

THE EFFECT OF AUDIT COMMITTEE CHARACTERISTICS ON FINANCIAL REPORTING QUALITY WITH THE MODERATING ROLE OF AUDIT QUALITY

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Abstract

The underlying objective of this study is to examine the influence of Audit Committee (AC) characteristics on Financial Reporting Quality (FRQ) with the moderating role of Audit Quality (AQ). The sample consists of 278 non-financial listed companies on the Pakistan Stock Exchange (PSX). The data was collected from 2014 to 2023, making it 2780 firm-year observations. For data analysis, the panel regression technique was utilised along with some additional analysis. The results of hypothesis testing revealed that the characteristics of AC have a positive and significant relationship with FRQ. The moderator AQ positively moderates the relationship between AC characteristics and FRQ. Through the results of this study, the significance of quality reporting and governance is communicated to policymakers, non-financial companies, regulatory bodies, and stakeholders.

INTRODUCTION

Financial reporting is the provision of financial information of an organisation to its stakeholders. The purpose of financial reporting is to communicate the company's financial information to internal as well as external stakeholders (Rasheed, Malik, Haider, & Shakeel, 2023). Financial statements are the most important part of annual reports as they provide seminal information about a company's financial affairs and operations to the stakeholders (Rasheed & Ahmad, 2022). Therefore, the quality of the financial reporting process is paramount for ensuring a true and fair view of the business along with the efficient allocation of

resources (Aifuwa et al., 2018). The concept of Financial Reporting Quality (FRQ) relates to the level of transparency of the financial statements, especially regarding their performance, financial needs and liquidity position (Hasan, Md Kassim, & Abdul Hamid, 2020). In addition, the IASB's Conceptual Framework lays down fundamental and enhancing qualities of financial information that companies should adhere to.

According to Cohen, Krishnamoorthy, and Wright (2017), the financial reporting process involves the preparation of financial statements and the oversight of parties such as Audit Committees (AC) and auditors to ensure that the

financial information is accurate and transparent (Shakeel, Rasheed, Malik, & Haider, 2025). The AC plays a crucial role for businesses as it monitors the internal control system of the organisation and also ensures the accuracy of the company's financial matters (Al Sharawi, 2022). The AC characteristics constitute multiple factors such as the expertise of members, size of the committee, tenure and frequency of meetings. More importantly, the independence of the AC is a significant factor as the AC is not only a vital part of ensuring good Corporate Governance (CG) (Hussain, Rasheed, Malik, Fraz, & Munir, 2024) but also oversees the transparency of the financial reporting process (Akinleye & Aduwo, 2019).

The provisioning of independent financial statements containing high-quality financial information provides the managers with the opportunity to make informed decisions (Rasheed et al., 2023). Managers take advantage of this independence inherent in general standards and principles and make certain financial decisions under the supervision of AC that will have a positive impact on financial reporting (Rasheed & Ahmad, 2022). Further, the investors' trust in the company can also be enhanced with effective AC characteristics, which also results in quality financial reports.

The literature reveals that there is a plethora of studies that have been conducted to examine the role of AC and FRQ (Mardessi, 2022; Safari Gerayli, Rezaei Pitenoiei, & Abdollahi, 2021). According to Sharma, Ananthanarayanan, and Litt (2021), AC should ensure that the quality of the financial reporting process improves and reveals that the presence of AC positively impacts the company's FRQ. Previous studies identified different factors impacting FRQ, concluded that Audit Quality (AQ) is a key factor along with AC characteristics, which affect the FRQ (Kazmi, Rasheed, Malik, Shakeel, & Gulzar, 2024; Malik et al., 2017).

The fundamental relationship governing AQ and FRQ is that AQ increases FRQ, which results in the enhancement of investors' confidence in the long-term performance and success of the company. AQ also improves FRQ by increasing the reliability of the financial reporting process so that companies remain sustainable in their business operations (Islam, Slob, & Albitar,

2023). According to the study conducted by Abdullahi, Law, Bala, and Daddau (2022), who evaluated the impact of AC characteristics and AQ on FRQ, concluded that the presence of an independent AC has a significant impact on FRQ. According to their findings, the capabilities of the AC members had the biggest impact on FRQ. Furthermore, Alzeban (2021) examined the impact of audit committee independence on the FRQ of listed companies in Nigeria. The results showed that ACIND has a significant positive impact on the FRQ of listed companies.

