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Audit Committee Attributes and Firm Value: The Moderating Role of Audit Report Lag

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Abstract

The objectives of the study are to examine the relationship between audit committee (AC) attributes and firm value (FMV), as well as the moderating impact of audit report lag (ARL) on the relationship between audit committee attributes and firm value. The study has run random effect regression method and fixed effect regression method on a panel dataset using STATA software package to test the hypotheses and to make the estimations. The study has found that the interaction term ACM*ARL possesses a negative significant linkage to firm value. Moreover, we have found that ARL has moderating effect on the relationship between ACM and FMV in the context of listed corporations in Bangladesh. The study should be beneficial for business practitioners and policymakers.

Keywords: Audit Committee Size; Audit Committee Independence; Audit Committee Meeting Frequency; Audit Report Lag; Firm Value.

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Introduction

In Bangladesh, listed corporations must have AC (Khan et al., 2013). Agency theory has explained the extensive knowledge and detailed understanding that a bigger committee is claimed to be enhanced monitoring the management, therefore minimizing the agency cost in addition to augmenting the accomplishment of the corporation (Fama & Jensen, 1983). Further, AC members showing greater independence are expected to handle along with monitor the corporation better because of the nonexistence of any financial or personal connections with the corporation (Bananuka et al., 2018; Hsu & Petchsakulwong, 2010).

Moreover, AC meetings are another important element in determining AC control as well as monitoring efficacy (Alodat et al., 2022). However, if data is either not accessible when it is required, or becomes accessible so long afterwards the stated events that it possesses no value for upcoming action, it dearth relevance as well as is of tiny or no usage (IASB, 2010). The study has adopted agency theory to explain and understand the relationship between AC attributes and corporate performance in the setting of an emerging economy like Bangladesh.

The features and arrangement of an AC have a substantial impact on firms' financial performance (Qeshta et al., 2021). Investors' confidence upsurges with the existence of effective CG, company's market value, in addition to financial performance (Ahmet et al., 2022). However, there

is a dearth of study, as academics have not provided adequate attention on the features of AC (Pathiraja et al., 2022). Hence, this research has aimed to investigate the connection between AC attributes and firm performance.

Besides, extant literature has shown inconsistent findings on the relationship between AC size and firm performance (Shamsuddin & Alshahri, 2022; Qeshta et al., 2021; Puwanenthiren, 2020; El Mir & Seboui, 2008; Karim et al., 2024; Altin, 2024; Hassan Bazhair, 2022; Pathiraja et al., 2022; Dakhlallh et al., 2020; Alqatamin, 2018; Al-Matari et al., 2014), AC independence and firm performance (Pathiraja et al., 2022; Qeshta et al., 2021; Al Farooque et al., 2020; Altin, 2024; Karim et al., 2024; Hassan Bazhair, 2022; Shamsuddin & Alshahri, 2022; Dakhlallh et al., 2020; Yeh et al., 2011), and AC meeting and firm performance (Altin, 2024; Alqatamin, 2018; Karim et al., 2024; Hassan Bazhair, 2022; Pathiraja et al., 2022; Shamsuddin & Alshahri, 2022; Qeshta et al., 2021; Al Farooque et al., 2020; Salloum et al., 2014; Sharma et al., 2009). Therefore, further study on the same perspective in a new setting, and inclusion of a moderator in the study, namely, audit report lag could enhance the current literature, which has provided required spur to conduct this research. The objectives of the research are to examine the relationship of AC size (ACS), AC independence (ACI) and AC meeting frequency (ACM) with FMV, along with the moderating role of ARL on the linkage between ACS and FMV, ACI and FMV, and ACM and FMV.

Literature Review

ACs play a vital role in alleviating agency costs, bring into line the interests of owners and managers (Salehi et al., 2021). Hence, an increasing body of research as well as academic review is now concentrating on the efficacy of ACs in accomplishing their accountabilities and the influence of ACs on corporate performance (Altin, 2024).

