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Mediating Effect of Financial Reporting Act 2015 on Financial Reporting Quality in Bangladesh

Mohammad Rokibul Kabir[1*], Fahmida Akhter[1], Ali Abrar Sadaf [1]

[1]East Delta University, Bangladesh

ABSTRACT

Using a structured questionnaire survey with the chartered accountants in Bangladesh, this study evaluates the mediating effect of the Financial Reporting Act (FRA) 2015 on financial reporting quality (FRQ). We proposed a structural equation model (SEM) to present our research findings. Firstly, we found that Audit Committee (AC), Audit Quality (AQ), and FRA 2015 positively influence FRQ. Then, we examined the mediating role of FRA 2015 between the relationship of i) AC and FRQ ii) AQ and FRQ. Though FRA 2015 has positively influenced the relationship in both cases, the mediating role of FRA 2015 between the relationship of AC and FRQ found statistically insignificant. However, FRA 2015 has a statistically significant complementary partial mediating role in the relationship between ACQ and FRQ. The study implies that by knowing the extent to which AC, AQ and FRA 2015 effects FRQ, policymakers can make crucial decisions of appointing audit committee members and way of making quality report abiding by the required guidelines of FRA 2015 to satisfy the need of investors and other stakeholders of the business.

Keywords: Audit committee, audit quality, Bangladesh, Financial Reporting Act 2015, financial reporting quality

1. INTRODUCTION

Financial reports work as a conveyor that helps stakeholders of a business know about its financial position and performance to know where the business stands in comparison to its competitors (Kurauone et al., 2020). Hence, it is only a crime when these financial statements are manipulated so that they end up hiding the inefficiencies a business has (Hofmann & Schwaiger, 2020). It is of grave despair when businesses take unfair advantage of their stakeholders, especially the investors, usually referred to as the public, purchasing the company's share (Gupta & Kumar, 2020).

Financial statements should not be prepared to guide the users to a false conclusion; instead, they should be prepared following the accounting concepts of reliability, time-specific and relevance, to help the users make important decisions (Kibiya, Che-Ahmad, & Amran, 2016). This statement implies that information provided in the financial reports needs to be something that took place in recent events, and the footnote needs to clear the confusions that may arise. It is an essential requirement to make sure that the information is free of any material error and biases; also, it cannot be misleading of any sort (Kingsley, Adeghe, & Gina, 2014). Moreover, the information needs to introduce the business movement and different occasions reliably, recreate essential substance of occasions and mindfully address evaluations and vulnerabilities utilizing appropriate divulgence (Okoye & Ofoegbu, 2011).

Besides Bangladesh, it has been observed that there is a common trend of window dressing the firms' financial statements in many other developing countries, which have been breaching all the ethical standard practices (Sen & Inanga, 2005). However, in Bangladesh, it is often argued that the involvement of "Big 4" audit firms ensures better audit quality. Big 4

*Corresponding author: rokibul.k@eastdelta.edu.bd

audit firms in Bangladesh have had a very long, diverse and complex history. The performances of these Big four firms in Bangladesh are subject to societal factors, and these factors influence the actual scenario of the work of the accountants (Belal, Spence, Carter, & Zhu, 2017).

Bangladesh is a recently graduated developing country where unethical reporting practices and corruptions prevail (Ahmed & Ali, 2019). Though the accountants need to maintain high moral norms and keep up trustworthiness in the entirety of their expert exercises, in reality, the scenario in Bangladesh is far away from the standard with deceiving financial reports in many cases (Sen & Inanga, 2005). Hence, to enhance the quality of reporting and reduce the investors' exploitation, the Financial Reporting ACT (FRA 2015) was enacted in Bangladesh in 2015.

FRA 2015 is prescribed to help the cause of ensuring reliability and transparency in the professional accounting and auditing of Bangladesh. Auditing helps to build the people's confidence by rebuilding trust through corporate governance and correct reporting of the financial accounts of a company. History speaks of the connection between scandals and failures of corporations in producing quality financial reports increasing the need to monitor and keep a check on the activities of these firms, which is answered by FRA 2015 (Hossen, 2016).