As Pakistan is a developing economy, the financial acumen in the country is growing, and as a result, investors have started relying on financial statements to make informed decisions about their investment objectives (Rasheed, Arshed, Malik, & Mahmood, 2018). This is where it is important to ensure that the financial statements being published are of high quality, and these are not prepared with falsified information to mislead the investors (Habib, Hasan, & Sun, 2020; Rasheed et al., 2018). To ensure the achievement of high FRQ, an AC is often established to make sure that companies provide accurate information to protect the interests of current investors. Indeed, AC is a crucial corporate governance monitoring system which plays a determining role in estimating the FRQ, which aids investors in their decision-making. However, despite these corporate governance mechanisms, many corporate bankruptcies have occurred in Pakistan in recent years. This poses a serious question on the effectiveness of audit committees in corporations in Pakistan. The literature reveals that the composition of the AC in Pakistan is fuelled with favouritism from within the leadership (Shakeel et al., 2025), thereby weakening the objectives of having an AC (Alawaqleh & Almasria, 2021). The Audit Committee, comprised of outstanding audit quality, is extremely important for businesses because it successfully demonstrates the true financial status of the organisation and ensures the accuracy of financial records, and high-quality financial reporting improves the reputation of an organisation (Christ, Eulerich, Krane, & Wood, 2021). A contextual review of the literature has revealed that there are significant gaps in empirical studies exploring the impact of AC characteristics on FRQ in

developing countries such as Pakistan. While much attention has been given to the direct relationship between AC characteristics and FRQ in developed economies, our study includes the moderating role of AQ to highlight this relationship. Despite the widespread recognition of audit quality's importance, there is still a lack of empirical evidence on its moderating effects. As such, this study aims to fill this gap and provide valuable insights for companies with a bid to improve their audit quality and mitigate FRQ problems (Malik et al., 2017). The main objective of this research is to examine the impact of AC on FRQ, taking into account the moderating role of AQ. The findings of this study will be beneficial for companies that have experienced poor financial performance due to the influence of AC and FRQ. Furthermore, this study will also benefit investors, auditors, and regulators by demonstrating the significant impact of AC on the FRQ process and the potential for improvement with better AQ. This research demonstrates a better understanding of the effect of AC on FRQ. The founding research question in this research is "Do ACIND, ACEXP, ACMEET, and ACSIZE affect FRQ? Does AQ moderate the relationship between AC characteristics and FRQ?"

1. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The link between agents and principals is explained by the well-recognised agency theory (Jensen & Meckling, 1976). Separate ownership may, however, result in conflicts of interest since shareholders and managers may have conflicting goals and agents may not act in the principal's best interests. Agency issues have the potential to affect earnings management practices, financial statement fraud, and the expropriation of wealth. To limit the conflict between shareholders and management and to control opportunistic earnings management, it is predicted that auditors (or AC) and audit quality will play a significant role in maintaining the credibility of FRQ (Abid, Shaique, & Anwar ul Haq, 2018; Hussain et al., 2024). Thus, the current study will test this underpinning theory by investigating the impact of AC characteristics on FRQ with the interaction of AQ.

2.1. *Audit Committee (AC)*

The audit committee is regarded as a crucial component of corporate governance (Nisar, Rasheed, Malik, Shakeel, & Haider, 2025). The AC's main duty is to provide a supervisory role for the financial reporting of a firm. By strengthening internal controls and external auditing through its active supervision function, the AC plays a critical role in preserving the accuracy of financial reporting. In addition to proposing and managing the coordination of the audit work with the audit team, the AC's responsibilities also include having face-to-face meetings with the external auditors to address audit-related problems (Jakpar, Tinggi, Hui, Johari, & Myint, 2019). As a result, interest in audit committees has grown recently because they are a tool of corporate governance (Nisar et al., 2025), with their duties including monitoring accounting policies and principles, assessing corporate ethics and regulatory compliance, and supervising the selection, performance, and independence of external auditors in addition to auditing a firm's financial reporting and disclosure process (Larcker & Tayan, 2019).

2.2. *Financial Reporting Quality*

Sinha and Watts (2001) state that financial reports have economic significance. Auditors are the agents and supervisors for the presentation of a true and fair view of financial statements, and this is a crucial step for informing the shareholders about their financial status and accomplishments. To confirm the authenticity of the prepared report, shareholders will verify the financial reports that accountants have generated and monitored by auditors. The external auditors are typically hired by the management division to carry out the audit and ensure the quality as per accounting standards (Kamolsakulchai, 2015).

2.3. *AC and FRQ*

The basic purpose of the AC, which is established by the directors, is to oversee the FRQ process and provide financial control over the financial position of the organisation (Menon & Williams, 1994). Similarly, the AC is responsible for coordinating and working with the external auditor during the audit period. AC is also in charge of reviewing internal audit work and ensuring that the management of the firm

implements the internal audit (Shakeel, Rasheed, Ahmed, & Bakhsh, 2020).