BSEC has put emphasis on the establishment of AC with as a minimum three (3) members in the amended corporate governance (CG) code (CGC) (BSEC, 2018). ACS has revealed a substantial positive influence on corporate performance (Alqatamin, 2018; Al-Matari et al., 2014). Besides, bigger AC may result in ineffective governance, owing to yielding recurrent meetings, and that cause increased expenditures, and hence, it adversely affects company performance (El Mir & Seboui, 2008).

Further, an independent AC performs well as compared to less independent (INDP) AC (Wan Ismail et al., 2009). An AC comprised of majority INDP directors (INDPDs) is expected to be responsible for further monitoring because of its capability to fight back pressure as of the management (Kallamu & Saat, 2015). Financial institutions that have more INDPDs on AC have enhanced performance throughout the recent worldwide economic crisis (Yeh et al., 2011). Nevertheless, it is also evident that ACI does not impact the accomplishment of the corporation (Al Farooque et al., 2020).

The frequency of meetings is a significant hint of AC directors' performance and involvement in their responsibilities (Almarayeh et al., 2022). An AC may only accomplish its goals via recurrent meetings (Bédard et al., 2004; BRC, 1999; Abbott et al., 2004). ACM possesses positive impacts on the efficacy of ACs, and that greatly influence the company performance (Salloum et al., 2014; Sharma et al., 2009). Further, it is evident that ACM has no linkage to company performance (Alqatamin, 2018).

However, corporations which are not well-timed in their financial reporting, it may problematic to collect capital because the deferment may impact their status (Agyei-Mensah, 2018). Corporations suffering losses are anticipated to have an extended audit delay than those corporations making incomes (Nelson & Shukeri, 2011). CG guidelines and practices, clarity (timeliness) in addition to disclosure are favorably allied to corporate performance (Bijalwan & Madan, 2013).

The present research is one of the few that has measured the influence of AC attributes on firm value in the context of listed companies in emerging economies. Administration as well as board of corporations might consider the outcomes of the study to take proper decisions as regards AC attributes in addition to governance instruments to enhance performance, especially with regard to AC size, AC independence, AC meeting frequency, and audit report lag.