Stakeholders, especially investors, look up to the statements of a company's financial positions before they put their money into buying the share of that particular company. So, ensuring the transparency of these financial statements is the work of the audit firms. Unfortunately, in Bangladesh, some companies and their respective audit firms tend to get involved in forgery and misrepresent information exploiting the stakeholders (Ahmed & Ali, 2019), which motivated the policymakers to introduce FRA 2015. Hence, this research aims to evaluate the extent to which FRA 2015 has been able to establish a culture where the audit committee would refrain from corruption and influence the audit quality and thus bring changes to uphold the financial reporting quality. Therefore, the study aims at explaining the mediating role of FRA 2015 in ensuring better reporting quality from the viewpoint of chartered accountants in Bangladesh with partial least square-structural equation modelling (PLS-SEM).

2. LITERATURE REVIEW, RESEARCH FRAMEWORK AND HYPOTHESES DEVELOPMENT

2.1 Audit Quality

The quality of an audit is understood by the ability of an audit firm to assure the reliability and trustworthiness of a company's financial statement, providing better protection to the investors and enhancing the shareholders' confidence (Hasan, Kassim, & Hamid, 2020). Audit quality focuses on improving financial reporting quality by building the trust of the investors. Apart from building confidence, audit quality boosts the credibility of the statements of a company, that is, the financial reports (Defond & Zhang, 2016; Gaynor, Kelton, Mercer, & Yohn, 2016). Ensuring financial reporting quality (FRQ) is amongst audit quality which is a continuous process (Defond & Zhang, 2016). Audit quality can also be defined by the level of the audit complying with the accounting standards (Watkins, Hillison, & Morecroft, 2004). Therefore, audit quality and FRQ can be measured synergistically (Hasan, Kassim, & Hamid, 2020).

2.2 Big 4 Audit Firms and Audit Quality

The largest of the audit firms are defined as the Big 4. These Big four firms tend to receive greater auditing fees than the smaller firms (Smith, 2003). The quality of the audit is positively related to the size of the firm. The larger the firm's size, the more is at stake, increasing the incentive for the firm to perform well, leading to a better quality audit. Also,

the larger the firms, the more resources are available and highly skilled workers are also attracted to these Big four firms (Deangelo, 1981). A company being audited by a Big 4 firm reflects the willingness of the company to promise its stakeholders that the business is focusing on enhancing its FRQ also trying to prove that they are trying to decrease the misrepresentation of the financial information (Palea, 2007). The works of Big 4 audit firms are expected to narrow the differences and improve the trust and confidence of the public (George, 2017).

2.3 Audit Quality Change

'Switching auditors' have a part in influencing the believability of monetary detailing and the financial charges engaged with overseeing exercises (Huson, Parrino, & Starks, 2001). Switching auditors refers to replacing an auditor by making them leave a client and letting another auditor take over (Turner & Arun, 2005). Since the early 1970s, researchers and experts of the accounting profession have carried out numerous detailed studies on a considerable amount of 'switching auditors' in developed countries; however, there is a lack of significant research in developing countries like Bangladesh. In Bangladesh, the corporate culture does not give any importance to the auditors' rotation of duties, resulting in a lack of evidence in the 'switching auditors' ability to bring a significant effect on the audit quality (Hossen, 2016). The Securities and Exchange Commission of Bangladesh has made it compulsory for firms to have its financial reports audited by an independent audit firm. However, little has asked for a switch of auditors by replacing the auditor and allowing a different auditor to audit the same clients' reports, so the switching of author analysis is vague.

2.4 Audit Committee

For the supervision of the reporting process of the financial statements, the responsible party is the audit committee (AC) (Watkins, Hillison, & Morecroft, 2004). Their job is to look after the internal controls to ensure they are doing their job abiding by the rules and regulations (Rahman & Ali, 2016). The job responsibilities of the AC involves taking appointments with the external audit body and meeting them to discuss issues related to auditing, helping in coordinating audit works with the employees of the firm leading to a much more integrated work process (Jakpar, 2019). The audit committee for quite a while has been seen as an integral part in the association to assist the oversight of chief administration by managing the oversight obligations in regard of the functions of finance and accounting, also internal audit. Among many reasons for creating an audit committee, the main reason is the improvement of earnings and FRQ (Calomiris & Carlson, 2016). Abbadi, Hijazi, and Al-Rahahleh. (2016) and Calomiris and Carlson (2016) observed a negative connection between deluding data and acquiring the trust of the heads. On the other hand, Mohamad, Rashid, and Shawtari. (2012) found a significant positive relationship, while Lin, Hutchinson, and Percy (2015) found no evidence in the relationship in this regard.