2.3.1 ACIND and FRQ

It has been shown in earlier research that companies with effective audit committees, specifically those that have more independent directors, have lower financial scandal rates (Vinten & Lee, 1993). According to them, highlighting the benefits of financial reporting systems requires the AC's competence and efficacy. According to Mardessi (2022), there is a strong connection between the AC and FRQ. Moreover, Beasley, Carcello, Hermanson, and Neal (2009) found that AC independence is negatively associated with the probability of financial fraud. According to Kamarudin, Sufian, Nassir, Anwar, and Hussain (2019), earning management and AC had a negative relationship with ACIND. But most of the studies reported the positive impact of ACIND on FRQ (Krishnamoorthy, Wright, & Cohen, 2002; Salehi & Shirazi, 2016), which is why it is hypothesised that:

H1: ACIND is positively related to FRQ

2.3.2 ACEXP and FRQ

The FRQ and audits may be significantly affected by the presence of audit committees with suitable knowledge related to audit (Donovan, Frankel, Lee, Martin, & Seo, 2014). The authoritative audit committee have the know-how of risks and profitable opinions. They might provide better guidance on the overall procedure of financial reporting as compared to non-expert auditors (Kamolsakulchai, 2015). Moreover, they have proven that knowledge related to the accounting and finance fields can significantly enhance high-quality earnings management practices. Mardessi (2022) found a positive correlation between the presence of accounting and auditing professionals in AC and FRQ. Many studies show a positive and significant relationship between ACEXP and FRQ (Mardessi, 2022; Tanyi & Smith, 2015). Thus, it is hypothesised that:

H2: ACEXP is positively related to the FRQ.

2.3.3 ACMEET and FRQ

According to DeZoort, Hermanson, Archambeault, and Reed (2002), the frequency

of committee meetings can affect the effectiveness of the AC. Therefore, Stewart and Munro (2007) suggested that frequent ACMEET is correlated with outstanding FRQ. Additionally, Karamanou and Vafeas (2005) have confirmed that the members of an AC are committed to do significant discussions, which improves the FRQ. Hence, it is hypothesised that:

H3: ACMEET is positively related to FRQ.

2.3.4 ACSIZE and FRQ

The resource dependence theory has suggested that ACSIZE is a result of improving FRQ. A larger audit committee has a greater responsibility to act as the authority in the quality assurance process. Additionally, Dhaliwal, Naiker, and Navissi (2010) stated that the ACSIZE may improve the FRQ due to differences in skill and experience between participants. Setiani (2017) found that ACSIZE has a significant impact on FRQ. Eyenubo, Mohamed, and Ali (2017) demonstrated that there is an effective relationship between ACSIZE and FRQ. Based on the above, thus, it is hypothesised that:

H4: ACSIZE is positively related to the FRQ.

2.4 AC, FRQ, and AQ

The public's attention has been drawn to audit quality and corporate governance (CG) systems by auditing failures like those of Arthur Andersen and other business scandals (Hussain et al., 2024; Kazmi et al., 2024). The auditors' role is to guarantee FRQ, minimize the irregular information and agency costs (Francis & Wang, 2008). Earning management techniques negatively impact the financial statement transparency and stakeholders' trust. To guarantee the quality of the financial statements, the auditor's report is also used by investors, users, and stakeholders. According to DeAngelo's research, the concept of audit quality refers to the likelihood that auditors will identify and disclose significant errors. The quality of an audit plays a crucial role in ensuring accurate and reliable financial statements. To improve FRQ and preserve the company's reputation, the external auditor's role is complementary to that of the board of directors and the audit committee's

monitoring and oversight responsibilities (Malik et al., 2017). Previous studies have shown that the qualities of independent auditors can help companies enhance the quality of their financial reporting (Bala & Ibrahim, 2014). This is because independent auditors are better equipped to resist external pressures and biased auditing, leading to higher FRQ (Al-Najjar, 2018).

Appointing Big-4 audit firms can help organisations to identify substantial losses earlier, before any investment, thereby minimising profit manipulation. The choice to go through a Big-4 audit demonstrates an enterprise's commitment to accomplishing high FRQ by lowering the chances of any manipulation (Palea, 2013). At the same time, there have been numerous studies on AQ, but only a limited number of studies have been conducted to examine its moderating effect on the relationship between AC and FRQ (Hasan et al., 2020). Moreover, Kim, Teo, Bhattacharjee, and Nam (2017) found that having accounting and auditing professionals in the audit

committee has a significant impact on AQ and then afterwards FRQ. A wide variety of AC meetings is a sign of active and engaged participants, which enhances FRQ (Mbobo & Umoren, 2016). The frequency of ACMEET is undoubtedly correlated with AQ (Asiriwuwa, Aronmwan, Uwuigbe, & Uwuigbe, 2018). The attributes of the committee considerably influence its effectiveness in making sure AQ (Moses & Hopper, 2022). Thus, it is hypothesised that:

H 5: AQ positively affects the relationship between AC characteristics and FRQ.

H 5-1: AQ positively affects the relationship between ACIND and FRQ.

