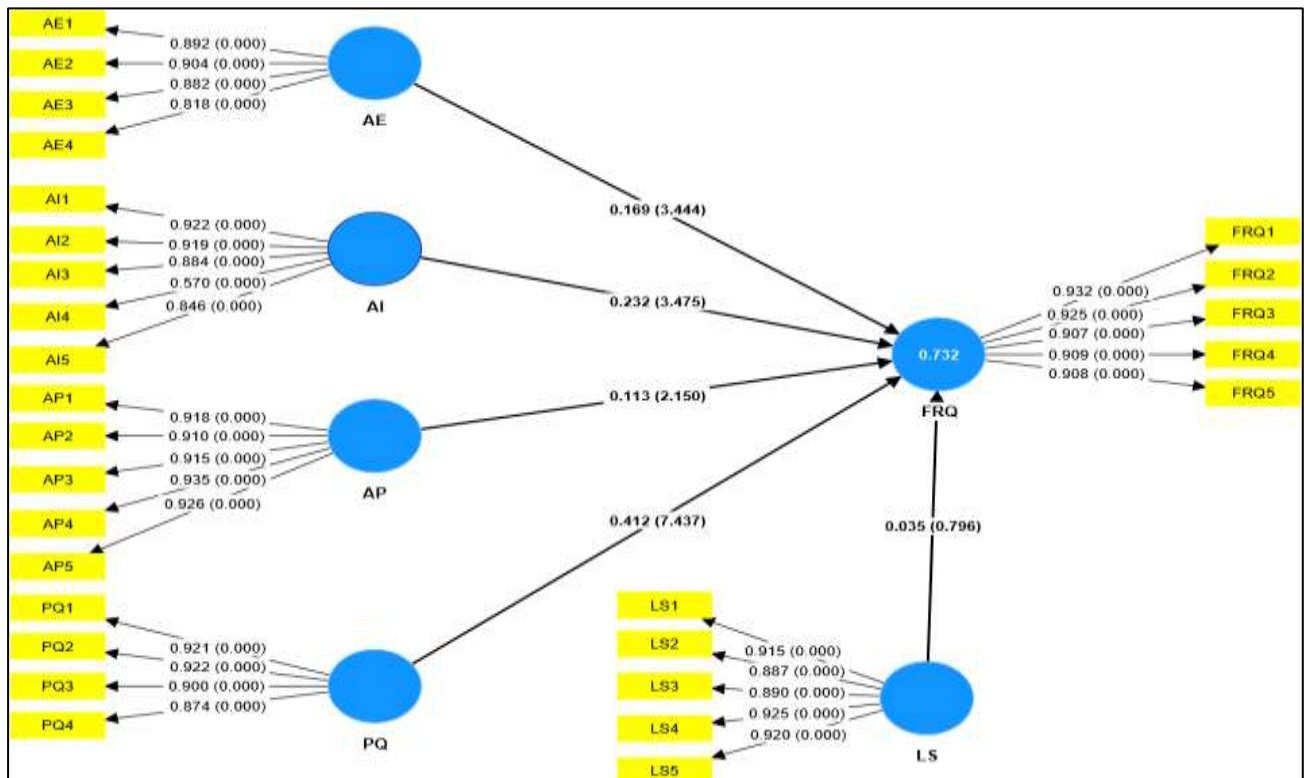


Figure 9. Graphical Presentation of the Structural Model

DISCUSSIONS

The findings of the study suggested that auditors’ experiences have a positive significant relationship with financial reporting quality and H1 is supported. This supported hypothesis revealed that when the auditor has enough experience, then the auditors can easily identify the fraud or error in the organization, and also understand the nature of the fraud and the reason for the fraud or error. Moreover, due to the auditor’s experience, they can give the idea of how to manage those irregularities, and thus the management can control all these unexpected activities that reflect in the financial reporting

quality. Previous research findings have supported this finding. For example, Zain et al. (2006) reported that due to the experience of internal auditors, they engage with external auditors to help financial statements audit, and hence external auditors rely on internal auditors in many cases, and based on this, when the external audit report is issued, users have a positive perception of the financial statements, which indicates reporting quality. Similarly, Gaballa and Ning (2011) recommended that internal auditors having accounting and financial experience that can assist by giving consulting services to those who prepare financial reporting with direction and advice to ensure financial reporting quality. The findings also revealed that auditor's independence has a positive significant relationship with financial reporting quality and H2 is supported. It indicated that when the internal auditor is completely free from management pressure and free access to all departments and getting all types of relevant information at any time, then internal auditors provide appropriate consulting and assurance services that help to prepare financial reporting. When managers use these independent reports to analyze various data and include them in the financial statements then the relevancy of the financial statements is increased. Financial statement information is heightened when managers use these independent reports from internal auditors. Past studies supported this finding. For example, Shireenjit (2013) recommended that When internal auditors audit the financial statements independently, the organization decreases and the earnings quality would be increased and consequently earnings management would be reduced which indicates the quality of the financial statement. Similarly, Alzeban and Gwilliam (2014) found in Saudi Arabia that independence influences the review of financial reporting that will meet the stakeholder's need.