2.5 Financial Reporting ACT 2015

The enactment of FRA 2015 was a reactive action for the ongoing corruption in reporting financial statements by the companies and the existing discrepancy between the auditors and the reporting standards (Financial Reporting ACT [FRA], 2015). FRA 2015 was designed as legislation to establish a council for bringing the financial reporting activities of public interest organizations under a well-regulated structure, formulate non-audit profession standards, and ensure proper compliance, implementation, supervision, and other related functions (FRA, 2015). Section 40 includes the auditing standards needed to be followed at any cost (FRA, 2015).

2.6 Financial Reporting Quality

The financial reports, who are usually the investors and other stakeholders, signify the financial reports as a useful means to understand the business's financial position. As a result of the irregularity in the data given and organization conflicts between directors' interests and outside buyers, examiners are committed to reviewing monetary detailing. To enhance financial reports, this is a good option for checking plans which subsequently increase financial backers' certainty about the company's presentation that mirrors the organization picture (Ismail, Dunstan, & Van Zijl 2010; Campbell, Hansen, Simon, & Smith, 2015).

Based on the above literature, the following research framework is proposed.

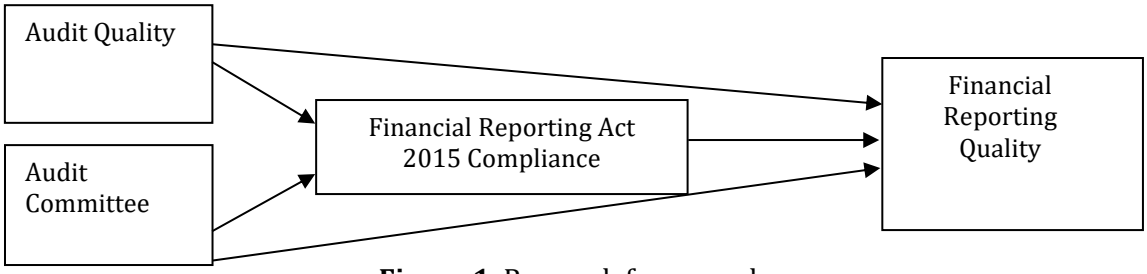

Figure 1. Research framework

2.7 Audit Quality Hypothesis

Audit quality (AQ) is stemmed to help improve the financial reporting quality. Huson et al. (2001) found in their study that audit quality had a significant impact on the quality of financial reporting. They explained the effect by testing the performance of the firms after changing auditors. Assad and Alshurideh (2020) also described a significant relationship between audit quality and reporting quality. Similar findings are also revealed from other relevant studies (Raimo, Vitolla, Marrone, & Rubino, 2021; Xiao, Geng, & Yuan, 2020). Thus, the literature led to us believing that audit quality is a powerful variable in impacting FRQ. Hence the hypothesis to be tested is:

H1: Audit quality has a positive impact on the financial reporting quality.

2.8 Audit Committee Hypothesis

The audit committee (AC), according to Calomiris and Carlson, 2016, is created to improve the financial reporting quality (FRQ). Rainsbury, Bradbury and Cahan (2009) have explained the positive impact of AC quality on FRQ in their study. Similarly, Bajra and Čadež (2018), Ghafran and O'Sullivan (2017) and Hasan, Kassim and Hamid (2020) have explained the effect of AC and its quality on the quality of financial reporting in different countries. Since AC is one of the prime reasons influencing FRQ as found in various studies, we want to test the following hypothesis:

H2: There is a positive effect of the audit committee in improving the financial reporting quality.

2.9 Financial Reporting Act Hypothesis

The FRA 2015 was designed to fight against illegal activities becoming a habitual crime within the corporate culture for businesses operating in Bangladesh. In the preamble of the Financial Reporting Act 2015, its purpose is mentioned that highlights the expected impact of compliance of it on the financial reporting quality in Bangladesh (Hossen, 2016). Hence, we want to test the following hypothesis to check whether the FRA 2015 is playing any role in improving the quality of financial reporting.

H3: There is a positive effect of the Financial Reporting Act 2015 on improving financial reporting quality.

2.10 Mediating Role of Financial Reporting Act 2015 Hypotheses

Even though mediation has been used in research for a long time in different countries for various research, there are hardly any studies examining the mediating role of Financial Reporting ACT 2015 in Bangladesh. Many scholars mostly focused on direct interactions ignoring the mediating factor. However, mediation can be brought into their research framework to explain cause and effect relationships better for a certain phenomenon (Hair et al., 2010). This led to one of the prime reasons for finding out the mediating role of FRA 2015 on the relationship between i) AQ and FRQ and ii) AC and FRQ. Thus, we formulated the following hypotheses to test:

H4: FRA 2015 has a significant mediating effect on the degree to which AQ affects FRQ.