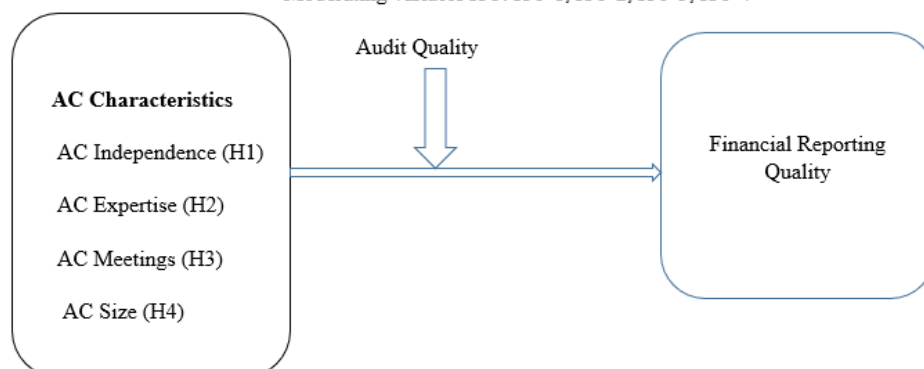
H 5-2: AQ positively affects the relationship between ACEXP and FRQ.

H 5-3: AQ positively affects the relationship between ACSIZE and FRQ.

H 5-4: AQ positively affects the relationship between ACMEET and FRQ.

2.5 Theoretical Framework

Moderating variable H 5: H 5-1, H 5-2, H 5-3, H 5-4



Control variables

- Firm Age (AGE)
- Big 4 Audit firm
- Firm Size (SIZE)
- Firm Loss (LOSS)
- Leverage (LEV)
- Board Size (BDSIZE)
- Board Independence (BDIND)
- Board Gender Diversity (BDGD)

3. METHODOLOGY

3.1 Sample and Data Collection

This study utilised data from the non-financial companies of the Pakistan Stock Exchange (PSX), including annual reports published on the

websites of companies in Pakistan between 2014 and 2023. Both financial and non-financial data were collected from these sources, and if not available on the companies' websites, information was obtained from other sources. The data obtained focused on the variables of interest, specifically related to the audit departments of the companies. This information was manually extracted from the annual reports of the companies, which provided details on the ACC and other explanatory variables. The initial screening process involved removing financial companies because the annual reports of the financial firms were not available, and those with missing data related to the dependent or

independent variables. So, the final sample of this study is 278 companies listed on the PSX.

Empirical model $FRQ = \beta_0 + \beta_1 ACIND_{it} + \beta_2 ACEXP_{it} + \beta_3 ACMEET_{it} + \beta_4 ACSIZE_{it} +$

$\beta_5 * AUDIQUALITY_{it} + \beta_6 LEV_{it} + \beta_7 SIZE_{it} + \epsilon_{it}$

3.2 Table 1: Measurement of the Variables

Variables	Measures	Source
Dependent Variable FRQ	Modified Jones model	(Dechow, Sloan, & Sweeney, 1995)
Independent variables Audit Committee ACIND ACEXP ACMEET ACSIZE	The proportion of IAC members Number of FE in the AC The number of ACM held in 1 year The number of ACMEMBERS	Annual reports Annual reports Annual reports Annual Reports
Moderator AQ	1 if the firm has a BIG 4 auditor and 0 otherwise	Annual reports
Control Variables LEV SIZE	Total debt over total assets The natural log of total assets	SBP reports SBP reports

4. DATA ANALYSIS AND RESULTS

The method used for calculating FRQ is based on the discretionary accruals model developed by Dechow et al. (1995), which is commonly known as the modified Jones model.

$$\frac{TA_{it}}{TA_{it-1}} = \beta_0 + \beta_1 \frac{1}{TA_{it-1}} + \beta_2 \frac{\Delta REV_{it} - \Delta AR_{it}}{TA_{it-1}} + \beta_3 \frac{PPE_{it}}{TA_{it-1}} + \epsilon_{it}$$

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
FRQ	2780	0.079	0.081	.005	0.744
ACind	2780	1.280	0.526	0	4
ACsize	2780	3.267	0.592	2	5
ACexp	2780	1.208	0.435	0	3
ACmeet	2780	4.390	0.988	2	9
Big4	2780	0.490	0.500	0	1
Age	2780	31.756	17.573	1	124
Size	2780	6.171	0.827	4.025	7.980
Loss	2780	0.210	0.411	0	2
Leverage	2780	0.575	0.195	0.001	1
BDsize	2780	7.723	1.179	6	14
BDind	2780	1.538	0.81	1	4
BDgd	2780	1.603	0.787	0	4

Table 2 presents the description or summary statistics of the study variables through their mean, standard error, maximum, and minimum values. There are 2780 observations in this study. Mean value of FRQ is 0.79, SD is 0.081, and its range is from 0.005 to 0.744. Mean value of acind is 1.28, SD is 0.526, and its range is from 0 to 4. The mean value of AC size is 3.267, the SD is

0.592, and its range is from 2 to 5. The mean value of ACexp is 1.208, the SD is 0.435, and its range is from 0 to 3. Mean value of ACMeet is 4.39, SD is 0.988, and its range is from 2 to 9. The mean value of Big4 is 0.49, the SD is 0.5, and its range is 0 1. The mean value of Firm age is 31.756, SD is 17.573, and its range is 1 to 124. The mean value of firm size is 6.171, the SD is

0.827, and its range is from 4.025 to 7.98. The mean value of firm loss is 0.21, the SD is 0.411, and its range is from 0 to 2. Mean value of Leverage is 0.575, SD is 0.195, and its range is from 0.001 to 1. The mean value of BDsize is 7.723, the SD is 1.179, and its range is from 6 to 14. The mean value of BDind is 1.538, the SD is 0.81, and its range is from 1 to 4. The mean value

of BDGD is 1.603, the SD is 0.787, and its range is from 0 to 4.