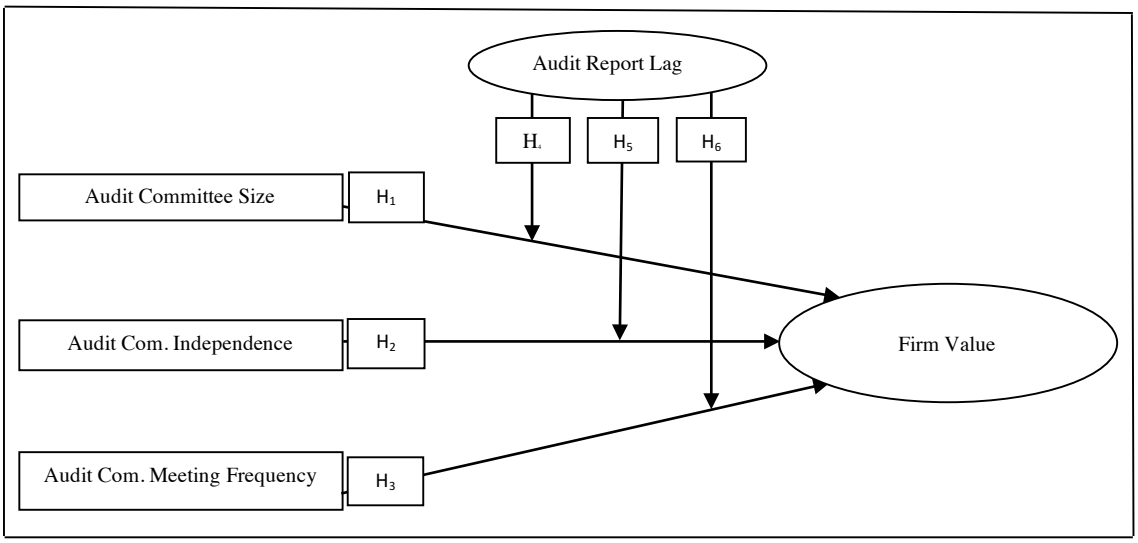

Figure 1: Research Framework

A bigger AC can combine diverse skills, knowledge and experience which considerably impact firm performance (Musallam, 2020). For example, bigger and more liberated ACs lessens divergences in financial reporting, in addition to improving governance practices, through decreasing the chances of opportunistic conduct by management (Karim et al., 2024). The independent AC is a mechanism to lessen the agent's self-centered behavior (Pathiraja et al., 2022). Besides, a bigger AC with diverse experiences and knowledge has a tendency to upturn the efficiency of the monitoring role of the AC, and thus leads to an improved firm performance (Al Farooque et al., 2020).

Frequent meetings aid to provide well-timed financial statistics to investors, thus lessens information asymmetry and agency conflicts among owners and the managers (Altin, 2024; Klein, 2002). Additional meetings of an AC should source an enhanced monitoring device which can influence executives to carry out their duties efficiently (Al Farooque et al., 2020). Accordingly, a greater frequency of AC meetings leads to better firm performance (Al Farooque et al., 2020).

Users need well-timed information to facilitate them to make on time review, which help them to make investment decisions, hence financial reports ought to be published immediately afterward the completion of accounting period (Ahmet et al., 2022). Market participants consider financial reports as an important means to lessen information asymmetries among the stakeholders of a business (Martínez-Ferrero, 2014).

Consequently, the research presumed that ACS possesses positive association to firm value, audit committee independence has positive association to firm value, ACM possesses positive linkage to firm value, and audit report lag weakens the positive association of ACS, ACI, and ACM to firm value.

H_1: ACS has positive rapport to FMV.
H_2: ACI has positive rapport to FMV.
H_3: ACM has positive rapport to FMV.
H_4: ARL declines the positive rapport of ACS to FMV.
H_5: ARL declines the positive rapport of ACI to FMV.
H_6: ARL declines the positive rapport of ACM to FMV.

Methodology of the Research

The study has observed the linkage of selected AC attributes and firm value of the listed corporations in Bangladesh. Moreover, the moderating impact of audit report lag on the rapport between AC size, AC independence, ACM and FMV has examined. Selected 11 fuel and power sector companies listed

on Dhaka Stock Exchange PLC. has been adopted as the sample of the investigation. Data have been gathered as of the annual reports of the sample companies over the period of 2015-16 to 2021-22. In the study, STATA software has been used to analyze the data and to make the estimations. The econometric models of the study are as follows.

Econometric Model 1: $FMV_{it} = \beta_0 + \beta_1 ACS_{it} + \beta_2 ACI_{it} + \beta_3 ACM_{it} + \beta_4 FSZ_{it} + \beta_5 LEV_{it} + \beta_6 PRF_{it} + e_{it}$

Econometric Model 2: $FMV_{it} = \beta_0 + \beta_1 ACS_{it} + \beta_2 ACI_{it} + \beta_3 ACM_{it} + \beta_4 ARL_{it} + \beta_5 ACS_{it}*ARL_{it} + \beta_6 ACI_{it}*ARL_{it} + \beta_7 ACM_{it}*ARL_{it} + \beta_8 FSZ_{it} + \beta_9 LEV_{it} + \beta_{10} PRF_{it} + e_{it}$

The measurement techniques of the variables are as follows.