H5: FRA 2015 has a significant mediating effect on the degree to which AC affects FRQ.

3. METHODOLOGY

This research focused on a quantitative method for analyzing the factors affecting the financial reporting quality, considering the Financial Reporting Act 2015 as a mediating variable. It was done by a deductive approach as it can be related to "developing some existing theories based concept (or hypothesis), and then constructing a testing method to test the validity" (Wilson, 2010). We divided the analysis section into two parts. Firstly, by measurement model (MM), we evaluated whether the research is reliable, acceptable and valid. Then using Structural Equation Model (SEM), we proposed to assess the impact of Audit Quality and Audit Committee on improving the Financial Reporting Quality in Bangladesh with the consideration of the mediating role of the Financial Reporting Act in the cause of enhancing FRQ.

The study was done through a systematic process. Firstly, using the factor loading, composite reliability index (CRI), Dijkstra-Henseler's rho (rA) (Dijkstra, & Henseler, 2015) and average variance extracted (AVE), we measured the reliability and convergent validity. We also tested the discriminant validity with the accepted standard of cross loading values, HTMT ratio and Fornell-Larcker criterion. Besides, for checking the multicollinearity issue, we checked whether they fulfilled the minimum variance inflation factor (VIF). Finally, assessing the coefficient of determination (R^2) and effect size (f^2) we evaluated the SEM. A 5% level of significance was used for testing the hypotheses.

3.1 Variable Measurement and Questionnaire Design

The applied model for this research included three direct and two indirect relations among the four variables. Two predecessors, called Audit Quality (AQ) and Audit Committee (AC) have been examined to explain the direct impact of these variables on the Financial Reporting Quality (FRQ). The direct effect of the adoption of FRA 2015 on FRQ was also analyzed. Besides, we measured the indirect mediating effect of FRA 2015 on the relationship between AQ and FRQ, AC and FRQ. AC was explored using five statements; on the other hand, all of the other variables, AQ, FRA and FRQ, were analyzed using four statements. For evaluating the hypotheses, Likert scale consisting of 5 points was used to collect the data. The Likert scale consisted of level of responses from 1 to 5, where '1' represents 'Very Low' and '5' stand for 'Very High'. The statements for each construct, stating the source for each statement, are included in a form of table below in Table 1. The questionnaire is prepared and tested with experts' opinion before the final survey was conducted. The pool of experts includes two chartered accountants, two academicians and two legal experts.

Table 1. Constructs, statements and sources

Constructs		Statements	Source
Audit Quality	AQ1	To what extent does audit quality affects financial reporting quality?	Hasan, Kassim, and Hamid, 2020
	AQ2	How significantly does auditing by Big 4 influence the financial reporting quality?	
	AQ3	The degree to which Audit quality affects the financial reporting quality after the introduction of FRA 2015.	
	AQ4	The degree to which change in audit quality affects the financial reporting quality.	
Audit Committee	AC1	Audit committee independence affecting financial reporting quality.	Calomiris and Carlson, 2016
	AC2	To what extent does the financial expertise of the audit committee affect financial reporting quality?	
	AC3	The degree to which audit committee meetings help improve the financial reporting quality.	
	AC4	Impact of audit committee size on improving financial reporting quality.	
	AC5	Impact of audit committee effectiveness on financial reporting quality.	
Financial Reporting Act 2015	FRA1	To what extent do you think that FRA 2015 has affected financial reporting quality?	Experts' opinion
	FRA2	Effect of Financial Reporting Act 2015 on providing relevant information on financial statements.	
	FRA3	Compliance with the Financial Reporting Act 2015 improves financial reporting.	
	FRA4	The level of impact of the Financial Reporting Act 2015 on improving the transparency and accountability of financial reporting procedures.	
Financial Reporting Quality	FRQ1	To what extent do you think the reporting quality has been improved after the introduction of FRA 2015?	Ismail et al., 2010; John et al. 2015
	FRQ2	To what extent could financial reporting quality reduce manipulative	

Constructs		Statements	Source
		decision making amongst the investors after the introduction of FRA 2015?	
	FRQ3	After the introduction of FRA 2015, there is a better check and balance for quality financial reporting.	
	FRQ4	How significantly can a high-quality financial report impact a better investment portfolio for an investor after the introduction of FRA 2015?	