According to the correlation table, 3 ACind, ACsize, ACgld, ACexp, ACmeet, Big 4, Firm Size, BDsize, BDind, BDgd are negatively correlated with FRQ and firm loss and leverage are positively correlated with FRQ.

Table 3 Pairwise correlation

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(11)	(12)	(13)	(14)
(1) FRQ	1.000												
(2) ACIND	-0.102***	1.000											
(3) ACSIZE	-0.256***	0.489***	1.000										
(4) ACEXP	-0.211***	0.629***	0.495***	1.000									
(5) ACMEET	-0.271***	0.353***	0.435***	0.436***	1.000								
(6) BIG4	-0.295***	0.038**	0.012	0.044**	0.108***	1.000							
(7) AGE	0.081***	-0.126***	-0.140***	-0.051***	-0.115***	-0.008	1.000						
(8) SIZE	-0.127***	0.253***	0.158***	0.249***	0.149***	0.024	0.086***	1.000					
(9) LOSS	0.099***	-0.213***	-0.151***	-0.213***	-0.173***	-0.070***	-0.053***	-0.231***	1.000				
(10) LEV	0.035*	-0.129***	-0.044**	-0.160***	-0.084***	-0.137***	-0.184***	-0.322***	0.229***	1.000			
(11) BDSIZE	-0.145***	0.074***	0.026	0.059***	0.048**	0.173***	0.180***	0.106***	-0.104***	-0.098***	1.000		
(12) BDIND	-0.140***	0.832***	0.557***	0.628***	0.386***	0.040**	-0.096***	0.211***	-0.235***	-0.085***	0.044**	1.000	
(13) BDGD	-0.226***	0.610***	0.399***	0.571***	0.362***	0.031	-0.071***	0.376***	-0.273***	-0.293***	0.182**	0.622**	1.000

*** p<0.01, ** p<0.05, * p<0.1

Table 4: Regression Results

VARIABLES	(Pooled) FRQ	(FE) FRQ	(GLS) FRQ	(Pooled) FRQ	(FE) FRQ	(GLS) FRQ
ACIND	0.0417*** (0.0103)	-0.00363 (0.00251)	0.0417*** (0.00668)			
ACINDBig4	-0.0314*** (0.00275)	0.00246 (0.00250)	-0.0314*** (0.00293)			
AGE	0.000596*** (8.79e-05)	0.000218 (0.000381)	0.000596*** (0.000132)	0.000318*** (8.77e-05)	0.000228 (0.000380)	0.000318** (0.000130)
SIZE	-0.0108*** (0.00222)	-0.00198 (0.00211)	-0.0108*** (0.00298)	-0.00828*** (0.00217)	-0.00118 (0.00220)	-0.00828*** (0.00288)
LOSS	0.00901 (0.00565)	0.0135*** (0.00319)	0.00901 (0.00583)	0.00328 (0.00564)	0.0134*** (0.00317)	0.00328 (0.00569)
LEV	-0.0569*** (0.0118)	0.0685*** (0.0158)	-0.0569*** (0.0137)	-0.0651*** (0.0118)	0.0722*** (0.0159)	-0.0651*** (0.0134)
BDSIZE	-0.00815*** (0.00112)	-8.17e-05 (0.000974)	-0.00815*** (0.00201)	-0.00695*** (0.00122)	-5.43e-05 (0.000912)	-0.00695*** (0.00196)
BDIND	-0.0206*** (0.00590)	-0.00360** (0.00140)	-0.0206*** (0.00440)	0.00179 (0.00274)	-0.00310** (0.00148)	0.00179 (0.00340)
BDGD	-0.0196*** (0.00309)	-0.00270** (0.00121)	-0.0196*** (0.00379)	-0.0138*** (0.00262)	-0.00221 (0.00135)	-0.0138*** (0.00365)
ACSIZE				-0.0303*** (0.00460)	-0.00500*** (0.00186)	-0.0303*** (0.00366)
ACSIZEBig4				-0.0147*** (0.00106)	-0.00130 (0.00117)	-0.0147*** (0.00127)
Constant	0.258*** (0.0207)	0.0607*** (0.0177)	0.258*** (0.0259)	0.362*** (0.0287)	0.0672*** (0.0174)	0.362*** (0.0268)
Hausman chi2		65.19***			45.77***	
Observations	2,780	2,780	2,780	2,780	2,780	2,780
R-squared	0.163	0.305	0.207	0.207	0.310	0.207
Number of FID	278	278	278	278	278	278