Table 1: Measurement of Variables

Variables	Measurement	References
Firm Value (FMV)	FMV is computed by Tobin's Q ratio, which is computed as the ratio of market value of equity plus book value of liabilities to book value of total assets, per year.	Mishra & Raithatha, 2024; Charumathi & Ramesh, 2020; Shan, 2019
Audit committee size (ACS)	Number of members on the AC of a firm per year.	Mahsina et al., 2024; Dang & Nguyen, 2022; Deslandes et al., 2020
Audit committee independence(ACI)	Proportion of independent director(s) as relation to total number of members on the AC of a firm per year.	Daryaei et al., 2024; Dang & Nguyen, 2022; Deslandes et al., 2020
Audit committee meeting frequency (ACM)	Number of AC meetings of a firm held in a year.	Nguyen, 2021; Deslandes et al., 2020
Audit report lag (ARL)	Number of days that elapse from the closure of the financial accounting period until the day the auditor's report is signed.	Koubaa & Jarboui, 2017; Hassan, 2016
Firm size (FSZ)	Natural logarithm of total assets at the end of each year.	Mishra & Raithatha, 2024; Wijaya, 2020; Ararat et al., 2017
Leverage (LEV)	Ratio of total liabilities to total assets per year.	Daryaei et al., 2024; Arayssi & Jizi, 2019; Larasati et al., 2019
Profitability (PRF) (ROA)	Ratio of net income to total assets per year.	Mahsina et al., 2024; Rahman et al., 2019; Ararat et al., 2017

Source: Authors' accumulation.

Empirical Results and Discussion

Descriptive Statistics

Table 2 exhibits that the mean (AVERAGE), standard deviation (SDV), minimum (MINM) and maximum (MAXM) values of firm value are 2.912, 4.057, .06 and 24.315 respectively in the sample firms over the study period. The AVERAGE, SDV, MINM and MAXM values of audit committee size are 3.987, .618, 3 and 6 respectively in the sample firms over the study period. The AVERAGE, SDV, MINM and MAXM values of audit committee independence are .354, .131, .2 and .667 respectively in the sample firms over the study period. The AVERAGE, SDV, MINM and MAXM values of audit committee meeting frequency is 4.234, 2.019, 0 and 12 respectively in the sample firms over the study period. The AVERAGE, SDV, MINM and MAXM values of firm size are 23.252, 2.224, 18.348 and 27.821 respectively in the sample firms over the study period. The AVERAGE, SDV, MINM and MAXM values of leverage are .431, .285, .008 and .93 respectively in the sample firms over the study period. The AVERAGE, SDV, MINM and MAXM values of profitability are 8.732, 11.988, -15.112 and 71.258 respectively in the sample firms over the study

period.

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
FMV	77	2.912	4.057	.06	24.315
ACS	77	3.987	.618	3	6
ACI	77	.354	.131	.2	.667
ACM	77	4.234	2.019	0	12
FSZ	77	23.252	2.224	18.348	27.821
LEV	77	.431	.285	.008	.93
PRF	77	8.732	11.988	-15.112	71.258

Source: Authors' accumulation.

Diagnostic Tests

Table 3 shows that the correlation between the variable ACS and ACI is -0.094, ACS and ACM is 0.214, ACS and FSZ is 0.149, ACS and LEV is 0.196, ACS and PRF is -0.372, ACI and ACM is 0.325, ACI and FSZ is 0.153, ACI and LEV is -0.259, and ACI and PRF is 0.234, ACM and FSZ is 0.103, ACM and LEV is 0.035, ACM and PRF is -0.115, FSZ and LEV is -0.083, FSZ and PRF is 0.102, and LEV and PRF is -0.600. Since, the coefficient of correlation values is less than 0.80, there is no multicollinearity.

Table 3: Matrix of Correlations

Variables	ACS	ACI	ACM	FSZ	LEV	PRF
ACS	1.000					
ACI	-0.094	1.000				
ACM	0.214	0.325	1.000			
FSZ	0.149	0.153	0.103	1.000		
LEV	0.196	-0.259	0.035	-0.083	1.000	
PRF	-0.372	0.234	-0.115	0.102	-0.600	1.000

Source: Authors' accumulation.

Further, Table 4 exhibits that the VIF values of the variables are PRF 1.802, LEV 1.602, ACI 1.274, ACS 1.26, ACM 1.22, FSZ 1.075, and the mean value of VIF is 1.372. Since the VIF values are less than 10, there is no multicollinearity.