In addition to that auditor's proficiency is have a positive significant relationship with financial reporting quality and H3 is supported. It indicated that when internal auditors gain proficiency through continuous development and training and through acquiring adequate organizational knowledge, it is easy to assess whether the rules and regulations of the organization are being complied, and whether their operations are effective operation. Moreover, organizational governance is ensured that influences financial reporting quality. If internal auditors do not have sufficient skills, they often do not understand the nature of the organization's transactions, which creates problems for giving assurance and consulting services. Furthermore, auditors have sufficient knowledge of rules and regulations that lead to identifying weaknesses in financial reporting. Previous studies have supported this finding. For example, Arena and Azzone (2009) stated that when the auditor is competent, management implements the internal audit report in the organization, thereby reducing many of the irregularities and bringing transparency to the financial statements. Similarly, Alzeban and Gwilliam (2014) supported that competent internal auditors influence the quality of financial statements. The findings of this study also stated that an auditor's professional qualification has a positive significant relationship with financial reporting quality and H5 is supported. It indicated that professional qualification like CIA, CGAP, CCSA, CRMA, and CFSA increases the scope of work of internal auditors and because of this, any weakness can be identified in a very short period of time and suggestions can be made accordingly on how to solve this weakness and managers get the direction from this while preparing financial reports. Past studies also support this finding. For example, Al-Matari et al. (2014) stated that auditors who are professionally qualified can find out any mistake in the organization within a short period of time and give prompt suggestions accordingly so that the manager can employ that suggestions while making the financial report. Similarly, Hutchinson and Zain (2009) also stated that professionally qualified internal auditors influence organizational performance.

However, the findings of this study showed that no positive significant relationship between the leadership style of CAE and financial reporting quality, and H4 is not supported. It means that transformational leadership where priority is given to subordinates does not affect financial reporting quality. Always giving priority to subordinates leads to many mistakes in work and in some cases neglect of work. This finding is consistent with other prior studies. For example, Hay (2006) stated that when subordinates wait for direction due to less competence and that time if they are allowed to work independently then the proper output is not obtained from them. Similarly, (Stone et al., 2004, p. 4) perceive that "transformational leaders can exert a very powerful influence over followers, who offer them trust and respect".

CONCLUSIONS

The current study aims is to examine the relationship between internal auditor's characteristics and financial reporting quality in the context of Bangladesh. Based on the literature review, this study used five important individual characteristics such as auditors' independence, auditors' proficiencies, professional qualification, the leadership style of chief audit executive, and auditor's experiences. Findings revealed that professional qualification has the highest positive impact on financial reporting quality. In addition to that findings also showed that auditors proficiencies, auditors independence, and auditor experiences has also positive impact on financial reporting quality. However, the result indicated that there are no positive significant effects of the leadership style of CAE on the financial reporting quality.

This study helps the internal auditor in many ways especially how the characteristics of internal auditors affect the outcome of their work particularly on the financial reporting quality. Chief audit executives can learn from this study that transformational leadership will not be effective when internal auditors rely too much on direction having their incapability. Top management and the audit committee can learn from this study what qualifications and qualities internal auditors should possess management appoints internal auditors by looking at those characteristics or ensuring those characteristics by proper training. Top management and regulators also learn from this finding when and how internal auditors can contribute to internal reporting quality.

This study has some limitations. Firstly, this study considers only the banking sector which is a highly regulated sector in Bangladesh. Future research may consider non-banking like insurance, non-banking financial institution, and industrial sector even listed or non-listed to see if is there any variation in the results or not. Secondly, Bangladesh as a

developing country has been considered in this study. In the future, developed countries can be considered to identify the characteristics of internal auditors that impact on financial reporting quality. Third and finally, the quantitative approach is used as a methodology in this study. In the future, qualitative study where interviews can be conducted to find out what other qualities auditors need to contribute to financial reporting quality.

In summary, considering the contribution of the banking sector to the economy of Bangladesh, this study is to explore the positive significant relation between characteristics of internal auditors (auditor's independence, auditor's experiences, professional qualification, auditors' proficiencies, and leadership style of CAE) that has an impact (except leadership style) on the financial reporting quality. Future studies can be considered in developed countries and non-banking companies may examine how internal auditor characteristics affect financial reporting quality.

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