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 5: Regression Results

VARIABLES	(Pooled) FRQ	(FE) FRQ	(GLS) FRQ	(Pooled) FRQ	(FE) FRQ	(GLS) FRQ
ACMeet	-0.0135*** (0.00184)	-0.00405*** (0.00126)	-0.0135*** (0.00219)			
ACMeetBig4	-0.0105*** (0.000789)	-0.00194** (0.000765)	-0.0105*** (0.000947)			
AGE	0.000372*** (8.65e-05)	6.31e-05 (0.000373)	0.000372*** (0.000130)	0.000568*** (8.94e-05)	0.000295 (0.000368)	0.000568*** (0.000133)
SIZE	-0.00871*** (0.00203)	-0.000205 (0.00216)	-0.00871*** (0.00289)	-0.00818*** (0.00216)	-0.00156 (0.00211)	-0.00818*** (0.00299)
LOSS	0.00181 (0.00569)	0.0139*** (0.00316)	0.00181 (0.00571)	0.00626 (0.00571)	0.0126*** (0.00304)	0.00626 (0.00585)
LEV	-0.0671*** (0.0118)	0.0695*** (0.0160)	-0.0671*** (0.0134)	-0.0673*** (0.0124)	0.0650*** (0.0152)	-0.0673*** (0.0138)
BDSIZE	-0.00685*** (0.00108)	-7.00e-05 (0.000924)	-0.00685*** (0.00196)	-0.00756*** (0.00129)	9.38e-05 (0.000909)	-0.00756*** (0.00202)
BDIND	-0.00605** (0.00264)	-0.00374*** (0.00138)	-0.00605* (0.00325)	-0.00386 (0.00306)	-0.00202 (0.00136)	-0.00386 (0.00351)
BDGD	-0.0129*** (0.00267)	-0.00149 (0.00132)	-0.0129*** (0.00369)	-0.00926*** (0.00290)	-0.000867 (0.00141)	-0.00926** (0.00390)
ACEXP				-0.0206** (0.00858)	-0.0154*** (0.00366)	-0.0206*** (0.00611)
ACEXPBig4				-0.0313*** (0.00267)	0.00755** (0.00340)	-0.0313*** (0.00326)
Constant	0.285*** (0.0266)	0.0834*** (0.0190)	0.285*** (0.0275)	0.283*** (0.0232)	0.0629*** (0.0172)	0.283*** (0.0262)
Hausman chi2		63.41			94.02***	
Observations	2,780	2,780	2,780	2,780	2,780	2,780
R-squared	0.202	0.322		0.164	0.326	
Number of FID	278	278	278	278	278	278

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

The results from regression analyses (Table 4-5) about likely financial reporting quality (denoted as FRQ) use Pooled OLS and Fixed Effects together with Generalised Least Squares (GLS) as estimation methods. The data collection involves 2,780 observations from 278 entities (FID) in the analysis. Results are displayed separately for the two model configurations. The first set of models does not contain audit committee size variables (ACsize and ACsizeBig4) while the second group includes these elements.

The variable ACind exhibits a positive and statistically significant effect on FRQ in both Pooled OLS and GLS models (B= 0.0417, p < 0.01) until it becomes insignificant in the Fixed Effects model (B= -0.00363). The relationship between ACindBig4 (audit committee independence with Big 4 auditors) and FRQ shows a significant negative impact in Pooled OLS and GLS models (B= -0.0314, p < 0.01) but

becomes insignificant in the FE model. The age of the firm shows a small, positive, significant relationship to FRQ in Pooled OLS and GLS models (B= 0.000596, p < 0.01), yet this relationship becomes insignificant in the FE model. The Pooled OLS and GLS models show a negative relation of the size of the firm with FRQ (B= -0.0108, p < 0.01), yet this relationship becomes insignificant in the FE model. Loss determination (whether a firm experienced financial loss) produces a positive FRQ impact only through the FE model analysis (B=0.0135, p < 0.01). The relationship between leverage and FRQ shows a negative, significant link in Pooled OLS and GLS models with a B=-0.0569 (p < 0.01), but becomes positively significant with a B = 0.0685 (p < 0.01) in the FE model, indicating that unobserved firm-specific factors influence this connection. FRQ experiences negative impacts from BDSIZE and BDGD when

measured in Pooled OLS and GLS models, yet both variables show insignificant results when using the FE model. The Pooled OLS and GLS models demonstrate that BDIND (board independence) produces a negative and significant relationship, while the FE model shows only marginal significance.

The results of most variables show similar patterns when ACsize and ACsizeBig4 are included in the second set of models. The results show ACsize (audit committee size) has a strong negative and significant relationship to FRQ in Pooled OLS and GLS models ($B = -0.0303$, $p < 0.01$) and also produces a smaller but significant impact in the FE model ($B = -0.00500$, $p < 0.01$). The use of ACsizeBig4 (audit committee size with Big 4 auditors) leads to decreased FRQ scores during both Pooled OLS and GLS model analyses ($B = -0.0147$, $p < 0.01$), but this metric becomes statistically insignificant when FE analysis is applied. The additional variables enhance model performance since they increase the explanatory power measured by R-squared values, reaching 0.207 for Pooled OLS and 0.310 for FE.