Table 4: Variance Inflation Factor

	VIF	1/VIF
PRF	1.802	.555
LEV	1.602	.624
ACI	1.274	.785
ACS	1.26	.793
ACM	1.22	.819
FSZ	1.075	.93
Mean VIF	1.372	.

Source: Authors' accumulation.

In addition, data of the study are normally distributed. However, there exist heteroskedasticy and autocorrelation issues in both the model.

Model Selection

The study has adopted Chow test (pooled-ability test), BP-test, and Hausman test for both the studied models. In case of econometric model 1, the results of Chow test show that fixed effect (FE) model is appropriate to Pooled Ordinary Least Squares (POLS) model, BP-test exhibits that random effect (RE) model is appropriate to POLS model. Further, Hausman test is effective to decide on between

FE model and RE model. The outcomes of Hausman test show that RE model is better relative to FE model to make estimations for econometric model 1. Since, random effect model is supported by two model selection tests, out of three model selection tests; random effect model is the best choice to make estimations for econometric model 1. Furthermore, model 1 contains the autocorrelation and heteroscedasticity issues; hence random effect model (with robust standard error) is the best choice for testing econometric model 1.

In case of econometric model 2, the results of Chow test exhibit that FE model is appropriate to POLS model, BP-test shows that POLS model is appropriate to RE model, and Hausman test exhibits that FE model is appropriate to RE model to make estimations for econometric model 2. Hence, fixed effect model is supported by two model selection tests, out of three model selection tests; and thus, fixed effect model is the best choice to make estimations for econometric model 2. Further, econometric model 2 includes the autocorrelation and heteroscedasticity issues, thus fixed effect model (with robust standard error) is the best choice for testing econometric model 2.

Regression Result (Model 1)

Table 5 exhibits that there remains a negative insignificant linkage between ACS and firm value. There is a positive insignificant relationship between ACI and firm value. There remains a positive insignificant linkage between ACM and firm value. There remains a negative insignificant linkage between FSZ and firm value. There remains a positive insignificant linkage between LEV and firm value. There remains a negative insignificant linkage between PRF and firm value. Thus, ACS, ACI, ACM, FSZ, LEV, and PRF have no effect on firm value.

Table 5: Regression Results (Model 1)

FMV	Coef.	St.Err.	t-value
ACS	-.092	.121	-0.76
ACI	.569	.942	0.60
ACM	.106	.087	1.21
FSZ	-.506	.41	-1.23
LEV	.426	1.605	0.27
PRF	-.041	.041	-1.01
Constant	14.565*	9.989	1.46

Mean dependent var	2.912	SD dependent var	4.057
Overall r-squared	0.183	Number of obs	77
Chi-square	3.794	Prob > chi2	0.704
R-squared within	0.038	R-squared between	0.217

Note: FMV is the proxy of firm value that is the dependent variable. The outputs are generated from RE regression method (with robust standard error). The p-values are one-tailed. *p<.1.

Source: Authors' accumulation.

Regression Result (Model 2)

Table 6 shows that the interaction term ACS*ARL possesses a negative inconsequential linkage to FMV. Thus, ARL possesses no moderating influence on the linkage between ACS and firm value. The interaction term ACI*ARL possesses a negative inconsequential linkage to FMV. Thus, ARL possesses no moderating influence on the linkage between ACI and firm value. The interaction term ACM*ARL possesses a negative significant relationship linkage to FMV. Thus, ARL possesses moderating influence on the linkage between ACM and firm value.

Table 6: Regression Results (Model 2)

FMV	Coef.	St.Err.	t-value
ACS	.814	.761	1.07
ACI	3.871*	2.72	1.42
ACM	.46**	.243	1.89
ARL	.039	.037	1.06
ACS*ARL	-.007	.008	-0.95

ACI*ARL	-.032	.029	-1.11
ACM*ARL	-.003*	.002	-1.70
FSZ	.171	.442	0.39
LEV	2.52	2.449	1.03
PRF	-.04	.04	-1.00
Constant	-6.645	13.776	-0.48
Mean dependent var	2.912	SD dependent var	4.057
R-squared	0.072	Number of obs	77
F-test	108.699	Prob > F	0.000
Akaike crit. (AIC)	316.037	Bayesian crit. (BIC)	339.475

Note: FMV is the proxy of firm value that is the dependent variable. The outputs are generated from FE regression method (with robust standard error). The p-values are one-tailed. **p<.05, *p<.1.