3.2 Data Collection Procedure and Period

To understand the relationship between the study variables, a questionnaire was designed with mainly close-ended questions and a few open-ended questions to keep the opportunity for respondents to express their views on certain issues. For this research, an online survey was conducted as the questionnaire was filled up using Google forms. Considering the rising cases and death toll of the ongoing Covid-19 pandemic, the online survey was the most feasible option as it was convenient and safe not only for the respondents but also for the researchers. Apart from the convenience, the online survey allowed us to reach a group of extremely busy people with their job, i.e. the chartered accountants from across the country working in different industries. After finding out the respondent's applicability for the survey, we shared the survey link through social media apps like Facebook, WhatsApp, and email. The survey authenticity was ensured through follow up emails and also phone calls in some cases. The online coverage allowed us to gather information for this research from chartered accountants working across the whole country. They had to fill it up through their phones or laptops, which would not have been possible otherwise within a very short period of one month approximately. The online survey was conducted between 10 February 2021 and 10 March 2021, allowing us to collect 90 responses over one month.

3.3 Sample Size

The respondents for this study have been selected from several different industries from across the country to ensure that there is no biasness as financial reporting techniques tends to vary from industry to industry. For this study, we took a total of 90 useable responses, all from chartered accountants working for quite some years in Bangladesh. Some of the chartered accountants are from the Big 4 audit firms.

4. RESULTS AND DISCUSSIONS

4.1 Participants' Demographic Characteristics

The respondents of this research consist of Chartered Accountants from Big 4 and other accounting-based job holders from different industries in the corporate sector of Bangladesh. A majority percentage of the population is male that is 56.67%, while females are 43.33%. A very significant portion of the respondents have work experience in the field for more than ten years, which is 35.5%, while 38.7% have 5 to 10 years of experience, 16.1% has 1 to 5 years of experience, and only 9.7% has less than one year of experience. 77.4% of the respondents are related to marinating accounts and doing audits, and 22.6% are related to capital market investments.

4.2 Assessment of Measurement Model (Outer Model):

The outer model is defined as an element holding the indicators and also telling about their relationship with the undiscovered variables. It is found in the Partial Least Squares Structural Equation Modeling (PLS-SEM) (Hair, Hult, Ringle, & Sarstedt, 2016). According to Hair et al. (2016), the assessing criteria of the measurement model are the convergent and discriminant validity and internal consistency.