The Hausman test validated that the Fixed Effects model ($\chi^2 = 65.19$ and 45.77 , $p < 0.01$) is superior to Pooled OLS because firm-specific factors strongly affect the connection between independent variables and FRQ. The results from regression analyses about likely financial reporting quality (denoted as FRQ) use Pooled OLS and Fixed Effects, together with Generalised Least Squares (GLS) as estimation methods. The data collection involves 2,780 observations from 278 entities (FID) in the analysis. Results are displayed separately for the two model configurations. The first set of models does not contain audit committee size variables (ACsize and ACsizeBig4) while the second group includes these elements.

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of the firm shows a small, positive, significant relationship to FRQ in Pooled OLS and GLS models ($B = 0.000596$, $p < 0.01$), yet this relationship becomes insignificant in the FE model. The Pooled OLS and GLS models show a negative relation of the size of the firm with FRQ ($B = -0.0108$, $p < 0.01$), yet this relationship becomes insignificant in the FE model. Loss determination (whether a firm experienced financial loss) produces a positive FRQ impact only through the FE model analysis ($B = 0.0135$, $p < 0.01$). The relationship between leverage and FRQ shows a significant negative link in Pooled OLS and GLS models with a ($B = -0.0569$, $p < 0.01$) but becomes positively significant with a ($B = 0.0685$, $p < 0.01$) in the FE model, indicating that unobserved firm-specific factors influence this connection. FRQ experiences negative impacts from BDSIZE and BDGD when measured in Pooled OLS and GLS models, yet both variables show insignificant results when using the FE model. The Pooled OLS and GLS models demonstrate that BDIND (board independence) produces a negative and significant relationship, while the FE model shows only marginal significance.

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0.01) and also produces a smaller but significant impact in the FE model ($B = -0.00500$, $p < 0.01$). The use of ACsizeBig4 (audit committee size with Big 4 auditors) leads to decreased FRQ scores during both Pooled OLS and GLS model analyses ($B = -0.0147$, $p < 0.01$), but this metric becomes statistically insignificant when FE analysis is applied. The additional variables enhance model performance since they increase the explanatory power measured by R-squared values, reaching 0.207 for Pooled OLS and 0.310 for FE.

The Hausman test validated that the Fixed Effects model ($\chi^2 = 65.19$ and 45.77 , $p < 0.01$) is superior to Pooled OLS because firm-specific factors strongly affect the connection between independent variables and FRQ.

The results from regression analyses about likely financial reporting quality (denoted as FRQ) use Pooled OLS and Fixed Effects, together with Generalised Least Squares (GLS) as estimation methods. The data collection involves 2,780 observations from 278 entities (FID) in the analysis. Results are displayed separately for the two model configurations. The first set of models does not contain audit committee size variables (ACsize and ACsizeBig4) while the second group includes these elements.

The variable ACmeet exhibits a negative and statistically significant effect on FRQ in both Pooled OLS and GLS models ($B = -0.0135$, $p < 0.01$) until it becomes significant in the Fixed Effects model ($B = -0.00405$, $p < 0.01$). The relationship between ACindBig4 (audit committee independence with Big 4 auditors) and FRQ shows a significant negative impact in Pooled OLS and GLS models ($B = -0.0105$, $p < 0.01$) but becomes significant in the FE model at the 5 % level of significance. The age of the firm shows a small, positive, significant relationship to FRQ in Pooled OLS and GLS models ($B = 0.000596$, $p < 0.01$), yet this relationship becomes insignificant in the FE model. The Pooled OLS and GLS models show a negative relation of the size of the firm with FRQ ($B = -0.0108$, $p < 0.01$), yet this relationship becomes insignificant in the FE model. Loss determination (whether a firm experienced financial loss) produces a positive FRQ impact only through the FE model analysis ($B = 0.0135$, $p < 0.01$). The relationship between leverage and FRQ shows a negative, significant

link in Pooled OLS and GLS models with a $B = -0.0569$, $p < 0.01$, but becomes positively significant with a $B = 0.0685$, $p < 0.01$ in the FE model, indicating that unobserved firm-specific factors influence this connection. FRQ experiences negative impacts from BDSIZE and BDGD when measured in Pooled OLS and GLS models, yet both variables show insignificant results when using the FE model. The Pooled OLS and GLS models demonstrate that BDIND (board independence) produces a negative and significant relationship, while the FE model shows only marginal significance.

The results of most variables show similar patterns when ACsize and ACsizeBig4 are included in the second set of models. The results show ACsize (audit committee size) has a strong negative and significant relationship to FRQ in Pooled OLS and GLS models ($B = -0.0303$, $p < 0.01$) and also produces a smaller but significant impact in the FE model ($B = -0.00500$, $p < 0.01$). The use of ACsizeBig4 (audit committee size with Big 4 auditors) leads to decreased FRQ scores during both Pooled OLS and GLS model analyses ($B = -0.0147$, $p < 0.01$), but this metric becomes statistically insignificant when FE analysis is applied. The additional variables enhance model performance since they increase the explanatory power measured by R-squared values, reaching 0.207 for Pooled OLS and 0.310 for FE.