Source: Authors' accumulation.

Thus, the empirical findings show that ACS has no effect on FMV, which is consistent with the inferences of Shamsuddin and Alshahri (2022), Qeshta et al. (2021), Puwanenthiren (2020), and El Mir and Seboui (2008), however, inconsistent with the inferences of Karim et al. (2024), Altin (2024), Hassan Bazhair (2022), Pathiraja et al. (2022), Dakhlallh et al. (2020), Alqatamin (2018), and Al-Matari et al. (2014). Further, ACI has no impact on FMV, which is in line with the conclusions of Pathiraja et al. (2022), Qeshta et al. (2021), and Al Farooque et al. (2020), however, inconsistent to the conclusions of Altin (2024), Karim et al. (2024), Hassan Bazhair (2022), Shamsuddin and Alshahri (2022), Dakhlallh et al. (2020), and Yeh et al. (2011).

Besides, ACM has no influence on FMV, which is in accordance with the inferences of Altin (2024), and Alqatamin (2018), however, inconsistent with the inferences of Karim et al. (2024), Hassan Bazhair (2022), Pathiraja et al. (2022), Shamsuddin and Alshahri (2022), Qeshta et al. (2021), Al Farooque et al. (2020), Salloum et al. (2014), and Sharma et al. (2009). In addition, ARL moderates the association between ACM and FMV, i.e. reduction in ARL enhance the favorable effect of ACM on FMV, which is in line with the conclusions of Ahmet et al. (2022), Nelson and Shukeri (2011), and Bijalwan and Madan (2013).

Implications

The research owns practical in addition to theoretical inferences for emerging economies like Bangladesh. The research offers valuable understandings into a number of governance along with reporting issues allied to corporate performance. Such understandings might be having interest as well as use to supervisory bodies, policymakers, experts, auditors, practitioners in addition to academicians. Further, the study may endow with decision makers with an enhanced understanding of the several features an AC must have, and that could be integrated in imminent policy design so as to defend investments of stockholders, guard the interest of numerous stakeholders and augment the movement of capital into listed companies of Bangladesh and the economy in general.

An effective audit committee could ensure the good governance of the business, enhance the financial transparency of the firm, upsurge stakeholders' trust on the business, as well as safeguard the investment of the investors. However, the empirical findings of this study indicate that there is a further scope to work on the effectiveness of ACS, ACI and ACM in the setting of listed fuel and power sector companies in Bangladesh. Most importantly, reduction in audit report lag might enhance the favorable influence of ACM on FMV of the sample companies.

Conclusion

The study has been focused on whether AC attributes, namely ACS, ACI and ACM could contribute to firm value of the listed companies in Bangladesh. It also investigates the moderating impact of audit report lag on the linkage between selected AC attributes and firm value. The research is important to both business practitioners and academics. Corporations might re-look into in what way AC composition could be improved. Further, the matters of AC efficacy and well-timed reporting also influence regulators as well as policy makers for the reason that they must contribute in the

formation of effectual ACs and the enhancement of well-timed financial reporting. Hence, the findings of the study might beneficial to regulators for extending the efficacy of AC, company governance, in addition to boost investors' confidence on the corporations.

Limitations and Future Direction of the Study

The scope of the study has been limited to selected companies listed on Dhaka Stock Exchange PLC., and due to lack of availability of data, the study has covered a limited period of time to collect the sample data. Future study may extend the sample size and lengthen the sample period of study. Furthermore, we recommend to examine other audit committee attributes on firm value, and adopt different statistical method(s) to test the hypotheses and to make the estimations in the future.

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