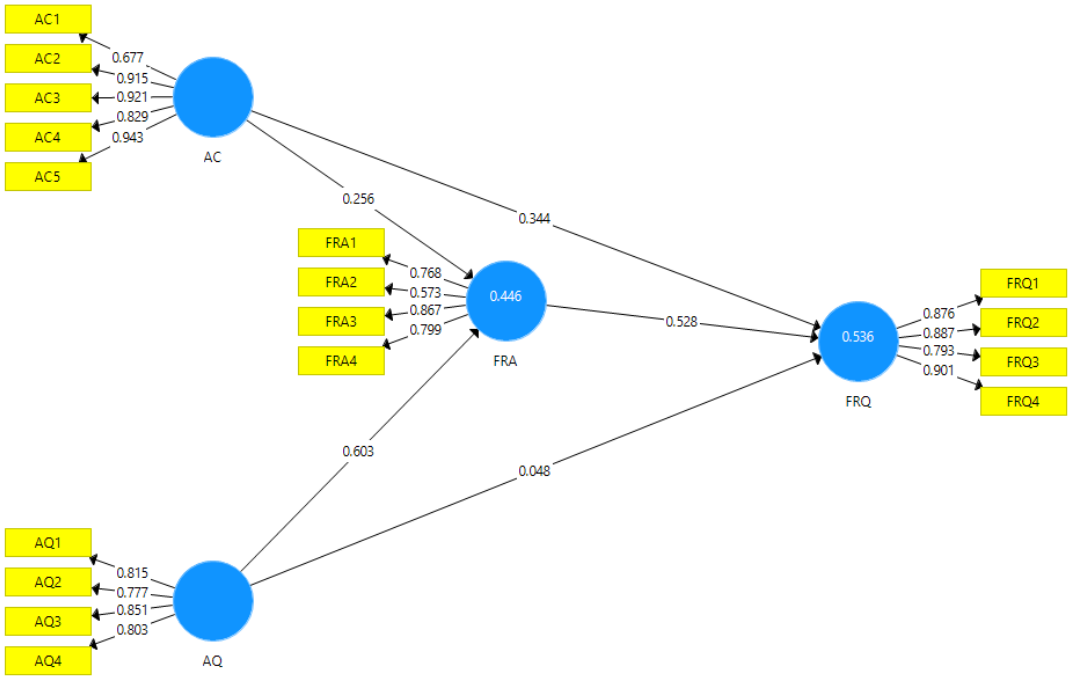

Figure 2. Measurement model

4.2.1 Indicator Reliability and Convergent Validity

We used SmartPLS 3.0 for this research for evaluating the loadings, Cronbach's Alpha, composite reliability (CRI) and AVE (Average variable extracted). For measuring the reliability of the data, we can analyze Cronbach's alpha. However, it is being criticized that Cronbach's alpha understates the reliability for a Likert type data with severe or fewer options (Gadermann, Guhn, & Zumbo, 2012). Hence, we also measured CRI and rA. Table 2 below shows the CRI and rA values of all the constructs in this study. As per the requirement, the values of both CRI and rAs are above 0.7. The Cronbach's alpha values are also higher than 0.7 as per the requirements showing secure reliability. Then, we used three parameters for testing the convergent validity: the Size of the loadings, average variance extracted (AVE), and the loadings' significance. Both the outer loadings and AVE have to be 0.5 or more (Vinzi, Chin, Henseler, & Wang, 2010). The requirements for both AVE and outer loadings are met as shown in table 2, and we also accepted all significance values ($p<0.05$).

Table 2. Reliability and convergent validity scores

Construct	Loadings	Significance	Cronbach's Alpha	Dijkstra-Henseler's rho (rA)	CRI	AVE
AC1	0.677	0.000				
AC2	0.915	0.000				
AC3	0.921	0.000	0.912	0.950	0.935	0.744
AC4	0.829	0.000				
AC5	0.943	0.000				
AQ1	0.815	0.000				
AQ2	0.777	0.000	0.828	0.834	0.886	0.660
AQ3	0.851	0.000				
AQ4	0.803	0.000				
FRA1	0.768	0.000				
FRA2	0.573	0.000	0.750	0.782	0.842	0.577
FRA3	0.867	0.000				
FRA4	0.799	0.000				
FRQ1	0.876	0.000				
FRQ2	0.887	0.000	0.888	0.897	0.922	0.749
FRQ3	0.793	0.000				
FRQ4	0.901	0.000				

4.2.2 Discriminant Validity

To assess the discriminant validity (DV), we examined the cross-loadings, Fornell-Larcker measure (Hair et al., 2016) and Heterotrait-Monotrait (HTMT) ratio (Henseler J., Ringle C.M., & Sarstedt M., 2015). DVs, tell us about the constructs which can be visibly recognized. For discriminant validity to be ensured, the indicators should not have more loadings in any construct other than its mother construct. As stated by the study of Chin (1998), the results of this study are satisfactory. The values that are higher than the cross-loading values are shown in Table 3 in bold, satisfying the criteria (Chin, 1998). The values of Fornell-Larcker are shown in Table 4. The requirement for this is that the correlation amongst the constructs should be lower than the square root of AVE (Hair et al., 2016). The results for the HTMT ratio are shown in Table 5, where the cutoff value is 0.90. For the test to be reliable, the values have to be lower than 0.90 (Hair et al., 2016), which the study ensures.

Table 3. Cross loadings

	AC	AQ	FRA	FRQ
AC1	**0.677**	0.246	0.213	0.240
AC2	**0.915**	0.062	0.219	0.424
AC3	**0.921**	-0.010	0.365	0.538
AC4	**0.829**	0.027	0.208	0.443
AC5	**0.943**	0.002	0.203	0.431
AQ1	0.142	**0.815**	0.458	0.366
AQ2	-0.030	**0.777**	0.460	0.216
AQ3	0.070	**0.851**	0.511	0.349
AQ4	-0.010	**0.803**	0.565	0.327
FRA1	0.306	0.501	**0.768**	0.639
FRA2	0.288	0.243	**0.573**	0.387
FRA3	0.263	0.509	**0.867**	0.552
FRA4	-0.002	0.580	**0.799**	0.350

	AC	AQ	FRA	FRQ
FRQ1	0.555	0.311	0.537	**0.876**
FRQ2	0.375	0.445	0.634	**0.887**
FRQ3	0.316	0.310	0.491	**0.793**
FRQ4	0.459	0.290	0.601	**0.901**