The Hausman test validated that the Fixed Effects model ($\chi^2 = 65.19$ and 45.77 , $p < 0.01$) is superior to Pooled OLS because firm-specific factors strongly affect the connection between independent variables and FRQ.

5. DISCUSSION

Larger audit committees often have a diverse range of skills and expertise among their members, which facilitates efficient financial reporting processes (Bédard & Paquette, 2021). This diversity allows for comprehensive discussions, deeper scrutiny and ultimately more effective management, thereby increasing the accuracy and reliability of financial reports. Larger audit committees may additionally have greater resources and potential to allocate responsibilities, permitting them to very well scrutinise complex transactions and potential reporting difficulties (Alabdullah & Kanaan-

Jebna, 2023). Resultantly, the relationship between ACMEET, ACIND, ACFXP, ACSIZE and FRQ showed an important relationship; this is why all the hypotheses associated with AC characteristics are positive and significant. The frequency of ACMEET is frequently taken into consideration as a degree of diligence and oversight, while Bédard and Gendron (2010) showed that frequent meetings do not guarantee an effective financial reporting process. DeFond, Li, Wong, and Wu (2024) suggested that the presence of an independent audit committee doesn't always assure higher FRQ. The effectiveness of AC surely relies on the capability of auditors to critically understand the best ways of creating effective audit reports (Wang & Sun, 2022). In some cases, only financial expertise may not be sufficient to ensure high-quality financial reporting without complementary factors such as effective communication, collaboration and a culture of integrity within the organisations. ACSIZE tends to show a significant and positive relationship with financial reporting quality due to its diversity of different opinions of different people with different mindsets, while ACMEET, ACIND, ACEXP also show a significant relationship with FRQ. The primary duty of independent directors within the audit committee is to address the agency problem between the company and its shareholders by closely monitoring the financial reporting and auditing process. As the leaders of the audit committee, independent directors play a crucial role in promoting good governance and ultimately improving the AQ and FRQ (Aljaaidi et al., 2021). However, the positive effects of ACIND can only be consistently achieved when the committee is composed of independent directors (Dwekat, Seguí-Mas, Tormo-Carbó, & Carmona, 2020). It means that AQ moderated the effect on ACIND and FRQ. Hence, hypothesis (H5-1) is supported. AQ positively moderates the relationship between ACSIZE and FRQ; its means if the size of the audit committee increases, then the AQ of reports will also increase and then FRQ will also be enhanced (Aljaaidi, Abidin, & Hassan, 2021). Hence, the hypothesis (H5-3) is supported. AQ remains crucial in ensuring the trustworthiness of financial reporting, it may not significantly influence the relationship between audit

committee characteristics and financial reporting quality in certain situations.

6. CONCLUSION

The present study is intended to investigate the FRQ through AC characteristics with the moderating role of AQ, while enclosing the hypotheses and making the conceptual model for the study objectives. In this study, ACSIZE and FRQ have a positive and significant relationship with each other, as suggested by many authors (Dhaliwal et al., 2010; Eyenubo et al., 2017), while ACIND, ACMEET, ACFINEXP, and FRQ do not significantly relate with each other, in contrast with the literature. The results of the study revealed that not all the predictors successfully predicted the FRQ among the 278 non-financial companies in the Pakistan Stock Exchange. ACSIZE is significantly affecting FRQ. Thus, it is a strong predictor of FRQ. In support of Katmon and Farooque (2017), ACMEET do not predict the FRQ significantly. By supporting the previous literature, ACSIZE has a significant impact on FRQ, while ACIND is not significantly related to FRQ and AQ is positively moderating the relationship of ACIND and ACSIZE with FRQ (Handayati et al., 2020).

6.1 LIMITATIONS AND FUTURE DIRECTIONS

Like other research, this study also has limitations of time and resources. The first limitation is that the study is conducted among the companies of non-financial sector listed in PSX with a sample size of 278. So, its results are not generalizable on financial companies. So Future researchers should add financial firms also for the conduction of this type of research in future. Future researchers should conduct this type of research with some moderating and mediating role of other variables with FRQ.

6.2 RECOMMENDATIONS

Nevertheless, a similar study can be conducted by taking only financial companies listed on the PSX. In this study, there is no mediating role, so a similar study can be conducted by testing the mediating effect of some other variables on FRQ. The present study endeavours to the significance of Quality reporting and governance to policymakers, non-financial institutions, and

regulatory bodies for the implementation of quality reports to their stakeholders. The non-financial institutions will be able to initiate quality reporting through proper governance to gain the trust of investors. The policymakers will make governance policies regarding agency problems, earnings management, or improved auditing to support the companies. The regulatory bodies should develop regulations that accommodate accurate governance and development. These accumulated efforts will end up in the contribution to the investors' trust, business growth, economic growth, and development of the country in future.

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