Table 4. Fornell-Larcker

	AC	AQ	FRA	FRQ
AC	**0.863**			
AQ	0.054	**0.812**		
FRA	0.289	0.617	**0.760**	
FRQ	0.499	0.392	0.656	**0.865**

Table 5. HTMT

	AC	AQ	FRA	FRQ
AC				
AQ	0.159			
FRA	0.373	0.765		
FRQ	0.530	0.451	0.778	

4.2.3 Multicollinearity Test

The multicollinearity issue should be checked after the reliability and validity tests (Hair et al., 2016). For checking the multicollinearity, we measured the Variance Inflation Factor (VIF). To avoid the multicollinearity issue, the VIF values should lie between 1 and 4 (O'Brien, 2007). Table 6 shows that there is no multicollinearity issue as the VIF criterion is met. Hence, we can say that the model is fit without having any multicollinearity.

Table 6. Collinearity statistics

Items	VIF
AC1	1.996
AC2	3.232
AC3	3.803
AC4	3.539
AC5	3.539
AQ1	2.120
AQ2	1.773
AQ3	2.241
AQ4	1.781
FRA1	1.386
FRA2	1.266
FRA3	2.190
FRA4	1.887

Items	VIF
FRQ1	2.672
FRQ2	3.347
FRQ3	2.185
FRQ4	3.366

4.3 The Assessment of Structural Model (Inner Model)

4.3.1 Results of Direct Hypotheses

Five hypotheses were developed throughout this research, among which three were direct hypotheses, and the other two were mediating hypotheses. For obtaining the p-values, the PLS-bootstrapping was carried out using a total of 5000 samples of bootstrap. To get the p- values, we used Smart PLS 3.0, based on a significance level of 5%. Generally, 5% level of significance is well accepted for research in social science (Bickel, 2012).

Table 7. Path coefficients (Direct effect)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values	HD	R^2
AC -> FRQ	0.479	0.495	0.198	2.423	0.015	S	
AQ -> FRQ	0.318	0.321	0.136	2.342	0.019	S	0.536
FRA -> FRQ	0.528	0.520	0.162	3.263	0.001	S	

Note: HD- Hypotheses Decision. S- Supported

From the table above (Table 7), we can see that the hypotheses directly affecting the reporting quality were supported at a 5% level of significance. All the beta values (β=0.479, 0.318 and 0.528 respectively) show a positive relationship between the audit committee and financial reporting quality (FRQ), audit quality and FRQ and Financial Reporting Act and FRQ. Hence, all three hypotheses are accepted as they show significance at a 5% significance level. It is to be noted that FRA had the highest impact on FRQ while the audit committee showed a strong influence.

4.3.2 Results of Mediating Hypotheses

In illustrating the mediating effect in the PLS-SEM, the tool used is bootstrapping specifically as it can be used for a comparatively small sample size (Hair et al., 2016). To evaluate mediating effects, we can follow Preacher and Hayes's (2004, 2008) procedure. For the existence of the mediating effect, the significance of the indirect effects is a must. There are two different types of mediation which are absolute mediation and partial mediation. For partial mediation to be implied, both direct effects and indirect effects need to be significant. On the other hand, absolute or full mediation occurs when the indirect impact is significant, but the direct effect is not (Carrión, Nitzl, & Roldán, 2017).

Table 8. Path coefficients (Mediation effect)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values	HD
AC -> FRA -> FRQ	0.135	0.141	0.102	1.323	0.186	N
AQ -> FRA -> FRQ	0.318	0.321	0.136	2.342	0.019	S

HD = Hypothesis Decision; S = Supported; Note: N- Not supported

Table 8 shows the mediating effect of FRA at a significance level of 5%. Even though the beta values indicate a positive relationship for the mediating impact on both the hypotheses, one of the hypotheses is not significant while the other is significant. There is no mediating effect of FRA on the relationship between AC and FRQ as the direct hypothesis **(AC -> FRQ)** is substantial, but the indirect hypothesis **(AC -> FRA -> FRQ)** is not significant. However, FRA has played a significant mediating role between AQ and FRQ as both the direct **(AQ -> FRQ)** and indirect effects **(AQ -> FRA -> FRQ)** were significant (refer to Table 7 for direct effect on FRQ and Table 8 for indirect effects on FRQ). Partial mediation can be divided into two further sub-sections: complementary mediating effect and competitive mediating effect. Complementary partial mediation refers to when both the direct and indirect effects are the same: both are positive, or both are negative (Carrión, Nitzl & Roldán, 2017). In contrast, if both the effects are in the opposite direction, one positive and one negative or vice versa, it represents competitive partial mediation (Baron & Kenny, 1986). As supported by Carrión, Nitzl and Roldán (2017) and Baron and Kenny (1986), the analysis of table 7 and table 8 show that the Financial Reporting Act 2015 has a complementary partial mediating effect on audit quality, improving the financial reporting quality.

4.3.3 Coefficient of Determination (R^2)

For measuring the total effects of independent constructs on the dependent construct, we refer to the coefficient of determination. The value of R^2 needs to cross 15% for it to be satisfactory (Falk and Miller, 1992). Again, Cohen (2013) and Chin (1998a) suggested three levels of structural model quality, which are weak (between 0.02 and 0.19), moderate (between 0.13 and 0.33) and substantial (between 0.26 and 0.67). The R^2 value is of good substance for this study. As shown in Table 9, the R2 value is 0.536, indicating that the model can explain 53.6% variations in the financial reporting quality, which is substantial as per Cohen (2013) and Chin (1998a).

Table 9. R square

	R Square	R Square Adjusted
FRQ	0.536	0.483

4.3.4 Effect Size (f^2) of The Main Effect Model

Effect size (f^2) is used to measure whether removing a variable causes a significant difference to the behaviour of the dependent variable (Hair et al., 2016; Callaghan et al., 2007). The effect sizes above 0.35 are considered large, from 0.15 to 0.34 are considered medium, and from 0.02 to 0.14 are considered small (Cohen, 2013). Table 10 shows that the effect size of different constructs.

Table 10. f square

Endogenous constructs	Exogenous constructs	f^2	Effect size
AC	FRA	0.118	Small
	FRQ	0.227	Medium
AQ	FRA	0.655	Large
	FRQ	0.482	Large
FRA	FRQ	0.333	Medium

5. CONCLUSION, RESEARCH IMPLICATIONS AND SCOPE FOR FUTURE RESEARCH

This research was mainly aimed at finding out the influence of Audit Quality, Audit Committee and FRA on FRQ in the corporate environment of Bangladesh. There has been no previous study on these variables together in Bangladesh, and hence the research mainly aimed at reducing this research gap. The mediating role of the Financial Reporting Act 2015 has been explored, and how the Audit Quality and Audit Committee, besides FRA, influence the Financial Reporting Quality has been studied in this study. We suggested a structural model depending on the primary data we collected from the chartered accountants in Bangladesh. We have seen that Audit Quality, Audit Committee and Financial Reporting Act; all three variables have been significantly affecting the improvement of the Financial Reporting Quality. We also concluded that FRA had a significant mediating effect between Audit Quality and FRQ. We found the respondents of the survey as optimistic about the introduction of Financial Reporting Act 2015. The respondents believe that FRA 2015 may play a significant role in the preparation of the financial reports of a business and also in the sense that it provides a guideline for the audit committee and other responsible audit firms. Therefore, Audit Quality, Audit Committee and Financial Reporting Act significantly affect the improvement in the Financial Reporting Quality, and FRA has a significant mediating effect on AQ and FRQ.

The theoretical implication of this research is that it provides a model to find out the impact that the Financial Reporting Act has on the Financial Reporting Quality. The model helps understand the mediating effect of the Financial Reporting Act on the relationship between Audit Quality, Audit Committee and Financial Reporting Quality. We can also use the model to explain how Audit Quality and Audit Committee influence the Financial Reporting Quality.
The practical implications of this study are also significant. Knowing the degree to which each of these variables, called Audit Quality, Audit Committee and Financial Reporting Act 2015, affects the Financial Reporting Quality, managers can take crucial decisions. Such decisions include changing auditors or orders for maintaining a particular audit standard as it might influence the behaviour of the investors and other stakeholders of the business. Having information about some of the variables, investors will know what to look for in the organizational structure while taking investment decisions.

The most prolific limitation of this study is the sample size due to the ongoing Covid-19 pandemic; travel bans, and other COVID 19 protocols. We collected the data through Google forms, allowing us to reach only a small group of active social media accounts. Thus we could collect data from a very small number (90) of respondents. We collected all the data in approximately 30 days, and a huge percentage of our respondents are auditors. Future research can take a higher number of respondents from the investors and other stakeholders to see the point of view of other external stakeholders regarding the FRA and other factors that influence the FRQ. Our model explains 53.6% variations in reporting quality, and we considered only three variables called Audit Committee, Audit Quality and Financial Reporting Act 2015. Thus, further research might be undertaken considering other variables like good corporate governance and board composition.

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